

# **SMH Capital Advisors LLC**

## **Firm Disclosure Brochure – Form ADV Part 2A**

### **SMH Capital Advisors, LLC**

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This Disclosure Brochure provides information about the qualifications and business practices of SMH Capital Advisors LLC. If you have any questions about the contents of this Disclosure Brochure, please contact us at the numbers listed above. The information in this Disclosure Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Registration as an investment advisor does not imply any specific level of skill or training. This Disclosure Brochure provides information to assist you in determining whether to retain SMH Capital Advisors LLC.

Additional information about the Firm is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). **SMH Capital Advisor's CRD number is #108344.** At any time, you may view the current Disclosure Brochure online at the SEC's Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

<b>Item 2: Material Changes</b>

This section discusses any material changes to our Brochure since the date of the most recent 2019 annual update on March 29, 2019.

Rhonda Davis joined SMHCA as its co-Chief Compliance Officer on April 1, 2019. Mr. Robert Buchholz resigned as co-Chief Compliance Officer in August of 2019 due to health concerns and Ms. Davis remained the Chief Compliance Officer.

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<b>Item 4: Advisory Business</b>

**Description of Advisor Firm**

SMH Capital Advisors LLC ("SMHCA" or the "Advisor") filed for registration as an investment adviser with the Securities and Exchange Commission (SEC) in 1996 and is a Limited Liability Corporation organized in the state of Texas. SMHCA is a wholly owned subsidiary of Moyers Organization LLC.

SMHCA has an affiliated broker-dealer, SMH Capital Investments, LLC, which is under common ownership and control with SMHCA.

The principal officer and managing member is Dwayne Moyers. SMHCA currently manages all of its assets on a discretionary basis. As of December 31, 2019, the Firm had \$303,104,326 in discretionary assets under management.

**Advisory Services Offered**

While this brochure generally describes the business of SMHCA, 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 SMHCA's behalf and is subject to the Firm's supervision or control.

**Wealth Management Services**

SMHCA provides clients with discretionary wealth management services which are offered primarily through three programs: (1) the Advisor Platform Programs; (2) the SMH Capital Investments Program (SMHCI Program) and (3) the Institutional Program. SMHCA also provides sub-advisory services to two mutual funds in the Catalyst fund family.

In each of the three programs, SMHCA allocates client assets amount various mutual funds, exchange-traded funds ("ETFs"), equity securities, including common and preferred stock, exchange-listed, over-the-counter, and foreign issuer securities; warrants; corporate debt securities; commercial paper; certificates of deposit; municipal securities; closed-end funds; American Depositary Receipts (ADRs); Real Estate Investment Trusts; Publicly Traded Development Companies ("BDCs"); US. Government and government agency securities; high yield corporate bonds; and collateralized mortgage obligations ("CMOs"), in accordance with their stated investment objectives. SMHCA's methodology is the same for all three programs. However, not all strategies are available in each program. Any differences in implementation are in the types of investments used to achieve the objectives of the strategy. Specific details related to each program are provided later in this brochure.

Where appropriate, the Firm may also provide advice about any type of legacy position or other investment held in client portfolios. Such assets may not be held at their primary custodian.

SMHCA tailors its advisory services to meet the needs of its individual clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives. SMHCA consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. SMHCA is not required to verify any information received from the client or from the client's other professionals and is expressly authorized to rely on all information provided by the client. Clients are advised to promptly notify SMHCA if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if SMHCA 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.

SMH Capital Investments LLC ("SMHCI"), an affiliated broker-dealer, will serve as the broker-dealer for certain client advisory accounts. In such situations, SMHCA shall earn its advisory fee, and SMHCI shall receive separate transaction fees/commission for effecting transactions, a portion of which transaction fees/commissions may be remitted by SMHCI to representatives of SMHCA in their separate individual capacities as registered representatives of SMHCI.

SMHCA does not serve as the custodian of any client assets. Depending on the program selected, assets are held at Wells Fargo Clearing Services (WFCS) formerly known as First Clearing LLC or the custodian of the client's choice.

#### **Advisor Platform Programs:**

SMHCA has entered into agreements to provide portfolio management services to clients of wrap fee programs sponsored by certain independent national brokerage firms ("Sponsors") which are not affiliated with SMHCA. As participants in wrap fee programs, clients pay the Sponsor an asset-based fee that covers, among other costs, brokerage commissions and investment advisory fees. SMHCA relies upon the Sponsor to determine the suitability of the wrap fee program for the client, as well as the suitability of SMHCA's services. Clients should be aware that SMHCA will generally not be provided with sufficient information by the Sponsor to assess suitability in connection with SMHCA's services. Additionally, SMHCA is not provided information relative to the percentage of a client's total assets that are being invested in its wrap fee program. For the services it provides to clients in the wrap fee programs, SMHCA receives a percentage of the fees charged by the Sponsor.

Under a wrap fee arrangement sponsored by an independent brokerage firm, the brokerage firm is responsible for the recommendation to retain the services of SMHCA to manage all or a portion of your assets. The brokerage firm is also responsible for monitoring and evaluating our services in managing your assets. All decisions about where transactions are executed, where your assets are custodied, and the fees paid by you are determined by your brokerage firm. Depending on the amount of the wrap fee the brokerage firm charges you, the number of securities transactions in your account, and the value of custodial or other services you receive, the amount of the wrap fee may or may not be less than the total cost of such services if you obtained them separately. You can obtain more specific information on each wrap fee arrangement in the Wrap Fee Program

Brochure which should be available to you from the wrap fee sponsor. SMHCA does not act as a sponsor of any of these wrap fee arrangements.

Two different programs are available under the Advisor Platform Programs. Each of the programs and the strategies available in each program are described below:

### **(1) Separately Managed Account Program (SMA Program)**

Clients in the SMA program are traditionally high net worth clients who are introduced to SMHCA by a third-party investment advisor. The third-party advisor recommends the amount of assets that a client invest in an SMHCA Separately Managed Account.

Within the SMA Program, SMHCA offers ten individual strategies and six strategic allocations. To establish an SMA account, a client must invest a minimum of \$200,000. However, to participate in the SMHCA Total Return Income Unconstrained Strategy, a minimum of \$5,000,000 is required. SMHCA, in its sole discretion, may waive the minimum account size.

#### **▪ Individual Strategies**

Individual strategies are individual separately managed accounts managed to the model of the strategy. Clients may choose to allocate 100% of the account to an individual strategy or they may choose a strategic allocation, where portions of the account are allocated to create a blend of several individual strategies within one account.

SMHCA High Income: Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions, investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

SMHCA Socially Responsible High Income: Portfolios are managed in the same way as the SMHCA High Income except that the SMHCA Socially Responsible High Income strategy will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

SMHCA Diversified Income: To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in rating. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at the time of purchase, if it determines that the market dictates such a move.

SMHCA Socially Responsible Diversified Income: Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the

portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

SMHCA AAA: Portfolios are 100% invested in AAA rated bonds (with residual cash). SMHCA may use Collateralized Mortgage Obligations (CMO's). CMO's are not rated by any of the ratings agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the AAA policy of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government, subject to changes of upgrades or downgrades in ratings. This style is designed to take advantage of yield spread differentials within the investment grade markets. This strategy is for clients seeking income and capital preservation.

SMHCA Total Return Income: This strategy is geared for long-term growth from both income and capital appreciation over a 10-year period, or a full market cycle. Portfolios are invested in mutual funds. (See "Catalyst Funds" section for important disclosure information regarding Catalyst Mutual Funds.)

SMHCA Municipal Income: This strategy is managed to a target of 100% municipal bonds with an objective of providing tax advantaged income. Portfolios are invested in closed-end funds and Exchange-Traded Funds.

SMHCA Tactical Equity: This strategy is managed using proprietary technical indicators. Focusing primarily on securities within the MSCI EAFE, MSCI Emerging Market Index, S&P 500, NASDAQ 100, Barclays Aggregate Bond and the BofA Merrill Lynch High Yield Index, technical indicators will dictate whether portfolios will be invested in either bond or equity-based exchange traded funds.

SMHCA Concentrated Aggressive Growth: This strategy is managed using proprietary fundamental as well as technical indicators. Focusing primarily on securities traded on a national market exchange with market caps above \$500 million. This is a concentrated portfolio; one position may represent up to 33% of the account at the time of purchase.

SMHCA Alternative Financial Services: This strategy is managed to a 100% target in the non-traditional bank and insurance financial sectors. This strategy will focus on alternative asset managers, non-traditional lenders, mortgage services, business development companies and other financial sector participants. Portfolios will invest in individual equity positions.

SMHCA Absolute Income: This strategy intends to produce a high level of current income by investing in income oriented closed-end funds trading at significant discounts from Net Asset Value (NAV), Business Development Companies (BDCs) trading at significant discounts from their reported NAV, Real Estate Investment Trusts (REITs), high yield corporate bonds trading at a discount from par, high dividend equity securities, and potentially restructurings and equity closed-end mutual funds trading at a discount to NAV. In the event that opportunities do not exist in manager's opinion, they may hold cash or money market equivalents or high-quality fixed income ETF's with a duration of 5 years or less.

#### ▪ **Strategic Allocations**

Strategic allocations are individual accounts that include a blend of general target percentages of SMHCA individual strategies described above in one account. Descriptions below contain the general target percentage allowed to each individual strategy within the client account. Clients

should refer to the individual strategy descriptions above for a complete description of how each of the accounts will be managed.

SMHCA Conservative Income and Growth: 60% SMHCA Diversified Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

SMHCA Moderate Income and Growth: 60% SMHCA Total Return Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

SMHCA High Income and Growth: 60% SMHCA High Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

SMHCA Growth: 70% SMHCA Tactical Equity, 20% SMHCA Concentrated Aggressive Growth, and 10% SMHCA Alternative Financial Services.

SMHCA Aggressive Growth: 50% SMHCA Tactical Equity, 30% SMHCA Concentrated Aggressive Growth 20%, and SMHCA Alternative Financial Services.

SMHCA Tax Free and Growth: 60% SMHCA Municipal Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

## **(2) Unified Managed Account Program**

SMHCA has entered into agreements to provide portfolio management services to clients of Unified Managed Account (“UMA”) programs sponsored by certain independent national brokerage firms (“Sponsors”). As participants in the UMA programs, clients are offered a single portfolio that can contain multiple asset managers and funds, that is customized by the Client’s financial advisor. SMHCA may be one of the managers selected for managing a portion of the client’s account assets. Client’s participating in the UMA Program pay the Sponsor an asset-based fee that covers, among other costs, brokerage commissions and investment advisory fees. SMHCA relies on the Sponsor and/or Client’s financial advisor to determine the suitability of the UMA program for the client, as well as the suitability of SMHCA’s services. Clients should be aware that SMHCA will generally not be provided with sufficient information by the Sponsor to assess client’s suitability in connection with SMHCA’s services. For the services it provides to clients in the UMA programs, SMHCA receives a percentage of the fees charged by the Sponsor.

For clients participating in Unified Managed Account Programs, SMHCA offers four investment strategies which are described below. Clients should refer to the disclosure document provided by the Sponsor for a complete list of SMHCA strategies offered.

### **▪ Strategies:**

SMHCA High Income: Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions, investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

SMHCA Socially Responsible High Income: Portfolios are managed in the same way as the High Income except that the Socially Responsible High-Income product will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that



derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

### **SMH Capital Investments Program (SMHCI Program)**

For clients who would like to access SMHCA strategies directly and without the use of a third-party advisor or platform, the SMHCI wrap program is available. Clients wishing to participate in the SMHCI Program must utilize the custody and clearing services of WFCS and enter into an SMHCI Program Agreement with SMHCA. The minimum investment required to establish a program account varies depending on the strategy selected. Clients should refer to the SMHCI Program Agreement for specific minimum investment information. SMHCA may, in its sole discretion, waive minimum account size requirements.

Generally speaking, a wrap fee is assessed on the value of a Client's assets under management by the investment adviser and is not dependent on the amount of trading in the account or the advice given in any particular time period. The client should be aware that lower fees for comparable services may be available in other SMHCA programs or from other sources including other investment advisers. Under a wrap program, the sponsor arranges for the client to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program may cost the participant more or less than purchasing such services separately.

All clients whose accounts are managed within the SMHCI Program will receive a separate wrap fee brochure which discusses the specific terms and conditions of participation. When offering services in conjunction with the SMHCI Program, SMHCA will not receive any portion of any transaction fees received by its affiliated broker-dealer, SMH Capital Investments LLC. Some portfolios in the strategies listed below may be implemented using mutual funds that are advised by or otherwise affiliated with SMHCA. SMHCA will purchase Class I shares when available or Class A shares if Class I shares are not available. In the event that Class A shares are purchased, a 12b-1 fee may be paid to SMHCA's affiliated broker-dealer, SMHCI.

## ▪ Individual Strategies

SMHCA Diversified Income: To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

SMHCA Socially Responsible Diversified Income: Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

SMHCA High Income: Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

SMHCA Socially Responsible High Income: Portfolios are managed in the same way as the High Income except that the Socially Responsible High-Income product will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing and pornography.

SMHCA Total Return Income: This strategy is geared for long-term growth from both income and capital appreciation over a 10-year period, or a full market cycle. Portfolios are invested in mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

SMHCA Municipal Income: This strategy is managed to a target of 100% municipal bonds with an objective of providing tax advantaged income. Portfolios are invested in closed-end funds and Exchange Traded Funds.

SMHCA Tactical Equity: This strategy is managed using proprietary technical indicators. Focusing primarily on the securities within the MSCI EAFE, MSCI Emerging Market Index, S&P 500, NASDAQ 100, Barclays Aggregate Bond and the BoFA Merrill Lynch High Yield Index, technical indicators will dictate whether portfolios will be invested in either bond or equity-based exchange traded funds.

SMHCA Concentrated Aggressive Growth: This strategy is managed using proprietary fundamental as well as technical indicators. Focusing primarily on securities traded on a national market exchange with market caps above 500 million. This is a concentrated portfolio; one position can make up to 33% of the account at the time of purchase.

SMHCA Catalyst Allocation: This strategy is designed to provide a diversified portfolio utilizing the Catalyst Fund family. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

SMHCA Alternative Financial Services: This strategy is managed to a 100% target in the non-bank and insurance financial sectors. This strategy will focus on alternative asset managers, non-traditional lenders, mortgage services, business development companies and other financial sector participants. Portfolios will invest in individual equity positions.

SMHCA Absolute Income: The strategy is intended to produce a high level of current income by investing in income oriented closed end funds trading at significant discounts from Net Asset Value, Business Development Companies trading at significant discounts from their reported NAV, Real Estate Investment Trusts, high yield corporate bonds trading at a discount from par, high dividend equity securities, and potentially restructurings and equity closed end mutual funds trading at a discount to NAV. In the event that opportunities do not exist in manager’s opinion, they may hold cash or money market equivalents or high-quality fixed income ETF’s with a duration of 5 years or less.

SMHCA Growth: **CLOSED TO NEW INVESTORS.** Portfolios are invested in individual equities, mutual funds, and dividend paying stocks. This strategy is designed for clients seeking long-term capital appreciation within a diversified portfolio of equities. The majority of the portfolio is concentrated in growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

SMHCA Balanced Growth: **CLOSED TO NEW INVESTORS.** Portfolios are invested in mutual funds, dividend paying stocks, individual equities, and high yield bonds. This strategy is for clients seeking long-term wealth accumulation or moderate income. Typically, at least one-third of the portfolio is concentrated in income producing securities with the balance in individual equities and growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

SMHCA Balanced Growth & Bonds: **CLOSED TO NEW INVESTORS.** Portfolios are invested in mutual funds, dividend paying stocks, individual equities, investment grade and high yield bonds. This strategy is for clients seeking long-term wealth accumulation or moderate income. Typically, at least one-third of the portfolio is concentrated in income producing securities with the balance in individual equities and growth oriented mutual funds. (See “Catalyst Funds” section for important disclosure information regarding the Catalyst Mutual Funds.)

SMHCA Total Return Income Standard Composite: **CLOSED TO NEW INVESTORS.** This portfolio contains a few legacy accounts that are fully discretionary and pay a portfolio administration fee as well as transaction fees and commission fees. Portfolios are invested in mutual funds, some of which may be proprietary. (See “Catalyst Funds” section for additional disclosure). This strategy is geared for long-term growth from both income and capital appreciation over a 10-year period, or a full market cycle.

SMHCA Total Return Income Plus Standard Composite: **CLOSED TO NEW INVESTORS.** This portfolio contains fully discretionary accounts that pay a portfolio administration fee and transactions and commissions separately. This composite contains fully discretionary accounts that may be made up of up to 50% in investment grade bonds, high yield bonds, dividend paying stocks, and individual equities. This strategy was for investors that desired a moderate total return for income and/or capital appreciation. It is usually weighted 50% in bonds and 50% in growth equities or mutual funds.

- **Strategic Allocations**

Strategic allocations are individual wrap fee accounts that include a blend of general target percentages of SMHCA individual strategies in the same account. Portions of the account are allocated to several individual strategies within one account. Descriptions below contain the general target percentages allocated to each individual strategy within the client account. Clients should refer to the individual strategy descriptions above for a complete description of each how portion of the account will be managed.

SMHCA Conservative Income and Growth: 60% SMHCA Diversified Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

SMHCA Moderate Income and Growth: 60% SMHCA Total Return Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

SMHCA High Income and Growth: 60% SMHCA High Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

SMHCA Growth: 70% SMHCA Tactical Equity, 20% SMHCA Concentrated Aggressive Growth, and 10% SMHCA Alternative Financial Services.

SMHCA Aggressive Growth: 50% SMHCA Tactical Equity, 30% SMHCA Concentrated Aggressive Growth, and 20% SMHCA Alternative Financial Services.

SMHCA Tax Free and Growth: 60% SMHCA Municipal Income, 30% SMHCA Tactical Equity, and 10% SMHCA Concentrated Aggressive Growth.

## **Institutional Program**

SMHCA offers advisory and management services to institutional clients. Clients in this program are typically working with a consultant and have minimum investable assets of \$5,000,000. SMHCA may, in its sole discretion, waive minimum investment restrictions.

- **Strategies**

SMHCA High Yield: Portfolios are managed with a target of 100% high yield corporate and convertible bonds (with residual cash). On rare occasions, investment grade bonds may be purchased that, while still rated above high yield, are trading as high yield securities in anticipation of downgrades to follow. This style is designed to provide a higher current yield and total return.

SMHCA Socially Responsible High Yield: Portfolios are managed in the same way as the High Income except that SMHCA will adhere to a socially responsible investment policy that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

SMHCA High Yield Opportunity Composite: Portfolios will be invested in high yield U.S. dollar debt instruments which are listed or traded on a recognized market in the U.S. and issued by U.S. and non-U.S. issuers. Such U.S. dollar debt instruments will include: corporate bonds (fixed or floating rate) with credit rating of non-investment grade or rated Baa or lower by Moody's or BBB or lower by S&P (on occasion investment grade bonds may be purchased), preferred stocks or

convertible securities, namely, corporate bonds or preferred stocks which are convertible into, or exchangeable for, common stocks. The portfolios will not contain financial derivative instruments. This style is designed to provide a higher current yield and total return.

**SMHCA Diversified Income:** To take advantage of the benefits of combining high yield with investment grade bonds, this strategy is designed to provide returns over time above investment grade indices with less risk than a pure high yield portfolio. Portfolios are managed to a target, at time of purchase, of 50% investment grade or AAA bonds and 50% high yield bonds (with residual cash). The AAA portion of the portfolio is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the investment grade or AAA portion of the portfolio. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings. SMHCA has the option of increasing the investment grade or AAA bond allocation to as high as 80%, at time of purchase, if it determines that the market dictates such a move.

**SMHCA Socially Responsible Diversified Income:** Portfolios are managed in the same way as the SMHCA Diversified Income except that the SMHCA Socially Responsible Diversified Income strategy will adhere to a socially responsible investment policy, for the high yield portion of the portfolio, that prohibits owning any companies in the investment portfolio that derive more than 50% of their annual revenue from the following industries: alcohol, tobacco, gambling, weapons manufacturing or pornography.

### **Sub-Advisory Services**

SMHCA is the sub-adviser for two funds in the Catalyst fund family (the “Catalyst Funds”); each a series of the Mutual Funds Series Trust (formerly known as the Catalyst Funds), an open-end investment management company registered with the SEC, commonly referred to as a mutual fund, sponsored by Catalyst Capital Advisors, LLC (“CCA”). The Catalyst Funds use various allocations of high yield debt securities and dividend paying equities. As sub-adviser, SMHCA receives 50% of the management fee paid to the investment adviser, CCA.

In March 2008, SMHCA entered into a Joint Venture Agreement with the sponsor of the Mutual Fund Series Trust, in connection with the creation of the Catalyst/SMH High Income Fund (formerly known as the Catalyst High Income Fund), and the Catalyst/SMH Total Return Income Fund (formerly known as the Catalyst Total Return Fund) (the “Catalyst Funds”). Pursuant to the Joint Venture Agreement, SMHCA agreed to (a) act as sub-adviser for the Catalyst Funds, (b) make a capital contribution to CCA sufficient to pay certain start-up expenses of the Catalyst Funds and (c) pay a portion of the up-front commissions paid to brokers on sales of Class C shares and to wholesalers of the Catalyst Funds as compensation for share purchases in the Catalyst Funds. In exchange for its capital contribution, SMHCA is entitled to receive non-voting, Class C Units of Membership in CCA, which entitle SMHCA to receive 50% of the net proceeds received by CCA related to the Funds if CCA is acquired or sells the rights to manage the Funds.

In addition, certain employees of SMHCA are also registered representatives of SMH Capital Investments LLC, an affiliated broker dealer, and may receive commissions and 12b-1 fees for selling the Funds. Such a structure creates a conflict of interest. In addition, SMHCA may utilize the Catalyst Funds to implement SMHCA strategies. In addition to earning advisory fees for implementing the strategy, SMHCA also earns a management fee from the fund. This structure, which allows SMHCA to earn a management fee, as well as entitles it to receive 50% of the net proceeds received by CCA related to the Funds upon change of control, creates a conflict of

interest when recommending investments. See the Catalyst Fund Prospectus for a full description of the management fees and expenses related to the Catalyst Funds.

<b>Item 5: Fees Compensation</b>

SMHCA offers services on a fee basis, which may include fixed fees, hourly fees, as well as fees based upon assets under management or advisement. The firm does not, in any case, take receipt of \$1200 or more in prepaid fees in excess of six months in advance of services rendered.

Clients for whom SMHCA calculates and bills portfolio management fees are charged quarterly, in advance. Clients that terminate their account before the end of a quarter will receive a refund for any pre-paid services that were not received. Such refunds are calculated on a per diem basis and are due within thirty (30) days of termination of the agreement. When a third-party (e.g., a wrap fee sponsor or other Investment Adviser) calculates and bills portfolio management fees are charged quarterly in advance or arrears, as determined and disclosed by the third party.

SMHCA may change the fee schedule at any time by giving 30 days prior written notice to the client. Following the 30-day notice period, the new fee schedule will become effective unless the client terminates the SMHCA Program Agreement. The client's continued acceptance of the services will constitute consent to changes in the Program Agreement, including any increase/decrease in the amount charged.

#### **Wealth Management Fee Schedule**

Depending on the particular client engagement, SMHCA offers investment services for an annual fee based on the amount of assets under the Firm's management. The specific manner in which advisory fees are charged by SMHCA is established in a client's written agreement with SMHCA.

#### ***SMA and Institutional Programs Fee Schedules***

The SMA and Institutional Program advisory fees charged by SMHCA are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by a client. Clients may also incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by third party managers, custodial fees, 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.

In the SMA Program, the third-party advisor may add an advisory fee in addition to the fee charged by SMHCA. The SMHCA fee and the third-party advisor fee will comprise the total fee. This total fee will be shown on the Client's SMA Program Agreement. The additional advisory fee is not shown below. A portion of the investment advisory fees received by SMHCA may be paid to the introducing third-party investment advisor. The fees that SMHCA pays to the third party do not result in additional fees to the client.

<b>Assets Under Management</b>	<b>SMHCA AAA</b>	<b>SMHCA Diversified Income and SMHCA Socially Responsible Diversified Income</b>	<b>SMHCA High Yield/Income and SMHCA Socially Responsible High Yield/Income SMHCA Total Return Income</b>
First \$25 million	0.30%	0.70%	0.80%
Next \$25 million	0.275%	0.60%	0.70%
Next \$50 million	0.25%	0.50%	0.60%
\$100 - \$250 million	0.20%	0.40%	0.50%
\$250 - \$500 million	0.175%	0.35%	0.45%
Over \$500 million	0.15%	0.30%	0.40%

<b>Assets Under Management</b>	<b>SMHCA Total Return Income Unconstrained</b>
First \$25 million	1.00%
Next \$25 million	0.90%
Next \$50 million	0.80%
\$100 - \$250 million	0.70%
\$250 - \$500 million	0.60%
Over \$500 million	0.50%

In the Institutional Program, SMHCA also offers an incentive-based fee arrangement to institutional clients, in lieu of the fee schedule above which is negotiated on a client-by-client basis. See “Performance-Based Fees and Side-by-Side Management” section for more information about these arrangements.

The following individual strategies are not available in the Institutional Program. Fees shown below are for the following individual strategies as offered through the SMA Program:

<b>Assets Under Management</b>	<b>SMHCA Concentrated Aggressive Growth,</b> <b>SMHCA Alternative Financial Services</b> <b>SMHCA Tactical Equity</b> <b>SMHCA Municipal Income</b>
First \$25 million	0.80%
Next \$25 million	0.70%
Next \$50 million	0.60%
\$100 - \$250 million	0.50%
\$250 - \$500 million	0.45%
Over \$500 million	0.40%

The following strategic allocations are not available in the Institutional Program. Fees shown below are for the following strategic allocations as offered through the SMA Program:

<b>Assets Under Management</b>	<b>SMHCA Conservative Income and Growth</b> <b>SMHCA Moderate Income and Growth</b> <b>SMHCA High Income and Growth</b> <b>SMHCA Growth</b> <b>SMHCA Aggressive Growth</b> <b>SMHCA Tax Free and Growth</b>
First \$25 million	0.80%
Next \$25 million	0.70%
Next \$50 million	0.60%
\$100 - \$250 million	0.50%
\$250 - \$500 million	0.45%
Over \$500 million	0.40%



## *SMHCI Program Fee Schedules*

### **SMHCA Sponsored Wrap Program Fees**

#### **Individual Strategies**

<b>SMHCA Concentrated Aggressive Growth</b>	<b>SMHCA Alternative Financial Services</b>	<b>SMHCA Tactical Equity</b>	<b>SMHCA Catalyst Allocation  SMHCA Absolute Income</b>
3.00%	2.00%	1.50%	1.25%

<b>SMHCA Growth, SMHCA Balanced Growth and SMHCA Balanced Growth &amp; Bonds</b>	<b>SMHCA Total Return Income</b>	<b>SMHCA Municipal Income</b>
1.00%	1.00%	1.00%

<b>Assets Under Management</b>	<b>SMHCA Diversified Income, and SMHCA Socially Responsible Diversified Income</b>	<b>SMHCA High Income and SMHCA Socially Responsible High Income</b>
Up to \$1 million	1.25%	1.25%
Next \$4 million	1.00%	1.00%
Next \$5 million	0.80%	0.80%

### **Strategic Allocations**

<b>SMHCA Conservative Growth and Income and SMHCA Tax Free and Growth</b>	<b>SMHCA Moderate Income and Growth  SMHCA High Income and Growth</b>	<b>SMHCA Growth</b>	<b>SMHCA Aggressive Growth</b>
1.25%	1.50%	1.50%	2.00%

The annual fee is prorated and charged quarterly, in advance based upon the market value of the assets being managed by SMHCA on the last day of the previous billing period. If assets are deposited or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the interim change in portfolio value. 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.

If a Client utilizes Independent Managers, the fees charged may be more or less than set out above as each manager determines their own fees. For your specific fees, see your Financial Advisory Agreement.

While the Firm may offer financial advice on planning or other assets held outside the Firm, it typically does so on a complimentary basis for clients. The Firm does have the option of charging fixed or hourly fees under a wealth management agreement.

Additionally, for asset management services the Firm provides with respect to certain client holdings (e.g., held-away assets, accommodation accounts, alternative investments, etc.), SMHCA may negotiate a fee rate that differs from the range set forth above.

### **Fee Discretion**

SMHCA may, in its sole discretion, negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing/legacy client relationship, account retention and pro bono activities. In addition, the Firm may charge a lesser fee for assets where the Firm provides services (such as reporting and analysis for financial planning purposes) but does not manage the assets on an ongoing basis.

### **Additional Fees and Expenses**

In addition to the advisory fees paid to SMHCA, 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 and other transaction costs, custodial fees, 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 further herein in Item 12.

### **Direct Fee Debit**

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Clients generally provide SMHCA with the authority to directly debit their accounts for payment of the investment advisory fees. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to SMHCA.

### **Use of Margin**

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The Firm may be authorized to use margin in the management of the client’s investment portfolio. In these cases, the fee payable will be assessed net of margin such that the market value of the client’s account and corresponding fee payable by the client to the Firm will not be increased.

### **Account Additions and Withdrawals**

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Clients may make additions to and withdrawals from their account at any time, subject to SMHCA’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 any particular securities into a client’s account. Clients may withdraw account assets on notice to SMHCA, subject to the usual and customary securities settlement procedures. SMHCA may consult with its clients about the options and implications of transferring securities. Clients are advised that 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.

### **Sales Charges, Service Fees and Other Firm Compensation**

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Mutual fund companies often pay out revenue in the form of 12b-1 and other services fees to firms that market and sell fund shares. These fees are outlined in each fund’s prospectus. These fees come from fund assets, and therefore, indirectly, from client assets. Many mutual funds offer share classes with no or low 12b-1 fees for eligible investors that are less expensive than 12b-1 paying shares.

<b>Item 6: Performance-Based Fees and Side-by-Side Management</b>

SMHCA 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.)

<b>Item 7: Types of Clients</b>

We offer our investment advisory services to individuals, including high net worth individuals, registered mutual funds, trusts, estates, foundations and endowments, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, private investment funds, insurance companies, and individuals participating in wrap fee programs. Accounts minimum requirements differ depending upon the advisory program or investment strategy employed.

<b>Item 8: Methods of Analysis, Investment Strategies and Risk of Investment Loss</b>

### **Methods of Analysis**

SMHCA has developed several proprietary systems that include charting, fundamental analysis, as well as the use of technical indicators to make buy and sell decisions within the equity and bond markets. SMHCA obtains information from various sources which include but are not limited to: financial newspapers and magazines; research prepared by third-parties; inspections of corporate activities; corporate rating services; annual reports; prospectuses and other filings with the SEC, company press releases, Bloomberg; the Internet; and the disclosure documents of money managers.

SMHCA uses various investment strategies to implement investment advice given to clients. These strategies include: 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, uncovered, or spreading strategies; market-based instruction; and diversified portfolios suited to client-specific risk tolerances and investment objectives.

### **High Yield Process**

SMHCA adheres to a bottom-up value investment style with a primary focus on the balance sheet of the businesses. Our High Yield process consists of three disciplines.

1. In the first discipline, SMHCA attempts to reduce credit risk through financial analysis of the inherent value and a focus on tangible asset-backed debt. 2. In the second discipline, SMHCA

attempts to ensure that there is an adequate return for the risk. Bonds are screened to meet SMHCA's predetermined levels of an adequate yield over treasuries in an effort to compensate for the risk. Then SMHCA selects those securities that provide the best relative value while avoiding paying too much for the securities purchased. 3. Finally, in the third discipline, SMHCA attempts to reduce the systematic (or market) risk. SMHCA attempts to avoid being too much like "the market," i.e. returns should not simply be similar to the index for the high yield bond asset class. Statistically, most of the diversification of a portfolio has been shown to come from less than the first 20 holdings. This results in a portfolio of 20-40 positions. A single position will not account for more than 5% of an entire portfolio at the time of purchase.

### **AAA Process**

(SMHCA Diversified Income, SMHCA Socially Responsible Diversified Income, SMHCA Core Plus Intermediate Term, SMHCA AAA)

The AAA portion of the portfolios is comprised of Collateralized Mortgage Obligations (CMOs). CMOs are not rated by any of the rating agencies. SMHCA uses the rating for the underlying agency of the bonds to allocate these securities to the AAA portion of the portfolios. The AAA bonds purchased will reflect the current credit rating of the United States government; subject to changes of upgrades or downgrades in ratings.

CMO interest payments are guaranteed by the respective government enterprises, Freddie Mac (FHLMC) and Fannie Mae (FNMA). Agency (or Government Sponsored Enterprise (GSE)) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government, but they have implied government backing and an implied Aaa/AAA rating. As of September 7, 2008, FNMA and FHLMC are currently under conservatorship of the Federal Housing Finance Agency and have received financial assistance from the U.S. Treasury. Please request an Investor's Guide to Mortgage Backed Securities and Collateralized Mortgage Obligations (CMOs) for more information.

### **Investment Strategies**

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SMHCA considers a client's goals and risk tolerance before reaching a mutual decision with the client on how best to build an investment portfolio. SMHCA follows a detailed planning process to create a portfolio aimed at meeting client objectives. Upon completion of the analysis, SMHCA and the client will review the proposed strategy and decide upon the best approach. SMHCA will then implement the accepted strategy and monitor the portfolio to ensure that it continues to meet the client's goals and objectives.

SMHCA uses various investment strategies to implement investment advice given to clients. These strategies include: 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, uncovered, or spreading strategies; market-based instructions; and diversified portfolios suited to client-specific risk tolerances and investment objectives.

### **Use of Margin**

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While the use of margin borrowing can substantially improve returns, it may also increase overall portfolio risk. Margin transactions are generally affected 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 client is unable to provide the additional collateral, the Financial Institution may liquidate assets to satisfy the client's outstanding obligations, which could have extremely adverse consequences. In addition, fluctuations in the amount of a client's borrowings and the corresponding interest rates may have a significant effect on the profitability and stability of a client's portfolio.

### **Risks of Specific Investment Strategies and Specific Securities Utilized**

Investing in securities involves risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by SMHCA) will be profitable or equal any specific performance level(s).

Strategies offered by SMHCA are **not** suitable for all investors. Clients should consider the risk associated with placing a substantial portion of investable assets into a non-diversified strategy. A portfolio that invests a substantial portion of its assets in a single position or sector of the economy may be subject to greater price volatility or be adversely affected by the performance of that particular industry, sector or company. SMHCA's strategies may not be suitable for all clients, and generally should only be a part of the client's total invested assets. Each client should review the client's investment objectives, risk tolerance, tax objectives, and liquidity needs before selecting an investment style or manager. In making an investment decision, a client should utilize other information sources and the advice of their investment professional. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investments.

SMHCA is a value-oriented investment adviser that specializes in fixed income management. SMHCA also offers advice on various securities including, but not limited to, equity securities including common and preferred stock, including exchange-listed, over-the-counter, and foreign issuer securities; warrants; corporate debt securities; commercial paper; certificates of deposit; municipal securities; investment company securities, including mutual fund shares (including affiliated mutual funds); closed-end funds, Exchange Traded Funds; American Depository Receipts, Real Estate Investment Trusts; Publicly Traded Business Development Companies ("BDCs"), United States government and government agency securities; high yield corporate bonds; and collateralized mortgage obligations ("CMOs").

If you are considering investments that are primarily high-yield fixed income, collateralized mortgage obligations ("CMOs"), asset-backed and/or convertible securities, you should be aware that additional risks exist with these types of investments. These securities may be rated below investment grade or not rated, which reflects the greater possibility that the financial condition of the issuer, or adverse changes in general economic conditions, may impair the ability of the issuer to pay income and principal. To the extent that no established secondary market exists, there may be thin trading of high-yield bonds, which increases the potential for volatility.

Periods of rising interest rates or economic downturns may cause highly leveraged insurers to experience financial stress, and thus markets for their securities may become more volatile. AAA implied rated CMOs will have more volatility than AAA rated US Treasuries or corporate bonds during period of rising interest rates because of negative convexity – slowing prepayments causing increased duration, or "extension risks." CMO's may not be appropriate for some investors, especially if time of return of principal is a primary concern. The yield or average life of a CMO will fluctuate, depending on the actual prepayment experience and changes in current

interest rates. For example, a risk in interest rates may cause the duration and average life to greatly increase and cause a loss of value. Convertible securities combine the fixed characteristics of bonds and preferred stock with the potential for capital appreciation and may be subject to greater volatility than pure fixed-income instruments. The aforementioned securities may be illiquid when selling small positions and withdrawals may take several weeks.

An Investor's Guide to CMOs, outlining the characteristics and risks of CMOs and important issues to consider prior to investing in CMOs is available upon request. This section discusses some of the specific risks inherent in high yield bonds and CMOs but is not intended to be all-inclusive of such risks.

**Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

**Interest-Rate Risks:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rate rise, yields on existing bonds become less attractive, making their market values decline.

**Inflation Risk:** This type of risk is the chance that future cash from an investment will not be worth as much due to inflation. Inflation is the increase in the price of goods and services, which causes purchasing power to erode.

**Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.

**Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of loss than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

**Credit, Default and Bankruptcy Risk:** Issuers of securities receiving the lowest investment ratings, compared to other higher-grade securities may have a weakened capacity to make required principal and interest payments. This may be due to over leveraging, potential cash flow challenges or other factors. Issuers of below investment grade securities are more susceptible to default and bankruptcy during a period of prolonged deterioration in economic conditions or other adverse circumstances.

**Liquidity Risk:** Liquidity risk exists when particular investments are difficult to purchase or sell, based on a lack of dealers and traders in the marketplace. Investments in illiquid bonds may reduce a client's return if SMHCA is unable to sell such illiquid securities at an advantageous time or price. Many of the holdings trade over-the-counter and the trading volume in some is relatively low. A client should not expect to get same day liquidity as in listed securities. The sooner the client wants his/her cash, the more detrimental it may be to execution prices. Market values may be volatile in periods of market illiquidity. Depending on the size of the account, a liquidating client often may not receive the full market value of recently priced securities because illiquid securities price less accurately and are typically valued for larger size transactions.

**Price Volatility Risk:** Market values and yield for securities rated below investment grade may be affected significantly by changes or developments that pertain to the issuer and its industry.

**Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

**Ratings and Information Risk:** High yield bonds and BDC's are in most cases non-rated or rated below investment grade by rating agencies such as Moody's and S&P. S&P Credit Ratings and Moody's Credit Ratings are financial service companies that rate stocks, as well as corporate and municipal bonds, according to risk profiles. In some cases, securities may have split ratings, with rating agencies assigning different ratings to the same security. In addition, ratings changes may not be made on a timely basis. There may also be limited information available about or from issuers of non-rated or below investment grade securities.

**Economic Uncertainty/Asset Class Cyclicity:** Opportunities in the high yield bond market vary with economic and liquidity conditions and therefore client expectations should be realistic. As perceived deterioration or improvement of the economy occurs, yield spreads over higher quality issues increase or decrease. The combination of spreads (yields) and trading gains or losses result in realized returns which may be above or below investors' expectations. Clients must understand that SMHCA's investment approach can go in and out of favor for several years at a time.

**Volatility Caused by Concentration of Holdings.** As more names, or diversification, are added to a portfolio, credit risk decreases while systematic risk [correlation with the market] increases. SMHCA's objective is to provide less systematic risk than an index type manager and produce excess returns versus the benchmark over a complete cycle. Less names, or a more concentrated portfolio, can bring increased volatility on the upside and downside versus the index or the average high yield mutual fund which might typically holds hundreds of different bonds.

In addition to the risks discussed above, concentrated, sector, and alternative strategies present additional risks which the client should consider. These risks may include but are not limited to:

**Foreign Securities and Currency Risk.** Investments in international and emerging-market securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.

**Derivatives.** Derivatives are securities, such as futures contracts, whose value is derived from that of other securities or indices. Derivatives can be used for hedging (attempting to reduce risk by offsetting one investment position with another) or non-hedging purposes. Hedging with derivatives may increase expenses, and there is no guarantee that a hedging strategy will work.

**Hedging.** While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Derivative securities are subject to a number of risks including: liquidity risk, interest rate risk, market risk, credit and management risks, and risk of improper valuation. Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index, and the strategy could lose more than the principal amount.

Additionally, alternative investments may carry emerging markets risk, IPO risk, and leverage risk. Alternative assets are frequently asset classes that are referred to as non-correlated (investments



that move contrary to or without influence from broader markets). While including non-correlated assets may result in smoother portfolio performance with less volatility, there are no assurances that non-correlated assets will not decline in value.

Some SMHCA strategies are subject to **asset allocation risk**, which is risk that selection of and allocation of assets to the securities will cause the strategy to underperform. Additionally, some of the SMHCA strategies invest in mutual funds, exchange traded funds, and closed end funds. Risk factors will vary from fund to fund.

**Performance of Underlying Managers:** SMHCA selects mutual funds, closed-end funds and ETFs. SMHCA depends on the manager of such funds to select individual investments in accordance with their stated investment strategy.

**Mutual Funds:** Investing in mutual funds carries the risk of capital loss. Mutual funds are not guaranteed or insured by the FDIC or any other government agency. You can lose money investing in mutual funds. All mutual funds have costs that lower investment returns. They can be of bond “fixed income” nature (lower risk) or stock “equity” nature (mentioned above).

**Equity** investment generally refers to buying shares of stocks by an individual or firms in return for receiving a future payment of dividends and capital gains if the value of the stock increases. There is an innate risk involved when purchasing a stock that it may decrease in value and the investment may incur a loss.

**Treasury Inflation Protected/Inflation Linked Bonds:** The Risk of default on these bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal.

**Fixed Income** is an investment that provides fixed periodic payments in the future that may involve economic risks such as inflationary risk, interest rate risk, default risk, repayment of principal risk, etc.

**Debt securities** carry risks such as the possibility of default on the principal, fluctuation in interest rates, and counterparties being unable to meet obligations.

**High Yield Corporate Bonds.** High yield bonds may not be suitable for all clients. As a result of SMHCA’s investment in high yield securities and unrated securities of similar credit quality, a portfolio may be subject to greater levels of interest rate, credit, and liquidity risk than portfolios that do not invest in such securities. High yield securities are considered predominantly speculative with respect to the issuer’s continuing ability to make principal and interest payments. An economic downturn or period of rising interest rates could increase the issuer’s risk of default and adversely affect the market for high yield securities thereby reducing SMHCA’s ability to sell them without potentially significant price concessions. If the issuer of a security is in default with respect to interest payments or principal payments, the security will likely lose a portion of its principal value and may lose its entire value. In addition to a tolerance for risk, investors in high-yield securities must also have the patience to weather periodic market downturns or unexpected events that negatively impact individual issues.

**CMO Risks.** CMOs may not be suitable for all clients. CMOs carry interest rate and prepayment risks although they have an implied AAA-rated (investment grade). This rating however is subject to upgrades and downgrades based on credit rating of the US Government debt. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to

changes in interest rates (known as duration extension risk). In addition, mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce returns because SMHCA then has to reinvest the money at the lower prevailing interest rates.

**BDC Risks.** BDCs may not be suitable for all clients. BDCs carry risks including, but not limited to, price volatility, credit risk, liquidity risk and informational risk. BDCs can be subject to significant volatility in price and potential lack of liquidity.

**Stocks & Exchange Traded Funds (ETF):** Investing in stocks & ETF's carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy). Investments in these securities are not guaranteed or insured by the FDIC or any other government agency.

**REITs** have specific risks including valuation due to cash flows, dividends paid in stock rather than cash, and the payment of debt resulting in dilution of shares.

**Precious Metal ETFs** (Gold, Silver, Palladium Bullion backed “electronic shares” not physical metal): Investing in precious metal ETFs carries the risk of capital loss.

**Long term trading** is designed to capture market rates of both return and risk. Due to its nature, the long-term investment strategy can expose clients to various other types of risk that will typically surface at various intervals during the time the client owns the investments. These risks include but are not limited to inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

**Short term trading** risks include liquidity, economic stability and inflation.

**Options** involve a contract to purchase or sell a security at a given price, not necessarily at market value, depending on the market.

**Past performance is not a guarantee of future returns. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

<b>Item 9: Disciplinary Information</b>

SMHCA and its advisory personnel value the trust you place in us. As we advise all Clients, we encourage you to perform the requisite due diligence on any advisor or service in which you partner. Our backgrounds are on the Investment Advisor Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) for your review. To review the firm information contained in ADV Part 1, select the option for Investment Adviser Firm and enter **(108344)** in the field labeled "Firm IARD/CRD Number." This will provide access to Form ADV Parts 1 and 2. Item 11 of the ADV Parts 1 lists legal and disciplinary information. As of the date of this Disclosure Brochure, SMHCA has no disciplinary information, either criminal or civil, to report.

<b>Item 10: Other Financial Industry Activities and Affiliations</b>

Some of the Investment Advisory Representatives of SMHCA are also registered representatives of SMH Capital Investments, LLC, a FINRA member broker-dealer. Some representatives are also registered as insurance agents. When acting as a registered representative or insurance agent, they may, from time to time, recommend to clients transactions in mutual funds, 529 plans or variable and fixed life insurance products. The representative may earn a commission on such sales. All such commissions are paid directly to the Firm rather than the representative. Regardless, this financial incentive creates a conflict of interest between the client and the investment advisor representative. Clients are reminded that they may purchase securities and insurance products recommended by SMHCA through other non-affiliated broker dealers and/or insurance agents. To mitigate this conflict, all of SMHCA's advisory/registered representatives are employees of the firm and are compensated primarily through a salary rather than solely on a fee/commission basis.

SMHCA is a wholly owned subsidiary of Moyers Organization LLC. ("Moyers"). Moyers owns a broker-dealer as well as an insurance agency ("Moyers Affiliates"). From time to time, SMHCA may recommend clients purchase or sell products and/or services offered through Moyers Affiliates. As a result of any such sales, SMHCA will receive compensation. Such compensation creates a conflict of interest.

SMHCA may use funds advised by or otherwise affiliated with SMHCA, such as Catalyst Funds in SMHCI or SMA Program client accounts. As sub-adviser to the Catalyst/SMH High Income Fund and Catalyst/SMH Total Return Income Fund, SMHCA receives a percentage of the management fee charged to the funds, based upon fund assets. The management fee charged to fund investors is in addition to the SMHCA portfolio administration fee charged to client accounts. Such a structure creates a conflict of interest.

### **Conflicts of Interest with affiliated Broker/Dealer**

SMHCA is under common ownership and control with its affiliated broker-dealer, SMHCI. As such some of SMHCA's employees are dually registered. This creates a conflict because an investment advisory representative is able to choose between offering a client advisory fee-based programs and services and commission-based products and services. To mitigate this conflict, SMHCA requires that any advisory program or service that a client is offered be suitable for the client's investment goals and financial needs.

If you purchase securities that result in the payment of commissions through SMHCI (broker-dealer), while at the same time you receive asset management services for which your IAR receives a fee through SMHCA in its capacity as a registered investment adviser, this creates a conflict of interest, and you should clarify the capacity through which individual products or services are offered, and the type of compensation that is paid to SMHCA and your IAR.

### **IRA Rollover Considerations**

If you are a participant in an employer-sponsored retirement plan such as a 401(k), and decide to roll assets out of the plan into a SMHCA advisory account, SMHCA and your IAR have a financial incentive to recommend that you invest those assets in one of our programs. Plan participants are under no obligation to rollover their retirement assets to an IRA with SMHCA and should carefully weigh all relevant factors such as the following: penalty-free withdrawals starting at age 55, whether loans are permitted, legal protections, required minimum distributions, fees and expenses, service levels, available investment options, employer stock considerations and state taxes.

SMHCA is affiliated with SMHCI, a licensed insurance agency. SMHCI is a subsidiary of Moyers Organization, the parent company of SMHCA. IARs, in their capacity as insurance agents with SMHCI or as independent insurance agents, can effect transactions in insurance products for clients and earn commissions for these activities.

The fees paid to SMHCA for advisory services are separate and distinct from the insurance commissions earned by SMHCI and/or its insurance agents. You are under no obligation to use SMHCI and/or its insurance agents for insurance services and can use the insurance firm and agent of your choosing.

<b>Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading</b>

**Code of Ethics**

SMHCA has adopted a written Code of Ethics in compliance with applicable securities laws that sets forth the standards of conduct expected of its Supervised Persons. SMHCA'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 SMHCA's personnel defined as "access persons" 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 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 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 US Government; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments; (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 SMHCA to request a copy of its Code of Ethics.

<b>Item 12: Brokerage Practices</b>

SMHCA generally recommends that its retail clients utilize the custody, brokerage and clearing services of WFCS for investment management accounts.

Factors which SMHCA considers in recommending WFCS or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. The commissions and/or transaction fees charged by WFCS may be higher or lower than those charged by other Financial Institutions.

The commissions paid by SMHCA's clients to WFCS 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 affect the same transaction where SMHCA 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. SMHCA 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 SMHCA in its investment decision-making process. Such research will generally 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 SMHCA does not have to produce or pay for the products or services.

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

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

SMHCA may receive, without cost, computer software and related systems support from WFCS which allow the Firm to better monitor client accounts maintained at SMHCA. SMHCA may receive the software and related support without cost because the Firm renders investment management services that maintain assets at WFCS. 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 SMHCA, but not its clients directly. In fulfilling its duties to its clients, SMHCA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that SMHCA's receipt of economic benefits from a broker/dealer creates 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.

## **Directed Brokerage**

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SMHCA allows directed brokerage for its institutional clients.

## **Trade Aggregation**

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Advisor maintains the ability (but not the obligation) to combine or “batch” 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 SMHCA’s 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 client orders for the purchase or sale of securities, including securities in which SMHCA personnel 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 US Securities and Exchange Commission. SMHCA does not receive any additional compensation or remuneration as a result of the aggregation.

In the event 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; (iv) with respect to sale allocation, 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 minimus* allocation in one or more accounts, the Firm may exclude the account(s) from the allocation; the transaction may be executed on a pro rata basis among the remaining accounts; or (iv) 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.

<b>Item 13: Review of Accounts</b>

**Account Reviews**

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SMHCA monitors client accounts on a continuous and ongoing basis while regular account reviews are conducted on at an annual basis. Such reviews are conducted by the Firm's investment advisor representatives. All investment advisory clients are encouraged to discuss their needs, goals and objectives with SMHCA and to keep the Firm informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

**Account Statements and Reports**

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Clients are provided with transaction confirmation notices and regular (at least quarterly) summary account statements directly from the Financial Institution where their assets are custodied. From time to time or as otherwise requested, clients may also receive written or electronic reports from SMHCA or an outside service provider which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with any documents or reports they receive from SMHCA or any outside service provider.



<b>Item 14: Client Referrals and Other Compensation</b>

**Client Referrals**

In the event a client is introduced to SMHCA by either an affiliated or unaffiliated solicitor, the Firm may pay that solicitor a referral fee in accordance with applicable state securities laws. Unless otherwise disclosed, any such referral fee is paid solely from SMHCA's investment management fee and does not result in any additional charge to the client. If the client is introduced to the Firm by an unaffiliated solicitor, the solicitor is required to provide the client with SMHCA's written brochure and a copy of a solicitor's disclosure document containing the terms and conditions of the solicitation arrangement. Any affiliated solicitor of SMHCA is required to disclose the nature of his or her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of the Firm's written brochure at the time of the solicitation.

**Revenue Sharing:****Wells Fargo Clearing Relationship**

WFCS is the clearing firm for SMHCI's brokerage business and is the custodian for a number of SMHCA's accounts. WFCS earns fees from clients and third parties and shares some of them with SMHCA. Our IARs do not receive any part of these fees.

When WFCS is the custodian of your account, it automatically moves (sweeps) the cash in your account into money market funds and/or FDIC insured bank deposit accounts. You and your IAR select the money market fund or bank deposit account. WFCS retains some of the interest paid on the bank deposit account, or shareholder servicing fees paid on the money market fund and pays a portion of that to SMHCA. These payments are called "distribution assistance" and they vary based on the bank deposit account or money market fund you select. SMHCA does not determine the interest rates paid on bank deposit accounts or shareholder servicing fees paid on money market funds, or the amount or percentage of distribution payments that we receive. When interest rates are low, or in the event of a regulatory change, WFCS reserves the right to reduce or discontinue its distribution assistance payments to SMHCA. Excess credit balances (free credits less margin debits) will not earn interest.

**Margin and Non-Purpose Loans**

SMHCA makes margin and non-purpose loans available through WFCS to qualified clients in certain circumstances. WFCS establishes a base cost charged to SMHCA, which is the "cost to carry" the loans. SMHCA has discretion to charge more than this base interest rate. WFCS pays SMHCA a portion of the interest above the base rate charged on clients' margin and non-purpose loans (Base rates are as published in the Broker Call Rate). SMHCA does not remit any portion of this interest to its advisors. This creates a conflict of interest because strategies that utilize margin and non-purpose loans are usually riskier and thereby have a higher rate of return than traditional strategies. The resulting increase in assets also corresponds to increased asset-based fees.

<b>Item 15: Custody</b>

Advisor, with client written authority, has limited custody of client's assets through direct fee deduction of Advisor's fees only. These fee deductions are reflected in the periodic statements the custodian sends our clients directly. Clients will receive all account statements from their custodian and they should carefully review those statements for accuracy.

<b>Item 16: Investment Discretion</b>

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

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

When selecting securities and determining quantities, SMHCA observes the client's investment policies, limitations and restrictions. For registered investment companies, SMHCA's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to SMHCA in writing.

<b>Item 17: Voting Client Securities (Proxy Voting)</b>

SMHCA's authority to vote client proxies and corporate actions is established by SMHCA's investment advisory agreements or comparable documents. SMHCA's policy is to vote proxies and corporate actions in the best economic interests of its clients. SMHCA endeavors to resolve any conflicts of interest exclusively in the best economic interests of clients.

SMHCA will convene the Compliance Committee to make voting decisions when potential material conflicts of interest exist. If the Committee is unable to reach a unanimous decision, SMHCA will, at its own expense, engage an outside proxy voting service or consultant to make a recommendation and SMHCA will vote in accordance with that recommendation.

Upon request, SMHCA will provide clients with a copy of its procedures regarding proxy and corporate action voting and information on how the client's proxies were voted.

SMHCA does not direct clients' participation in class action lawsuits. SMHCA will determine whether to return any documentation inadvertently received regarding clients' participation in class action lawsuits to the sender, or to forward such information to the respective clients.

Any request for information about proxy voting, corporate actions, or class action lawsuits should be promptly forwarded to the Chief Compliance Officer, Rhonda Davis ([rhonda.davis@smhca.com](mailto:rhonda.davis@smhca.com)), who will respond to any such requests.

<b>Item 18: Financial Information</b>

Neither SMHCA, nor its management has any adverse financial situations that would reasonably impair the ability of SMHCA to meet all obligations to its Clients. Neither SMHCA, nor any of its advisory persons, has been subject to a bankruptcy or financial compromise during the past ten years. SMHCA is not required to deliver a balance sheet along with this Brochure as the Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of the services rendered.