

**Item 1 – Cover Page**

**The Caprock Group, Inc.**

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March 25, 2019

This Brochure provides information about the qualifications and business practices of The Caprock Group, Inc. (“Caprock”). If you have any questions about the contents of this Brochure, please contact us at (208) 368-9600. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Caprock is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Caprock also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Caprock is 124272.

## Item 2 – Material Changes

This Item of the Brochure discusses only specific material changes that are made to the Brochure and provides clients with a summary of such changes. This is our annual updating amendment filing and there have been no material changes to this Brochure.

Additionally, please note that we have updated the Assets Under Management information in Item 4 in accordance with the filing of our Annual Updating Amendment.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Jefferson Jewell, Chief Compliance Officer at (208) 368-9600 or [Contact@caprock.com](mailto:Contact@caprock.com).

Additional information about Caprock is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Caprock is 124272. The SEC's web site also provides information about any persons affiliated with Caprock who are registered, or are required to be registered, as investment adviser representatives of Caprock.

Brochure Date: (03/25/2020)

Date of Most Recent Annual Updating Amendment: (03/25/2020)

## Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes.....	ii
Item 3 -Table of Contents .....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	3
Item 6 – Performance-Based Fees and Side-By-Side Management .....	5
Item 7 – Types of Clients .....	5
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Item 9 – Disciplinary Information .....	9
Item 10 – Other Financial Industry Activities and Affiliations .....	9
Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading .....	12
Item 12 – Brokerage Practices .....	13
Item 13 – Review of Accounts .....	16
Item 14 – Client Referrals and Other Compensation .....	17
Item 15 – Custody.....	19
Item 16 – Investment Discretion.....	19
Item 17 – Voting Client Securities .....	20
Item 18 – Financial Information.....	20

## **Item 4 – Advisory Business**

Caprock was co-founded in August 2005 by Mark Gustafson, Richard Rock, William G. Gilbert, Jr., Matthew Weatherley-White and Gregory A. Brown. Each of the co-founders remains active in the business, and 100% of company stock employee owned. Caprock provides fee-only private wealth management, family office and advisory services.

As of February 29, 2020, Caprock managed \$3,410,683,660 on a discretionary basis and \$224,204,029 on a nondiscretionary basis for a total Assets Under Management of \$3,634,887,689.

### **Investment Advisor Services:**

Caprock provides continuous investment advice to clients and families based on their individual needs. Through a series of personal discussions in which goals, objectives and risk tolerances are established, Caprock develops a client's personal investment guidelines or asset allocation and creates and manages a portfolio based on that policy or asset allocation. Caprock will manage advisory accounts on a discretionary and non-discretionary basis. Account supervision is guided by the stated objectives of the client. Emphasis will be placed on optimizing performance at the portfolio level while controlling risk through broad global asset diversification. Clients are permitted to place reasonable restrictions on investing in certain securities or industries.

Caprock may allocate all or a portion of a portfolio to investment managers in which client accounts are managed by independent third-party investment managers. These programs provide investment opportunities among various investments including stocks, bonds, options, mutual funds, exchange traded funds, hedge funds, alternative investments and other securities.

Based on a client's individual circumstances and needs, Caprock will allocate a portion of the portfolio to an appropriate investment manager. Factors considered in making this recommendation include account size, risk tolerance, the goals of each client and the investment philosophy of the third-party investment manager(s). Caprock will assist the client in reviewing investment objectives, risk tolerance, liquidity requirements, investment restrictions and other relevant factors. Caprock will monitor the performance of the selected investment manager(s). If Caprock determines that a particular selected investment manager(s) is not providing sufficient management services to the client, or is not managing the client's portfolio in a manner consistent with the client's personal investment guidelines

or asset allocation, Caprock will remove the client's assets from that selected investment manager(s) and place the client's assets with another investment manager(s) at Caprock's discretion (for discretionary accounts). Clients need to be aware that certain types of investments by third party investment managers (limited, private offerings, hedge funds and fund-of-funds) may be subject to lock-ups and/or other liquidity restrictions. If the account is non-discretionary, Caprock will not remove the client from a selected manager and move the account into a different manager without the client's prior consent. Caprock will review the aggregate fee charged by both Caprock and the selected investment manager(s) will be fair and reasonable and will be competitive with those fees customarily charged in the industry for similar services.

In addition to third party money management services, Caprock may allocate a portion of a client's portfolio among other investments. In these cases, Caprock will primarily use various exchange traded funds (ETFs) and mutual funds within a client's portfolio. Under certain circumstances, Caprock may also include some individual securities including equities, options, bonds, corporate debt securities, municipal securities, commercial paper, certificates of deposit and other investment products. Caprock will allocate the client's assets among various investments taking into consideration the overall management objectives identified by the client. The mutual funds will be selected on the basis of any or all of the following criteria: the fund's performance history; the industry sector in which the fund invests; the track record of the fund's manager; the fund's investment objectives; the fund's management style and philosophy; and the fund's management fee structure. Portfolio weighting between funds and market sectors will be determined by each client's individual needs and circumstances. Clients may request to place reasonable restrictions on the types of investments which will be made on the client's behalf.

### **Family Office Services:**

In addition to traditional investment advisory services described in this disclosure document, Caprock also provides Wealth Management and Family Office Services to select clients. These services may include some or all of the following: coordination among advisors designated by the Client (legal, estate, accounting, insurance, and banking), private & alternative investment analysis, advice & reporting, private & alternative investment coordination (capital call payments, management of distributions & liquidations), monthly balance sheet reporting, lifetime discounted cash flow modeling and other ad hoc reports requested by the Client. Family Office services may not be offered to all Caprock Clients and there are no additional charges for these services. Caprock is compensated by the client on a percentage of assets under management or a fixed fee arrangement for the assets Caprock

advises on. Fee arrangements are determined and affirmed by the client (via Caprock's Investment Advisor Agreement) at the onset of the relationship.

### **Consulting Services:**

Caprock provides advisory services for individuals and institutions. This may include formulating their investment strategy, updates and forecasts for various financial markets, portfolio reviews, strategic asset allocation modeling, investment manager search & selection, performance analysis and recommendations. Advisory services may also include business consulting, advice on non-securities matters and any other specific consultation regarding financial and investment concerns of the individual or institution.

## **Item 5 – Fees and Compensation**

Negotiability of Fees: In certain circumstances, all fees, account minimums and their applications to family circumstances may be negotiable.

Management Fee Billing: The specific manner in which fees are charged by Caprock is established in a client's written agreement with Caprock. Caprock offers its services on a fee basis which may include fixed fees or fees based upon a percentage of the assets under management and advisement. Caprock will request authority from the client to receive monthly payments directly from the client's account held by an independent custodian unless a Client elects to be billed directly for fees.

Management fees will be billed on a monthly basis at the end of each month (in arrears) in an amount equal to the value of the Account (market value or estimated market value in the absence of market value) at the end of such month multiplied by 1/12<sup>th</sup> of advisory agreement rate, pro-rated in the case of any partial month. Accounts initiated or terminated during a calendar month will be charged a prorated fee.

Valuation Procedures for Fees on Estimated Valuations: Interest in private investment funds will be valued at their "fair value," as determined in good faith according to the policies established by the underlying investment manager or other third-party valuation agent employed by such investment manager, such as the fund administrator. In some occasions, Caprock will employ the following procedure when the underlying fund or investment provides an estimate in lieu of an actual client capital account balance. In the case of an estimate, the following calculations are utilized to determine the month end market value: If the estimate is positive (i.e. a monthly return of +3.0%)  $\text{Current Month End Valuation} = (1 + \text{estimate} \times 80\%) \times (\text{Previous Month End Valuation})$ . If the estimate is negative (i.e. a monthly return of -3.0%)  $\text{Current Month End Valuation} = (1 + \text{estimate}) \times (\text{Previous Month}$

End Valuation). In the case that actual performance figures are provided after an estimate has been utilized, adjustments to the portfolio market value will be made in the ensuing month.

Termination of Advisory Relationship: A client agreement may be canceled at any time, by either party, for any reason upon receipt of prior written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In the event of withdrawal of funds or the termination of any account, any fees, commissions or other expenses associated with rebalancing or liquidating the account holdings may be assessed to the client's account.

Additional Information About Fees & Expenses: Caprock's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment managers and other third parties such as fees charged by 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. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

Fees paid to Caprock for investment advisor services are also separate and distinct from the fees and expenses charged by the independent investment manager's fee for that entity's advisory/management services or an alternative, private and real asset manager expenses.

Such charges, fees and commissions are exclusive of and in addition to Caprock's fee, and Caprock shall not receive any portion of these commissions, fees and costs.

### **Investment Advisor Fees**

#### **Investment Advisor Services & Family Office Services:**

The annual fee for Investment Advisor Services will generally be no greater than 1% of assets under management

Investment Advisor Fees are negotiable based on the requirements of the client and the complexity of services provided. In special arrangements, Caprock charges a fixed retainer fee based on anticipated services. Fees for Investment Advisor Services are billed on a monthly basis in arrears.

#### **Consulting Service Fees:**

Consulting Service Fees are negotiable and are based on the requirements of the client and the complexity of services provided. Fees will typically be charged as a percentage of assets or as a fixed retainer fee based on anticipated services. Fees for Consulting Services are billed on a monthly basis in arrears.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Caprock does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). All fees are calculated as described above and are not charged on the basis of income or capital gains or capital appreciation of the funds. Certain private fund managers utilized by Caprock may charge performance-based fees which will require that Clients meet the Qualified Client definition under Rule 205-3 (including an investor in a Section 3(c)(1) fund under the Investment Company Act of 1940, as amended). A Qualified Client is defined as having net worth (together, in the case of a natural person with assets held jointly with a spouse) in excess of \$2 million, excluding personal residence. Clients should refer to the applicable Offering Documents for additional information on the fund manager's performance-based fees.

## **Item 7 – Types of Clients**

Caprock provides services to individuals (including both high net worth and non-high net worth individuals), families, corporate pension and profit-sharing plans, trusts, charitable institutions, foundations, endowments and family owned corporations, limited liability companies and limited partnerships. Caprock also acts as investment advisor to an affiliate, Caprock Management, LLC, which is the Investment Manager to TCG Private Select Partners, LP, TCG Private Select Partners II, LP and TCG Private Select Partners III, LP. Caprock Management LLC was created for the sole purpose of aggregating capital contributions of their respective Members or Limited Partners to meet fund minimums for investments in unaffiliated private investment funds or private investments. Caprock does not charge management fees or expenses to clients who invest capital in any of the "Private Select Partners" funds.

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

### *Methods of Analysis and Investment Strategy*



Caprock designs and implements customized portfolios for the clients that it serves. The portfolio construction and execution process can be summarized as follows:

Step 1) Initial Due Diligence & Information Gathering

- Document and asset level review, meetings with client and advisors
- Assess tax situation and legal structures (i.e. estate planning)
- Existing manager due diligence

Step 2) Construction of Lifetime Discounted Cash Flow Model & Client Balance Sheet

- Assess client's cash flow needs
- Review current asset base and projected income versus future liabilities and spending
- Assess portfolio risk/return requirements

Step 3) Asset Allocation & Portfolio Design

- Generate series of portfolio scenarios – differing combinations of asset classes
- Review portfolio statistics & estimated risk/return projections
- Generate target asset allocation and portfolio transition plan

Step 4) Investment Manager Selection

- Review manager recommendations
- Document preparation and portfolio recommendation execution

Step 5) Portfolio Reporting & Monitoring

- Client portfolio performance reporting
- Ongoing portfolio & manager due diligence

Caprock utilizes six asset classes to create diversified portfolios. Cash, as a strategic allocation, is occasionally described as a seventh. Asset classes, as defined by Caprock, are as follows:

- 1) Domestic Equity
- 2) International Equity
- 3) Fixed Income
- 4) Alternative Investments
- 5) Real Assets
- 6) Private Investments

Each asset class offers unique portfolio construction characteristics, in the form of increased returns or reduced risk. The inclusion of some, or all, of these asset classes is dependent upon issues such as liquidity needs, time horizon, tax status and individual risk/return objectives. Caprock typically utilizes a broad range of investment vehicles in developing and managing client portfolios. The structure of the investment vehicles will vary depending upon the asset class being utilized. Typical structures include independent investments managers, ETFs, mutual funds and/or options for allocations to Domestic & International Equity, as well as Fixed Income. For allocations in Alternative Investments, Real Assets and Private Investments, typical structures include private placement offerings, limited partnerships, and/or limited liability companies such as hedge funds, fund of funds and other pooled investment partnerships. Additional information about fees and investment risks related to such private placements are included in the offering documents provided to prospective investors.

In addition to the types of investments noted above, Caprock may recommend, or a Client may have a mandate to invest in impact investments. Impact investments generally seek to align a client's values (or mission) while seeking competitive financial returns. Within the broad description above, impact investments may be further segmented into the themes of *opportunity* (democratizing access to essential services), *environment* (mitigating the consequences of climate change) and *sustainability* (preserving and managing scarce resources). Impact investments are generally accessed through the following asset classes: Fixed Income, Public Equities, Alternative Investments, Real Assets and Private Investments. Caprock utilizes a system known as iPAR (Impact Portfolio Allocation Review) to model and score various impact metrics and statistics in pursuit of aligning the financial characteristics of a portfolio with the impact intention of clients. Caprock's impact initiative is commonly referred to as i3 (Integrated Impact Investing).

Portfolio diversification benefits are derived from the lack of correlation among these six asset classes. This correlation variance is due, in part, to the divergent return drivers associated with each asset class, such as the level and direction of corporate profits, the level & direction of interest rates and the inflationary environment, to name a few.

Caprock seeks to maximize the diversification potential of each asset class by pursuing managers and opportunities which offer unique philosophies and processes. Equally important is a demonstrated focus on capital preservation. In addition, the tax efficiency of any manager or strategy plays an important role in the selection process.

Investment advice may be offered on any investments held by a client at the start of the advisory relationship. Caprock may also provide advice on assets that the client requests after the inception of the relationship. The purchase or maintenance of Client-sourced

investments may receive a lower level of diligence review and on-going monitoring by Advisor than investments sourced or recommended by Advisor. A Client-sourced investment is when a client instructs us to invest their assets in a particular investment opportunity that has been identified by the client as opposed to an investment that has been sourced and recommended by Caprock.

Caprock's Investment Committee is tasked with initial and ongoing investment manager due diligence for the firm.

No assurance can be given that the investment objective will be achieved and investment results may vary substantially. Not every investment decision or recommendation by Caprock will be profitable.

### **Internal Rate of Return Supplement to the Caprock Performance Report**

As requested, and on a case-by-case basis, certain clients may receive a supplement to their normal Caprock performance report that will detail Internal Rate of Return Performance ("IRR") in addition to Time Weighted Return ("TWR") on private fund investments that have draw-down features and varying cash flows within a performance reporting period. IRR is primarily used to evaluate investments where the manager controls the timing of cash flows, and as such, may be a more meaningful representation of investments that are drawn down, due to manager decisions, over time. It should be noted that at the portfolio composite level, TWR performance will still be reported on all underlying investments. TWR and IRR may produce differing performance returns for the same investments during the same time period. In all cases, Client performance is unaudited.

### **Risk of Loss**

**Investing in securities involves risk of loss that clients should be prepared to bear.**

All investments present the risk of loss of principal – the risk that the value of securities, when sold or otherwise disposed of, may be less than the price paid for the securities.

The securities and instruments (including securities and instruments held by independent managers) utilized by Caprock are subject to normal market fluctuations and other risks inherent in investing in such investments and there can be no assurance that any appreciation in value will occur. Securities markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market or economic developments. Different parts of the market can react differently to these developments and the value of an individual security or particular type of security can be more volatile than, and can perform differently from, the market as a whole. Investing in

foreign securities involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. The return of principal for fixed income holdings is not guaranteed. Fixed income holdings are subject to interest rate, inflation and credit risks.

Investments in private placements, limited partnerships and limited liability companies involve additional risk of loss, including the risk of loss of a full investment. Because these types of investments involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability. Clients need to be aware that these types of investments do not afford the same level of liquidity and/or marketability as traditional investments and may be subject to lock-ups and other liquidity restrictions. The risk of loss described herein should not be considered to be an exhaustive list of all the risks which Clients should consider. Investors in private placements, limited partnerships and limited liability companies should refer to the applicable Offering Documents for additional information on risk factors and risk of loss.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Caprock or the integrity of Caprock's management. Caprock has no information applicable to this Item.

## **Item 10 – Other Financial Industry Activities and Affiliations**

### Affiliated Companies

Caprock Management, LLC, an SEC-registered investment advisory firm, is a wholly owned subsidiary of The Caprock Group, Inc. Caprock Management, LLC was founded in July 2007 to act as General Partner, Manager, or Investment Manager to private limited partnerships and limited liability companies set up for investment purposes. The Firm became a registered investment adviser in 2014 to provide investment management services to privately offered pooled investment vehicles and any parallel funds or other investment vehicles related thereto that are funds of funds.

Caprock personnel, including members of the investment committee and the Chief Compliance Officer spend their time engaged in the activities of Caprock Management, LLC.

Caprock Management, LLC shares Caprock's office space as well as but not limited to: back office operations (accounting, administrative, client service and performance reporting personnel), investment research and Investment Committee personnel, and compliance personnel, including the Chief Compliance Officer, and, to the extent applicable, compliance policies and procedures addressing common regulatory requirements and issues.

Investment advisory clients of Caprock may be solicited to invest in the Private Fund with which Caprock is affiliated, including private funds advised by Caprock Management, LLC as noted below.

TCG Private Select Partners, L.P., TCG Private Select Partners II, LP and TCG Private Select Partners III, LP (the "Private Funds") are funds of funds private investment vehicles. Caprock employees may from time to time have an ownership interest in the Private Funds. The investment team for the Private Funds is comprised of Gregory A. Brown, William G. Gilbert, Jr., Mark K. Gustafson and Richard Rock.

When suitable and consistent with pre-defined investment objectives, investments in the Private Funds have been recommended to Caprock advisory clients. Non-Caprock advisory clients may also make (or have made) investments into these Private Funds but may have not been subject to the same suitability standards. In either case, each Member must be an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities act and may have to be a "qualified purchaser" within the meaning of Section 2(a)(51) of the 1940 Act. As the Private Funds are structured as 3(c)(1) funds, upon reaching \$25M in qualified investors, accredited investors may be admitted to the funds. Certain Underlying Funds utilized may charge performance-based fees which will require that limited partners of Caprock Management Partnerships meet the Qualified Client definition under Rule 205-3 (including an investor in a Section 3 (C)(1)) fund under the Investment Advisers Act of 1940, as amended. A Qualified Client is defined as having net worth (together, in the case of a natural person with assets held jointly with a spouse) in excess of \$2.1 million, excluding personal residence. No client is obligated to invest in the Private Funds or any other Caprock Management, LLC sponsored LLC or LP. With respect to these related Private Funds, Clients should be aware that a conflict of interest exists because the Private Funds are charged for the related costs and expenses associated with operating the Private Funds. Caprock does not charge a separate management fee to a Caprock Client that may be invested in one of these related Private Funds. Non-Caprock clients are charged a separate management fee.

An investor in the Private Funds may redeem its interest in the Private Funds in accordance with the redemption terms of the Private Funds' limited liability company or limited partnership agreement and offering documents. Investors in the Private Funds are requested to refer to the Offering Documents for complete information on the Fund, fees,

risks, expenses and applicable redemption terms. The Private Funds are audited annually, and the audit results are reported to the Private Fund members or limited partners.

The Owners of Caprock are also the sole Members of TCG Partners Fund I, LLC, a limited liability company formed for personal investment purposes. Participation in the TCG Partners Fund I, LLC will not be presented or offered to Caprock advisory clients or non-Caprock clients. TCG Partners Fund I, LLC may from time to time have an ownership interest in funds where Caprock clients also have an ownership interest.

#### Individual Outside Business Activities

Richard Rock, in his separate capacity, serves as the Managing Member and is the sole Member of Xian Advisors LLC. Xian Advisors LLC provides business consulting and trust investment consulting services. Mr. Rock, in his separate capacity, serves on the Advisory Board of The Westly Group as an unpaid advisor. Mr. Rock and several Clients have made investments in the Westly Capital Partners Fund II. Mr. Rock, in his separate capacity, serves as an unpaid Board Member to Tri-Linc Global. Mr. Rock as well as Caprock Advisory Clients and The TCG Partners Fund have also made investments in Tri-Linc Global (holding company) and Tri-Linc Global Impact Fund. Mr. Rock, in his separate capacity, serves on the Advisory Board of American Infrastructure Fund. Mr. Rock, and Caprock Clients have also made investments in various American Infrastructure Funds.

Gregory Brown, in his separate capacity, serves as Managing Member of Delta Ventures, LLC, a venture development and private investment company. This entity is used as a vehicle for direct equity investments on behalf of the Principal in private companies, real estate and real assets. This private company is not offered to the public or any Caprock advisory clients. Mr. Brown, in his separate capacity, serves as a Board Member of iPAR, LLC, a company that offers a subscription-based software platform that helps investors understand their portfolio from an Impact investing perspective. The original iPAR software was developed by Caprock and then transferred to iPAR, LLC. Caprock continues to use the iPAR software with some of its advisory clients free of charge. This private company is not offered to the public or any Caprock advisory clients. Mr. Brown, in his separate capacity, is also a Member and Investor with La Plaza International, LLC and related entity La Plaza Hospitality, LLC, and Advisory Board Member of ZenLedger. Mr. Brown, in his separate capacity, serves as an unpaid Trustee for the 4101 Living Trust which serves as a trust to acquire and hold real estate for one Caprock Advisory Client.

Matthew Weatherley-White, in his separate capacity, is a co-founder and shareholder of RestWise, a web-based subscription application designed to assist athletes with training, recovery and performance. In limited circumstances, Caprock Advisory Clients have made an investment. Client's decision to Invest was based on their own unique risk tolerances and

financial objectives as well as taking into account the speculative nature of this investment. Caprock has not conducted any formal initial or on-going due-diligence.

Mr. Weatherley-White, in his separate capacity, serves as an Advisor to iPAR, LLC, a company that offers a subscription-based software platform that helps investors understand their portfolio from an Impact investing perspective. The original iPAR software was developed by Caprock and then transferred to iPAR, LLC. Caprock continues to use the iPAR software with some of its advisory clients free of charge. This private company is not offered to the public or any Caprock advisory clients.

William G. Gilbert, Jr., in his separate capacity, is a Manager of and investor in VisitPay (iVinci Health, LLC). VisitPay which offers collection tools that pertain to financing & self-pay solutions for hospitals and health systems. In limited circumstances, Caprock Advisory Clients have made an investment. Client's decision to Invest was based on their own unique risk tolerances and financial objectives as well as taking into account the speculative nature of this investment.

Mark Gustafson, in his separate capacity, serves as a Board Member of iPAR, LLC, a company that offers a subscription-based software platform that helps investors understand their portfolio from an Impact investing perspective. The original iPAR software was developed by Caprock and then transferred to iPAR, LLC. Caprock continues to use the iPAR software with some of its advisory clients free of charge. This private company is not offered to the public or any Caprock advisory clients.

Certain of Caprock's Managing Directors, related persons or Members of Caprock Management, LLC may serve on the advisory boards of private funds in which Caprock Advisory Clients have made investments. In some situations, Caprock is invited by the private fund and in other situations Caprock may request the advisory board position. The tenure of the advisory board position may be pre-defined at acceptance or may be open and longer term in nature. The advisory board may be asked to advise the private fund on a range of business matters. There may be instances where such persons are asked to give an advisory vote. In such instances, Caprock's advisory vote will take into account the needs of all investors in the private fund.

## **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

Caprock has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. Caprock's Code of Ethics describes the firm's fiduciary duties and responsibilities to clients,

and sets forth Caprock's practice of supervising the personal securities transactions of supervised persons with access to client information. Individuals associated with Caprock may buy or sell securities for their personal accounts identical to or different than those recommended to clients. It is the expressed policy of Caprock that no person employed by Caprock shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients.

To supervise compliance with its Code of Ethics, Caprock requires that anyone associated with this advisory practice with access to advisory recommendations provide annual securities holdings reports and quarterly transaction reports to the firm's Chief Compliance Officer. Caprock requires such access persons to also receive approval from the Chief Compliance Officer prior to investing in any IPOs or private placements (limited offerings).

Caprock requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. Caprock's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to disciplinary measures.

Caprock will provide a complete copy of its Code of Ethics to any client or prospective client upon request to the Chief Compliance Officer at Caprock's principal address.

It is Caprock's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Caprock will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## **Item 12 – Brokerage Practices**

As Caprock does not have the discretionary authority to determine the broker/dealer to be used or the commission rates to be paid, clients must direct Caprock as to the broker/dealer to be used. In directing the use of a particular broker or dealer, it should be understood that



Caprock will not have authority to negotiate commissions among various brokers or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients. Not all advisers require their clients to direct brokerage. Directing brokerage may cost clients more money.

Caprock participates in the Schwab Advisor Family Office (“SAFO”) program, offered by Charles Schwab and Company (“Schwab”). SAFO is a highly selective and specialized offer made to a small number of independent Advisors who meet stringent criteria defined by Schwab. The SAFO program allows the delivery of services to UHNW families whose circumstances sometimes require highly customized solutions and accommodation. Schwab is a member FINRA/SIPC. Schwab is an unaffiliated SEC-registered broker dealer and FINRA member broker dealer. Clients in need of brokerage and custodial services will typically have either Schwab or Fidelity recommended to them. Caprock considers various factors when recommending Schwab, including, but not limited to, Schwab’s ability to provide professional services, access to separate account managers on one platform, Caprock’s experience with Schwab, quality of trade execution services and cost, Schwab’s reputation and financial strength and the various services disclosed in Item 14. Caprock regularly reviews this program to ensure that its recommendation is consistent with its fiduciary duty. The services and benefits may not be available to clients who direct the use of other brokers. As part of the SAFO program, Caprock receives benefits that it would not receive if it did not offer investment advice. Caprock has negotiated rates for client services with Charles Schwab.

Caprock has an agreement with Fidelity Family Offices Services (“FFOS” or “Fidelity”) to utilize their platform for custodial services for new and existing Caprock Clients. Fidelity is an unaffiliated SEC-registered broker dealer and FINRA member broker dealer. Clients in need of brokerage and custodial services may have Fidelity recommended to them. Caprock considers various factors when recommending Fidelity, including, but not limited to, Fidelity’s ability to provide professional services, access to separate account managers on one platform, Caprock’s experience with Fidelity, quality of trade execution services and cost, Fidelity’s reputation and financial strength and the various services disclosed in Item 14. Caprock regularly reviews this program to ensure that its recommendation is consistent with its fiduciary duty. The Fidelity trading platform is essential to Caprock’s service arrangements and capabilities. The services and benefits may not be available to clients who direct the use of other brokers. As part of the FFOS program, Caprock receives benefits that it would not receive if it did not offer investment advice. Caprock has negotiated rates for client services with Fidelity.

In certain circumstances, client accounts on the Schwab or Fidelity platform may be on an asset-based pricing fee arrangement rather than transaction-based pricing. Generally, fixed income accounts managed by an independent third-party investment manager will be placed under an asset-based fee arrangement. All other accounts are typically on a transaction-based fee arrangement. An account with asset-based pricing may pay a higher or lower total commission cost over different periods of time than a transaction-based account depending on the total amount of trading activity that takes place within the account. While Caprock does not directly receive any benefit from these different fee arrangements, Schwab or Fidelity may reduce the asset-based pricing fee schedule based on the total number of Caprock client account assets under an asset-based pricing fee arrangement. While lower asset-based fee pricing is beneficial to all client accounts on an asset-based pricing program, a potential conflict of interest may exist in Caprock seeking to increase the amount of assets on asset-based pricing to reduce the asset-based fee schedule.

Many clients, when undertaking an advisory relationship, already have a pre-established relationship with a broker, and they will instruct Caprock to execute all transactions through that broker. In the event that a client directs Caprock to use a particular broker-dealer, it is understood that under those circumstances Caprock will not have authority to negotiate commissions or to obtain volume discounts, and best execution may not be achieved. In addition, under these circumstances a disparity in commission charges may exist between the commissions charged to other clients.

For trades conducted through Schwab, Caprock trade errors are corrected through Schwab Institutional. Caprock trade errors that are corrected through Schwab Institutional and result in losses under \$100 are covered by Schwab Institutional. Caprock trade errors that result in gains less than \$100 are kept by Schwab Institutional to minimize and offset its administrative time and expense. Trade errors that Schwab corrects on behalf of Caprock and result in a gain over \$100, the gain in excess of \$100 will be donated by Schwab to a charity of its choosing. In certain situations, Caprock trade errors that may financially benefit a Client and can be corrected in a Client account without creating regulatory restrictions will be corrected directly in the Client's account. In those situations where trade errors created by Caprock result in a loss greater than \$100, the total cost of the error will be paid by Caprock. Subject to Schwab Error Desk approval, Caprock trade error gains & losses may be netted against each other if errors occur on the same trade date, or in some instances, within a few days of each other. Caprock has the responsibility to effect orders correctly, promptly and in the best interests of our clients. In the event any error occurs in the handling of any client transactions, due to Caprock's actions, or inaction, or actions of others, Caprock's policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the client or benefiting Caprock in any way.

For trades conducted through Fidelity, Caprock makes client whole with respect to any trade error losses incurred by client caused by Caprock. Errors may also result in gains in client accounts, in which case Fidelity provides to Caprock any gains that would have occurred in the client account as a result of the error. For such situations, Caprock has established a procedure to provide such gains to Clients if permitted, or if the Client is not permitted to receive such gain, use such gains to offset any losses for which it is responsible.

Generally, due to individual client portfolio management and as a manager of managers, Caprock has limited opportunities to achieve any client benefits by aggregating client orders. The effectiveness of any aggregation will be considered in all trading decisions, but it should be recognized that client custodians charge individual ticket costs on all transactions and therefore trading cost savings are not achieved. Trade aggregation may be appropriate if Caprock elects to invest or divest all clients of a particular bond, ETF, stock or option, and should be specifically considered in such situations. Caprock's policy is to aggregate client transactions when advantageous to clients. In these instances, clients participating in any aggregated transactions will be allocated an average share price and transaction costs will be shared equally and on a pro-rata basis. Where trade aggregation occurs, all participating clients shall receive an average share price and share equally any trading costs not directly attributable to their account as required by an account custodian (i.e., based on share size a custodian may charge different costs to different accounts). If an aggregated trade order is only partially filled, all participating clients will receive a pro rata share of the fill unless such distribution would result in minimal distributions to clients in which case those clients may be excluded from the allocation. In the event that transactions for employees or principals ("proprietary accounts") are aggregated with client transactions, conflicts can arise with partial fills. As such, any block trades including proprietary accounts where there is a partial fill, Caprock client allocations will be filled first (i.e. before any proprietary account is filled). Caprock shall document any such exclusion and the reasons therefore on the Trade Order Memorandum regarding such trade.

## **Item 13 – Review of Accounts**

### **Reviews:**

#### **Investment Advisor Services & Family Office Services:**

Investment management accounts are reviewed at least quarterly by Caprock. Individual securities held in client accounts will be continuously monitored by Caprock, while the firm will monitor all selected third-party managers on a quarterly basis. Accounts are reviewed

in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, market conditions, or the political or economic environment. Reviews will be conducted by the lead Investment Advisor Representative assigned to each client.

### **Consulting Services:**

Consulting client accounts will be reviewed as contracted at the inception of the advisory relationship. The scope of review will vary by consulting client as outlined in the advisory agreement.

### **Reports**

Investment Management and Family Office clients will receive monthly and/or quarterly statements and confirmations from their respective broker-dealer(s) and/or custodian(s). Caprock will provide reports as contracted at the inception of the advisory relationship.

Consulting clients will receive reports as contracted at the inception of the advisory relationship.

## **Item 14 – Client Referrals and Other Compensation**

### **Client Referrals**

Caprock may from time to time compensate, either directly or indirectly, any person (defined as a natural person or a company) for Client referrals. Caprock is aware of the special considerations promulgated under Section 206(4)-3 of the Investment Advisers Act of 1940 and similar state regulations. As such, appropriate disclosure shall be made, all written instruments will be maintained by Caprock and all applicable Federal and/or State laws will be observed.

For accounts of Caprock's clients maintained in custody at Schwab or Fidelity, Schwab or Fidelity will not charge the client separately for custody but will receive compensation from Caprock's clients in the form of commissions, asset based pricing or other transaction-related compensation on securities trades. Schwab or Fidelity also will receive a prime brokerage fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through other broker-dealers. Schwab's or Fidelity's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, Caprock may have an incentive to cause trades to be executed through Schwab or Fidelity rather than another broker-dealer. Trades for client accounts held in custody at Schwab or Fidelity may be executed through a different broker-dealer than trades

for Caprock's other clients. Thus, trades for accounts custodied at Schwab or Fidelity may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

### Other Compensation

As indicated under the disclosure for Item 12, SAFO and FFOS provides Caprock with access to services, which are not available to retail investors. These services generally are available to independent investment advisors on an unsolicited basis at no charge to them. While there is no direct linkage between the investment advice given and participation in these programs, economic benefits are received which would not be received if Caprock did not give investment advice to clients.

These services benefit Caprock but may not benefit its clients' accounts. Many of the products and services assist Caprock in managing and administering clients' accounts. Some of these other products and services that benefit Caprock advisory clients and assist Caprock in managing and administering client accounts include software and other technology platforms. These provide access to client account data (such as trade confirmations, current and historical account statements, gain/loss & cost basis reporting and 1099s); facilitate trade clearance & execution (including allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Caprock's advisory fees from client accounts; support client cash management services (including electronic bill-pay, ACH transactions, aggregated margin loans, Fed Wire & Schwab checking accounts); and assist with back-office functions, recordkeeping and client reporting.

Additional products and services which benefit Caprock advisory clients include: access to dedicated equity, mutual fund and fixed-income trading desks that serve program participants exclusively; access to an electronic communication network for client order entry, account information and access to no-load and no-transaction fee mutual funds which would generally require a significantly higher minimum initial investment or would otherwise be available only to institutional investment advisers. These services may be used to service all or a substantial number of Caprock accounts. SAFO and FFOS also makes available to Caprock other services intended to help Caprock manage and further develop its business enterprise. These services may include consulting, publications, web-casts and conferences on practice management, information technology, business succession, regulatory compliance, marketing and operations. Caprock does not, however, enter into any commitments with SAFO or FFOS for transaction levels in exchange for any services or products. SAFO and FFOS may discount or waive fees it would otherwise charge for certain services, including conferences, due to Caprock's participation in this institutional program.

SAFO and FFOS may also make available to Caprock other products and services that benefit Caprock but may not always benefit client accounts.

As a fiduciary, Caprock endeavors to act in its clients' best interests. Caprock recommending that clients maintain their assets in accounts at SAFO or FFOS may be based in part on the benefit to Caprock of the availability of some of the foregoing products and services. Further, this recommendation may not deliver benefits to a Caprock client related to the nature, cost or quality of services provided SAFO or FFOS. As Caprock clients may receive no direct benefit from following such a recommendation, a potential conflict of interest may exist.

## **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Caprock urges clients to carefully review such statements and compare such official custodial records to the account statements provided by Caprock. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

In certain situations, Clients have provided to Caprock their internet log-in credentials to additional accounts (i.e. bank, brokerage, retirement & 401K, 529 plans, etc.). Caprock may regularly access these accounts to obtain balances, portfolio positions and transaction history to assist in preparing Clients' monthly balance sheets, quarterly performance reports or ad-hoc reports. In those situations, where login credentials grant special on-line privileges (i.e. bill-pay, 3<sup>rd</sup> party money transfers and allows for address changes), Caprock is deemed to have custody of Client assets.

Caprock undergoes an annual surprise financial exam (custody audit) in instances where it may have custody (as defined by the SEC) over client's accounts. The result of this custody audit may be found at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Private Fund investors will be provided an annual audited financial statement within 180 days after the end of each fiscal year.

## **Item 16 – Investment Discretion**

Caprock usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. This

authority will include the discretion to retain a third party money manager. Any limitations on this discretionary authority shall be included in Caprock's Investment Advisor Agreement. Clients may change/amend these limitations as required. Such amendments shall be submitted in writing. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting investments and determining amounts or selecting investment managers, Caprock observes the investment guidelines, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to Caprock in writing. Clients may change/amend these limitations as required. Such amendments shall be submitted in writing.

## **Item 17 – Voting Client Securities**

Proxy Voting: As a matter of firm policy and practice, Caprock does not accept the authority to and does not vote proxies on behalf of advisory clients. The responsibility for receiving and voting client proxies is either retained by the client or the responsibility of the independent managers. In the event any client may request assistance about the proxy voting process, Caprock may provide information to assist the client but the client, or independent manager, maintains the responsibility for receiving and voting any client proxies.

Class Actions, Bankruptcies and Other Legal Proceedings: Clients should note that Caprock will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held or previously were held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct Caprock to transmit copies of class action notices to the client or a third party. Upon such direction, Caprock will make commercially reasonable efforts to forward such notices in a timely manner.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Caprock's financial condition. Caprock has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.