

**Part 2A of Form ADV: Firm Brochure**

**Rothschild Investment Corporation**

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This brochure provides information about the qualifications and business practices of Rothschild Investment Corporation (“Rothschild”). If you have any questions about the contents of this brochure, please contact Bradley Drake, Executive Vice President and Chief Compliance Officer, at 312-983-8956 or [bdrake@rothschildinv.com](mailto:bdrake@rothschildinv.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Rothschild is also 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. Our Firm’s CRD number is 728.

## **Item 2. MATERIAL CHANGES**

The only material changes to Rothschild's Form ADV 2A since the last update (03/29/19) are as follows:

- Additional disclosure relating to revenue sharing and service fees that Rothschild receives with respect to certain client accounts and certain investment assets.
- Clarification that for non-retirement accounts, individual representatives of Rothschild will act either (i) in their capacities as registered representatives of Rothschild and receive a portion of the brokerage compensation received by Rothschild or (ii) in their capacities as investment adviser representatives and receive a portion of the advisory fees received by Rothschild. Clients should, however, be aware that Rothschild may act as both broker-dealer and investment adviser for a client subject to the client's informed consent.
- Clarification that for accounts that are part of a sponsored retirement plan, Rothschild and its individual representatives will act either (i) in their capacities as broker-dealer and registered representatives and be compensated through brokerage compensation charged for trade execution in the accounts or (ii) in their capacities as investment adviser and investment adviser representatives and be compensated through the advisory fees charged by Rothschild.

We will ensure that clients receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year. Furthermore, we will provide clients with other interim disclosures about material changes as necessary.

### **Item 3. TABLE OF CONTENTS**

Item 1.	COVER PAGE .....	1
Item 2.	MATERIAL CHANGES .....	2
Item 3.	TABLE OF CONTENTS .....	3
Item 4.	ADVISORY BUSINESS.....	4
Item 5.	FEES AND COMPENSATION .....	7
Item 6.	PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	10
Item 7.	TYPES OF CLIENTS.....	10
Item 8.	METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	11
Item 9.	DISCIPLINARY INFORMATION.....	13
Item 10.	OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	13
Item 11.	CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	14
Item 12.	BROKERAGE PRACTICES .....	16
Item 13.	REVIEW OF ACCOUNTS.....	19
Item 14.	CLIENT REFERRALS AND OTHER COMPENSATION .....	20
Item 15.	CUSTODY .....	21
Item 16.	INVESTMENT DISCRETION .....	21
Item 17.	VOTING CLIENT SECURITIES .....	22
Item 18.	FINANCIAL INFORMATION .....	22

#### **Item 4. ADVISORY BUSINESS**

We are proud of our Firm's unique position in the investment industry. Established in 1908, Rothschild is the oldest Chicago-based investment firm that remains a separate entity under the guidance of its founding family.

We are uniquely structured to assist clients in the management of their personal and corporate finances. The professional staff averages 20 years' experience in working with professionals, business owners, and their retirement funds. In fact, the Firm caters to the corporate needs of the closely-held business and the personal needs of its owners. Rothschild has made a long-term commitment to working with entrepreneurs and their special investment requirements. The longevity of the Firm is testimony to our commitment to service and the implementation of a successful long-term investment philosophy.

Because no two businesses or individual situations are alike, Rothschild specializes in providing highly personalized asset management services for clients. Each account is individually structured and ongoing advice is provided.

Rothschild is a registered investment adviser with the Securities and Exchange Commission (the "SEC") under the Investment Advisers Act of 1940 as amended (the "Advisers Act"). As a fiduciary, it adheres to and is bound by the terms and provisions of that act. Registration with the SEC or any state securities authority does not imply a certain level of skill or training. Rothschild is also registered with the SEC and various states as a broker-dealer and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") in that capacity.

Listed below are the Firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of the company):

- Richard F. Karger, Chairman and CEO

#### **Our Philosophy**

Recognizing that investment goals and requirements may vary widely, we stress the importance of establishing meaningful long-term investment objectives for each of our clients. A thorough understanding of overall assets, contribution and payout projections, in addition to client temperament, enables us to evaluate the relative importance of current income versus the potential for capital gains. We are then in a position to recommend an appropriate balance between equity and fixed-income investments and to suggest suitable risk parameters for portfolio investments. Our long-term objective is to establish a pattern of positive total return for our clients. We strive to achieve a combined rate of return sufficient to enhance, as well as protect, the real (inflation-adjusted) value of our clients' assets.

#### **General Approach**

A successful approach to investment management must insure compliance with fiduciary standards while retaining the potential for meeting rate-of-return objectives. This requires both prudence and flexibility. Prudence involves ongoing supervision of assets while maintaining meaningful quality

standards for investment and diversification of investment risks. Changing market environments necessitates the ability to be flexible.

### **Equity Selection**

We rely primarily on basic fundamental analysis in selecting equity investments. We actively seek new investment candidates that meet our quality and liquidity requirements. Effective equity selection depends largely upon thorough analysis of both intermediate and long-term economic trends and a reasonable assessment of the relative attractiveness of various equity alternatives. An evaluation of future earnings, relative price-earnings ratios, and the consistency of historical results are examples of the criteria used in our selection process. Because over-diversification often leads to mediocre results, we concentrate our investments in the industry and market sectors we believe are most likely to benefit from anticipated economic developments.

### **Fixed Income Selection**

In today's environment of frequent and sometimes dramatic changes in the level and direction of interest rates, some traditional fixed-income strategies are no longer effective. Our over-riding concern in structuring a bond portfolio is protection of principal. Therefore, we will normally construct portfolios comprised of laddered, short-term to intermediate-term investment grade fixed income securities to protect against interest rate risk and credit risk.

### **Investment Advisory Services**

Our Firm provides ongoing advice to clients regarding the investment of their funds based on their individual needs. Through personal discussions with the client, investment goals and objectives are established based on the client's particular circumstances. We develop the client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss the client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer (or insurance company, if applicable) and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers

- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable annuities (if applicable)
- Mutual fund shares
- United States governmental securities
- Options contracts on securities

Because some types of investments involve certain additional degrees of risk, Rothschild will implement/recommend them only when consistent with the client's level of sophistication as well as stated investment objectives, tolerance for risk, liquidity, and suitability.

### **Retirement Plan Consulting Services**

We can also provide Retirement Plan Consulting Services as stand-alone services or alongside our traditional advisory services. Retirement Consulting Services are comprised of four distinct services. Clients may choose to use any or all of these services.

**Investment Policy Statement Preparation (hereinafter referred to as "IPS"):** We generally meet with the client to help determine an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. Our Firm assists with the preparation of a written IPS detailing those needs and goals. The IPS also may list the criteria for selection of investment vehicles as well as the procedures and timing interval that assist the client in monitoring investment performance of the plan.

**Selection of Investment Options:** We generally assist plan sponsors in constructing an appropriate investment mix. We will then help review various mutual funds (both index and managed) to help the client determine which investments are appropriate to implement, consistent with the client's IPS. The client determines the number of investment options to offer inside a plan.

**Monitoring of Investment Performance:** We generally assist the client in monitoring the plan's investments. Although our Firm is not involved in the purchase or sale of these investments, we typically help the client supervise the plan and make recommendations to the client as market factors and the client's needs dictate.

**Employee Communications:** For pension, profit sharing and 401(k) plan clients where individual plan participants exercise control over assets in their own account ("self-directed plans"), we will upon request also provide quarterly educational support and investment seminars designed for the plan

participants. Rothschild and the client determine the nature of the topics to be covered under the guidelines established in ERISA Section 404(c).

### **Amount of Managed Assets**

As of 12/31/2019, we were actively managing \$1,397,137,674 of clients' assets on a discretionary basis plus \$43,391,140 of clients' assets on a non-discretionary basis.

## **Item 5. FEES AND COMPENSATION**

Our fees for Investment Advisory Services and Retirement Plan Consulting Services are presented separately below.

### **Investment Advisory Services**

Our annual fees for Investment Advisory Services are based upon a percentage of assets under management and range from 0.25% to 1.50% per annum. Management fees are generally charged monthly or quarterly in advance, as outlined in the Investment Advisory Services Agreement. Clients direct whether management fees are to be debited directly from their accounts or billed separately. Fees may vary based upon account circumstances.

Our standard Investment Advisory Fee Schedule is shown below:

- 1.25% per annum on the first \$3,000,000
- 1% per annum on the next \$4,000,000
- 3/4 of 1% per annum on the next \$8,000,000
- 1/2 of 1% per annum on anything over \$15,000,000

**Limited Negotiability of Advisory Fees:** Although Rothschild has established the standard fee schedule reflected above, we retain the discretion to negotiate alternative fees (both higher and lower) on a client-by-client basis. We consider client facts, circumstances, and needs in determining the applicable fee structure. These factors include the complexity of the client assets placed under management, anticipated future additional assets, related accounts, portfolio style, and account composition, among others. The specific annual fee schedule is agreed to in the contract between Rothschild and each client.

We may group certain related client accounts for the purposes of achieving account size tiers for determining the annualized fee (commonly called "householding").

**Performance-Based Fees (includes Contingency-Based Fees):** Rothschild does not charge performance-based fees (see Item 6).

## Retirement Plan Consulting Services

Rothschild offers several fee options for Retirement Plan Consulting Services. Rothschild may be compensated based on an annual percentage of plan assets for services involving ongoing reviews (see our fee schedule below), or we may be compensated by an hourly fee or fixed fee (hourly fees range from \$300-\$1,200 per hour). Alternatively, these different types of fees may also be combined as appropriate for the different types of services requested by the client.

Where we charge an annual asset-based fee for Retirement Plan Consulting Services, the fee ranges from 0.10% to 1.25% of plan assets, depending on the services requested and the size of the plan. Retirement Plan Consulting Services fees are charged monthly or quarterly, in advance, as agreed to in the appropriate services agreement. Fees may vary based upon account circumstances.

Our standard fee schedule for Retirement Plan Consulting Services is shown below:

<u>Assets Under Management</u>	<u>Annual Fee</u>
• under \$1,000,000	1.25%
• \$1,000,000 to \$5,000,000	1.00%
• \$5,000,001 to \$10,000,000	0.75%
• \$10,000,001 to \$25,000,000	0.50%
• Over \$25,000,000	Negotiable

For certain Retirement Plan Consulting Services clients, Rothschild will be designated as the broker of record for the relevant plan(s) and will receive brokerage-based compensation (including without limitation brokerage commissions, 12b-1 fees and other distribution fees) for the trades executed on behalf of the relevant plan(s) rather than receiving an asset-based fee as illustrated in the table above. In those circumstances, personnel of Rothschild who provide services to the relevant plan(s) and are registered representatives of Rothschild will receive a portion of the brokerage compensation paid to Rothschild by such plan(s). In such cases, Rothschild provides full disclosure to plan sponsors regarding such commissions and fees.

## General Information Regarding Fees and Compensation

**Termination of the Advisory Relationship:** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days' prior written notice. As disclosed above, advisory fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the relevant billing period.

**Mutual Fund Fees:** All fees paid to Rothschild for investment advisory services are charged in addition to the fees and expenses charged by mutual funds, ETFs, or other investment vehicles to their shareholders. These fees and expenses are described in the relevant prospectus or other disclosure document. These fees generally include management fees, operating expenses, and, in some cases, a



distribution fee. If a fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our Firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the underlying investment vehicles and our fees to fully understand the total amount of fees to be paid by the client, and to thereby evaluate the advisory services being provided. In some limited circumstances (such as where a client brings an existing mutual fund position to a new advisory relationship), the Firm will receive and retain 12b-1 or other distribution-related payments for a limited period of time (Rothschild will generally then either convert to a non-12b-1 share class, liquidate and reallocate the proceeds or exclude such assets from the advisory fee base).

See Item 14 for additional information regarding 12b-1 distribution fees and other revenue sharing payments.

**Additional Fees and Expenses:** In addition to our advisory fees, clients are also responsible for the fees and expenses that may be charged by custodians and imposed by broker-dealers including, but not limited to, any transaction charges imposed by a broker-dealer through which an investment adviser representative effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Certain members of our management personnel as well as certain investment adviser representatives and other related persons of our Firm are also licensed as registered representatives of Rothschild in its capacity as a broker-dealer. Several of our principals and employees are also licensed as insurance brokers. In these other capacities, these individuals are able to implement investment recommendations for advisory clients for transaction-based compensation (i.e., commissions, 12b-1 fees or other sales-related forms of compensation). This presents a conflict of interest to the extent that these individuals recommend that a client invest in a security that results in a commission being paid to Rothschild. Clients are not under any obligation to Rothschild when considering implementation of advisory recommendations. The implementation of any or all recommendations and the broker-dealer with which to execute such recommendations is solely at the discretion of the client.

Our clients ordinarily choose to pay for the services of their representative through either (i) advisory fees paid to us in our capacity as an investment adviser (a portion of which is paid to the representative), or (ii) transaction-based compensation paid to us in our capacity as a registered broker-dealer (a portion of which is paid to the representative). If a client that is subject to an advisory fee elects to use Rothschild as its broker-dealer, Rothschild will receive its ordinary brokerage commissions for executing the relevant trades, but the client's representative will not receive any portion of such brokerage compensation.

In some cases, a Rothschild representative will refer a client that elects to use Rothschild as both the client's broker and investment adviser to another Rothschild representative for portfolio management services in which event the referring representative will receive a portion of the brokerage fees paid by such client and the portfolio manager will receive a portion of the advisory fees paid by such client. However, clients are under no obligation to use Rothschild as both broker and investment adviser.

In order to minimize the potential conflict of interest between the Firm and its clients, Rothschild limits its broker-dealer activity to brokering trades and does not inventory securities for resale to clients. Furthermore, the Firm does not make commission payouts to investment adviser representatives acting as portfolio managers for security transactions conducted for advisory accounts that they are responsible for managing. We recognize that commission costs adversely affect investment performance and we make every effort to keep these costs at a minimum.

**ERISA Accounts:** Rothschild acts as a fiduciary to advisory clients that sponsor employee benefit plans or hold individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our Firm is subject to specific duties and obligations under ERISA and the Code that include, among other things, restrictions concerning certain forms of compensation and business relationships. To avoid engaging in prohibited transactions, Rothschild generally relies on one or more exemptions from the prohibited transaction rules.

Because Rothschild is both a registered investment adviser and broker-dealer, a conflict exists where Rothschild acts as both investment adviser providing Investment Advisory Services and broker providing trade execution services for a benefit plan client. Therefore, all benefit plan clients that retain Rothschild to provide Investment Advisory Services and brokerage services are required to re-affirm annually their desire to have Rothschild act in both capacities.

**Advisory Fees in General:** Clients should note that similar advisory services may be available from other investment advisers for similar or lower fees.

**Limited Prepayment of Fees:** Under limited circumstances, we do require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

## **Item 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Rothschild does not charge performance-based fees.

## **Item 7. TYPES OF CLIENTS**

Rothschild provides advisory services to the following types of clients:

- Individuals, families, trusts and estates
- High net worth individuals
- Pension and profit sharing plans, IRAs

- Charitable organizations and foundations
- Corporations or other businesses not listed above

Rothschild does not require a minimum dollar value of assets or other condition for opening or maintaining an account.

## **Item 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Methods of Analysis**

We may use all or a combination of the following methods of analysis in formulating our investment advice and/or managing client assets:

**Fundamental Analysis:** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Technical Analysis:** By analyzing past market movements and applying that analysis to the present, we attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. We may review charts of market and security activity in an attempt to identify when the market (or security) is moving up or down and to predict how long the trend may last and when that trend might reverse.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly managed or financially unsound company may underperform regardless of market movement.

**Quantitative Analysis:** We may use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

**Qualitative Analysis:** We evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

**Asset Allocation:** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Mutual Fund and/or ETF Analysis:** We look at the experience and track record of the manager of the mutual fund or ETF to determine if that manager has demonstrated an ability to invest over a period of time and through different economic conditions. We also look at the underlying assets in a mutual fund or ETF to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

**Risks for all forms of analysis:** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### **Investment Strategy**

Our investment strategy employs a three-pronged approach: asset allocation, theme selection, and individual security selection. As mentioned previously, establishing meaningful long-term investment objectives for our clients is paramount to our investment strategy.

### **Risk of Loss**

Securities investments are not guaranteed and clients may lose money on their investments. We work with clients in helping them understand their tolerance for risk. There can be no guarantee that any particular client's investment strategy will be successful or that clients will not suffer losses.

## **Item 9. DISCIPLINARY INFORMATION**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. There are no legal or disciplinary events which we believe are material to our client's or prospective client's evaluation of our advisory business or the integrity of our management.

## **Item 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

**Firm Registrations:** In addition to Rothschild being a registered investment adviser with the SEC, our Firm is registered as a broker-dealer with the SEC and various states and is a member of FINRA.

**Management Personnel Registrations:** Certain members of our management personnel as well as certain investment adviser representatives and other related persons of our Firm are licensed as registered representatives of Rothschild in its capacity as a broker-dealer. Several of our principals and employees are also licensed as insurance brokers. These individuals, in these other capacities, can effect securities and other financial services transactions for which they will receive transaction-based compensation. Our clients ordinarily choose to pay for the services of their representative through either (i) advisory fees paid to us in our capacity as an investment adviser, or (ii) transaction-based compensation paid to us in our capacity as a registered broker-dealer. However, as noted above, in some cases a Rothschild representative will refer a client that elects to use Rothschild as both the client's broker and investment adviser to another Rothschild representative for portfolio management services in which event the referring representative will receive a portion of the brokerage fees paid by such client and the portfolio manager will receive a portion of the advisory fees paid by such client. Clients are under no obligation to use Rothschild as both broker and investment adviser.

While Rothschild and these individuals endeavor at all times to put the interest of the clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

Management personnel of Rothschild work with various third-party administrators ("TPAs") who provide back office support services to the sponsors of qualified retirement plans for a fee. In particular, TPAs provide account recordkeeping services and a trading platform (via internet and telephone) by which plan participants may direct the investment of assets in their qualified plan accounts. TPAs may refer plan sponsors in need of advisory services to our Firm. Conversely, we may refer clients in need of third-party administrative services to various TPAs. All fee arrangements are disclosed to the plan sponsors.

Third-party administrative services provided by the TPA are separate and distinct from the advisory services we provide, and are provided for separate and typical compensation. No advisory client is obligated to use a TPA recommended by Rothschild for any third-party administrative services, and no client of any TPA is obligated to utilize our advisory services. Sponsors or trustees of pension, profit-

sharing, 401(k), IRA or other client accounts subject to the provisions of ERISA or the prohibited transaction provisions of the Code are solely responsible for determining whether or not to engage the services of a particular TPA.

Clients should be aware that the receipt of additional compensation by Rothschild and its management persons or employees creates a conflict of interest that may impair the objectivity of our Firm and these individuals when making advisory recommendations. Rothschild endeavors at all times to put the interests of its clients first as part of our fiduciary duty as a registered investment adviser. We take the following steps to address this conflict:

- We disclose to clients the existence of all material conflicts of interest, including when our Firm and our employees earn additional compensation from advisory clients in addition to our Firm's advisory fees;
- We disclose to clients that they are not obligated to follow our investment recommendations or utilize our broker-dealer services;
- We require that our employees seek prior approval of any outside business activity so that we may ensure that any conflicts of interest in such activities are properly addressed;
- We periodically review all outside business activities for our employees to verify that any conflicts of interest continue to be properly addressed by our Firm; and
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

#### **Item 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Our Firm has adopted a Code of Ethics which sets forth the high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Rothschild and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but also to the general principles that guide the Code of Ethics.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the Firm's access persons. Among other things, our Code of Ethics also require access persons to get the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our Code of Ethics also provides for oversight, enforcement and recordkeeping provisions.

Rothschild's Code of Ethics further includes the Firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients, and may be requested by contacting Bradley Drake, Executive Vice President and Chief Compliance Officer, at 312-983-8956, or by email sent to [bdrake@rothschildinv.com](mailto:bdrake@rothschildinv.com).

Rothschild may, at times, effect an agency cross-transaction for an advisory client, provided that the transaction is consistent with our Firm's fiduciary duty to the client and that all requirements outlined in SEC Rule 206(3)-2 adopted under the Advisers Act are met. An agency cross-transaction is a transaction where our Firm acts as an investment adviser in relation to a transaction in which Rothschild, or any person controlled by or under common control with our Firm, acts as broker for both the advisory client and for another person on the other side of the transaction.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our Firm and/or individuals associated with our Firm may buy or sell securities for their personal accounts identical to or different from those recommended to our clients. In addition, related persons may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our Firm that no employee may purchase or sell any security prior to a transaction(s) being implemented for an advisory account (so-called "frontrunning"), thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

However, we will aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients and employees will receive an average share price, and transaction costs (excluding commissions) will be shared on a pro-rata basis. In the instances where there is a partial fill of an aggregated order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts may be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our Firm's Code of Ethics to ensure our Firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our Firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our Firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.

3. It is the expressed policy of our Firm that employee may purchase or sell any security prior to a transaction(s) being implemented for an advisory account (so-called “frontrunning”). This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our Firm requires prior approval for the purchase of any IPO or private placement investments by access persons of the Firm.
5. We maintain a list of all reportable securities transactions and holdings for our Firm and anyone associated with this advisory practice that has access to advisory recommendations (“access person”). These holdings are reviewed on a regular basis by our Firm’s Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. All clients are fully informed that related persons will receive separate commission compensation when effecting transactions during the implementation process.
8. Clients can decline to implement any advice rendered, except in situations where our Firm is managing an account on a basis.
9. All of our principals and employees must act in accordance with all applicable Federal and State statutes and regulations governing registered investment advisers.
10. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our Firm.
11. We have established policies requiring the reporting of suspected or observed Code of Ethics violations to our senior management.
12. Any principal or employee who violates any of the above restrictions is subject to discipline, up to and including termination of employment.

As disclosed in the preceding section of this Brochure (Item 10), certain related persons of our Firm may be separately registered as securities representatives and/or licensed as insurance representatives. Please refer to Item 10 for important conflict of interest disclosures.

## **Item 12. BROKERAGE PRACTICES**

Custodians are selected for reasons such as client preference, ease of safekeeping of securities, inability to easily transfer assets, ease of processing trades, etc. Rothschild recommends the clearing and custody services of Pershing LLC. However, clients are free to choose custody arrangements with other brokerage firms (such as Charles Schwab and Fidelity), banks, and mutual fund companies. Rothschild is independently owned and has no affiliation with Pershing or any other custodian.



Rothschild receiving the benefits of Pershing's clearing and custody services is not contingent upon Rothschild or its clients committing any specific amount of business (assets in custody or trading commissions) to Pershing. It is typical that custodial services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that may be generally available only to institutional investors or would require a significantly higher minimum initial investment.

Clients may or may not directly benefit from products and services offered to us by Pershing. Products and services that assist Rothschild in managing and administering client accounts include, but are not limited to, software and other technology that:

- Provide access to client account data (such as trade confirmations and account statements);
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- Provide research, pricing and other market data;
- Facilitate payment of our fees from clients' accounts; and
- Assist with back-office functions, recordkeeping and client reporting.

Additionally, Pershing offers other services intended to help us manage and further develop our business enterprise. These services include without limitation:

- Compliance, legal and business consulting; and
- Publications and conferences on practice management and business succession.

Pershing makes available, arranges and/or pays third-party vendors for some of the services offered to Rothschild. Pershing also discounts or waives fees it would otherwise charge for some of these services or pays all or a part of the fees of a third party providing these services to our Firm. Pershing also provides other benefits such as educational events and occasional business entertainment of our personnel. Rothschild's receipt of these additional services does not diminish our duty to act in the best interests of our clients, including seeking best execution of trades for client accounts.

For clients that elect to custody their accounts with Pershing, Pershing allows Rothschild to mark up certain of the administrative fees charged by Pershing to client accounts. Rather than directly charge administrative fees itself, Rothschild has implemented an additional \$3.50 service charge per trade confirmation fee (Pershing charges its own trade confirmation fee for hard copy confirms) that is paid by the client to Pershing which then passes that full amount to Rothschild.

In addition, Rothschild receives agent fees on certain purchases of ADR securities (ADRs are U.S. bank instruments that represents investments in foreign securities) that is collected by Pershing and paid to Rothschild.

In situations where a client selects a different custodian, the client must provide a trading authorization and in most cases log-in information to Rothschild for access to their accounts. This authorization is limited to trading the assets of the account, and Rothschild is not authorized to move

assets into or out of the account. There is generally no additional cost for Rothschild's services to clients who select a custodian other than Pershing, but it is on a case-by-case basis depending on the particulars of the situation. Some clients may be charged an additional fee for certain arrangements.

Brokerage custodians and mutual fund custodians generally do not charge separately for custody services, but instead are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into the custodian's account. However, bank custody (and trust custody) facilities generally do charge a separate custodial fee. In most instances involving a bank (or trust) custodian, clients will enter into a separate custody fee arrangement with that custodian.

#### **Research and Other Soft Dollar Benefits:**

Research services obtained through the use of soft dollars may be offered by brokers to whom brokerage is directed or by third parties that are compensated by such brokers. Rothschild does not attempt to put a specific dollar value on the research services rendered or to allocate the relative costs or benefits of those research services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients.

Some clients will pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if we determine in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers.

Section 28(e) of the Securities Exchange Act of 1934, as amended, establishes that certain uses of client commission dollars (so-called "soft dollars") will not result in a breach of fiduciary duty on the part of an investment adviser. The enumerated uses are for research and trading services. To the extent that Rothschild uses a service from a broker-dealer that encompass both 28(e) eligible and non-eligible soft dollar uses, we will make a good faith determination of the relative portions of each and will limit the use of soft dollars benefits to that portion of the service that is 28(e) eligible and Rothschild will pay the remaining portion out-of-pocket.

When Rothschild uses client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that we do not have to produce such products internally or compensate third parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions may result in a conflict of interest, because we may have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients. We believe that, based on the quality of the research and the thoroughness of the service, clients pay equitable commissions.

#### **Brokerage for Client Referrals:**

Rothschild does not ordinarily receive client referrals from broker-dealers used to execute trades for our clients. However, if any referrals fees are paid, such arrangements are disclosed to the client, and the impact of any referral fee is borne by Rothschild or other broker/dealer rather than by the client.

**Directed Brokerage:**

There are other brokerage firms that have lower commission rates than Rothschild. Commissions paid through Rothschild may vary based upon account circumstances. We retain the discretion to negotiate alternative commission rates on a client-by-client basis.

Clients may elect to direct brokerage to a specific broker(s) for trade execution. Clients are informed that if they elect to direct brokerage transactions through other brokerage firms, Rothschild may not be able to obtain best execution for them because we are unable to negotiate on their behalf. As a result, clients who direct brokerage transactions may pay higher commission rates or may receive less favorable prices.

**Aggregate Orders:**

We aggregate client orders when we believe it to be advantageous to clients. In these situations, clients will receive an average share price and execution costs will be shared on a pro-rata basis. No particular group or client(s) will be favored over others. In situations where an aggregate order results in a "partial fill" (meaning Rothschild is not able to fill the entire aggregate order), Rothschild will allocate the executed portion of the trade among participating accounts in an equitable manner. The goal is for clients to benefit from lower execution costs and better prices.

**Item 13. REVIEW OF ACCOUNTS****Investment Advisory Services**

**Reviews:** Client accounts are reviewed at least quarterly. 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 the client's individual circumstances. Account reviews may also be triggered by market, political, or economic developments. Reviews are conducted by the manager(s) assigned to the relationship.

Managers are supervised by Richard F. Karger, Chairman, and Bradley Drake, Executive Vice President and Chief Compliance Officer.

**Reports:** In addition to the monthly statements and confirmations of transactions that clients receive from their custodian, we provide monthly or quarterly (as provided in the relevant client agreement) reports summarizing account performance, balances and holdings. Clients are encouraged to carefully review the statements provided by their custodian.

**Retirement Plan Consulting Services**

**Reviews:** Rothschild will review the client's IPS whenever the client advises us of a change in circumstances regarding the needs of the plan. We will also review the investment options of the plan according to the agreed-upon time intervals established in the IPS. Such reviews will generally occur

no less frequently than quarterly. These accounts are reviewed by the manager(s) assigned to the account.

Managers are supervised by Richard F. Karger, Chairman, and Bradley Drake, Executive Vice President and Chief Compliance Officer.

**Reports:** These client accounts will receive reports as contracted for at the inception of the advisory relationship.

#### **Item 14. CLIENT REFERRALS AND OTHER COMPENSATION**

**Client Referrals:** Rothschild may pay referral fees to independent persons or firms (“Solicitors”) for introducing clients to us. Whenever we pay a referral fee, we require that the prospective client be provided with and acknowledge receipt of a copy of this document (our Firm Brochure) and a separate disclosure statement that includes the following information:

- The Solicitor’s name and relationship with our Firm;
- The fact that the Solicitor is being paid a referral fee;
- The amount of the fee; and
- Whether the fee paid to us by the client will be above our normal fees in order to compensate the Solicitor.

The impact of any referral fee is borne by Rothschild, rather than by the client.

**Other Compensation:** Our Firm and/or our officers and representatives are eligible to receive compensation (including bonuses) for referring clients internally and for certain types of investment services that we manage internally. As noted above, in some cases a Rothschild representative will refer a client that elects to use Rothschild as both the client’s broker and investment adviser to another Rothschild representative for portfolio management services in which event the referring representative will receive a portion of the brokerage fees paid by such client and the portfolio manager will receive a portion of the advisory fees paid by such client. However, clients are under no obligation to use Rothschild as both broker and investment adviser

We receive compensation from several of the money market sweep options we use in client portfolios. This compensation generally takes the form of 12b-1 and other fee revenue sharing. The receipt of this revenue creates a potential conflict of interest to Rothschild to use custodians and investment products that generate shareholder service fees, and sub-transfer agency fees, 12b-1 fees and other compensation to Rothschild. The Firm seeks to minimize this conflict of interest through disclosure of the fees and benefits of its various investment management programs, supervision by our compliance department, and a focus by our management team on whether clients’ investment programs are compatible with their needs.

Rothschild endeavors at all times to put the interests of its clients first as part of our fiduciary duty as a registered investment adviser.

#### **Item 15. CUSTODY**

We previously disclosed in Item 5 of this Brochure that some of our clients direct us to directly debit our advisory fees from their accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians (electronically or by mail), we also send account statements directly to our clients on a monthly/quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings, and values are correct and current.

Rothschild is also deemed to have custody of certain client assets subject to Standing Letters of Authorization ("SLOA") under the guidance provided by the SEC No-Action Letter dated 2/21/17 (the "No-Action Letter"), if an Adviser has custody as a result of an SLOA., the assets need to be included in the custody count on Form ADV, but no surprise exam is required if the adviser satisfies the conditions established by the SEC.

Rothschild currently ensures that any SLOAs it has in place with its clients meet these conditions, but if Rothschild were to have custody of client funds outside the manner described in the No Action Letter, Rothschild would arrange for an annual surprise examination by an independent CPA Firm in accordance with SEC Rule 206(4)-2.

#### **Item 16. INVESTMENT DISCRETION**

Clients may hire us to provide discretionary asset management services, in which case we are authorized to place trades in a client's account without contacting the client prior to each trade to obtain the client's consent.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell.

Clients give us discretionary authority when they sign a discretionary agreement with our Firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

#### **Item 17. VOTING CLIENT SECURITIES**

As a matter of Firm policy, we do not vote proxies on behalf of clients. Therefore, although our Firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted; and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with assistance regarding proxy issues if they contact us with questions at our principal place of business.

#### **Item 18. FINANCIAL INFORMATION**

Under certain circumstances we do require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are required to include the attached financial statement.

Like all registered investment advisers, we are also required to disclose any financial condition that is likely to impair our ability to meet our contractual obligations. Rothschild has no additional financial circumstances to report.

Rothschild has not been the subject of a bankruptcy petition at any time.

# **Rothschild Investment Corporation**

Statement of Financial Condition  
December 31, 2019

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Filed as PUBLIC information pursuant to Rule 17a-5(d) under  
the Securities Exchange Act of 1934.

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PUBLIC

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8- 16429

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2019 AND ENDING 12/31/2019  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Rothschild Investment Corporation

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

311 South Wacker Drive, Suite 6500

(No. and Street)

Chicago

IL

60606-6618

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Wipfli LLP

(Name – if individual, state last, first, middle name)

1 N Wacker

Chicago

IL

60606

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)



## OATH OR AFFIRMATION

I, Bradley C. Drake, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Rothschild Investment Corporation, as of December 31, 2019, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

**NANCY A FILISHIO**  
Official Seal  
Notary Public - State of Illinois  
My Commission Expires Jan 22, 2021

Bradley C. Drake  
Signature

Chief Financial Officer

Title

Nancy A. Filishio  
Notary Public 2-28-2020

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

## Contents

Report of Independent Registered Public Accounting Firm	1
Financial Statement	
Statement of Financial Condition	2
Notes to Statement of Financial Condition	3 – 8



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Rothschild Investment Corporation

### Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Rothschild Investment Corporation as of December 31, 2019, and the related statements of operations, changes in stockholders' equity and cash flows for the year then ended and the related notes to the financial statements (collectively referred to as "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Rothschild Investment Corporation as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Basis for Qualified Opinion

These financial statements are the responsibility of Rothschild Investment Corporation's management. Our responsibility is to express an opinion on Rothschild Investment Corporation's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Rothschild Investment Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to fraud or error. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Auditor's Report on Supplemental Information

The supplementary information contained in Schedule I and II (the Supplementary Information) has been subjected to audit procedures performed in conjunction with the audit of Rothschild Investment Corporation's financial statements. The Supplementary Information is the responsibility of Rothschild Investment Corporation's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the Supplementary Information. In forming our opinion on the supplemental information, we evaluated whether the Supplemental Information, including its form and content, is presented in conformity with 17 C.F.R. §240.17a-5. In our opinion, the Schedule I and II are fairly stated, in all material respects, in relation to the financial statements as a whole.

*Wipfli LLP*

We have served as Rothschild Investment Corporation's auditor since 2019.  
February 28, 2020  
Chicago, Illinois

**Rothschild Investment Corporation**

**Statement of Financial Condition**

**December 31, 2019**

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**Assets**

Cash	\$ 485,111
Receivable from and deposit with clearing broker	796,532
Securities owned, at fair value	2,550,600
Furniture, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$614,949)	78,191
Right-of-use asset - operating leases	605,834
Prepaid expenses	183,455
Other assets	404,655

<b>Total assets</b>	<b>\$ 5,104,378</b>
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**Liabilities and Stockholders' Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 1,531,280
Securities sold, not yet purchased	28,533
Lease liabilities - operating leases	877,128

<b>Total liabilities</b>	<b>2,436,941</b>
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**Stockholders' equity**

Common A, \$2.00 par value, 500,000 shares authorized and 266,501 shares issued	533,002
Common B, \$0.10 par value, 500,000 shares authorized and 269,942 shares issued	26,994
Additional paid in capital	501,338
Retained earnings	1,771,205

2,832,539
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Less: 78,515 shares of Common A stock in treasury, at cost	(157,030)
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80,724 shares of Common B stock in treasury, at cost	(8,072)
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<b>Total stockholders' equity</b>	<b>2,667,437</b>
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<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,104,378</b>
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## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** Rothschild Investment Corporation (the Company) is a registered securities broker-dealer and a registered investment adviser. As a broker-dealer, the Company provides brokerage services to retail and institutional customers located primarily throughout the Midwestern United States, with customer transactions cleared through another broker-dealer on a fully disclosed basis. The Company's designated examining authority is the Financial Industry Regulatory Authority ("FINRA"). As an investment adviser, the Company provides investment management services to individuals, trusts and retirement plans.

The Company operates under the provisions of Paragraphs (k)(1) and (k)(2)(ii) of Rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, is exempt from the remaining provisions of those Rules. The requirement of Paragraph (k)(1) provides that the Company promptly transmits all customer funds received in connection with transactions in securities such as mutual funds or insurance products that are executed with the Fund Company or Insurance Company. The requirement of Paragraph (k)(2)(ii) provides that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker. Any customer checks or securities received are promptly transmitted to the clearing broker.

The following is a summary of the Company's significant accounting policies:

**Accounting policies:** The Company follows the Generally Accepted Accounting Principles (GAAP), as established by the Financial Accounting Standards Board (FASB), to ensure consistent reporting of financial condition, results of operations, and cash flows.

**Recently adopted accounting policy:** In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing agreements. Under ASU 2016-02, a lessee will recognize on the statement of financial condition a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The Company adopted ASU-2016-02 as of January 1, 2019 using the modified retrospective transition method. The Company initially recorded a right of use asset adjusted for lease incentives and lease liability of \$843,555 and \$1,214,025, respectively in Right-of-use asset operating leases and Lease Liabilities – operating leases. There was no effect on opening retained earnings, and the Company continues to account for leases in the prior period financial statements under ASC Topic 840.

In adopting the new standard, the Company elected the package of practical expedients permitted under the adoption of the new standard, which allowed the Company to account for existing leases under their current classification, as well as omit any new costs classified as initial direct costs, under the new standard. Similarly, the Company did not reassess service contracts evaluated for lease treatment under ASC 840 for embedded leases under ASC 842.

**Use of estimates:** The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Furniture, equipment and leasehold improvements:** Furniture, equipment and leasehold improvements are recorded at cost. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the lesser of the term of the lease or the economic useful lives of the improvements.

**Revenue recognition:** The Company adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, effective as of January 1, 2018. The revenue recognition policies are as follows:

- **Asset Management:** Investment advisory fees are based on contractual rates applied to assets managed and recognized as earned. The Company provides investment advisory services on a daily basis. The Company believes the performance obligation for providing advisory services is satisfied over time because the customer is receiving the benefits as they are provided. Fees are received quarterly and are recognized as revenue over time as they relate specifically to the services provided in that period, which are distinct from the services provided in other periods.
- **Commissions and related clearing expenses** are recorded on a trade-date basis. The Company buys and sells securities on behalf of its customers. Commissions and related clearing expenses are recorded on a trade-date basis. The Company believes the performance obligation is satisfied on the trade date because that is when the underlying security is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.
- **Commission revenue** also includes mutual fund revenues consisting primarily of sales charges earned on open-end funds and 12b-1 distribution and/or service fees from open-end funds and money market funds. The Company may receive fees paid by the funds up front (sales charges) or over time (distribution /service fees). The Company believes that its performance obligation is the sale of securities to investors and as such is fulfilled on trade date. Distribution/service fees recognized in the current period are primarily related to performance obligations that have been satisfied in prior periods. Distribution service fees are accrued monthly as services are provided and amounts are determinable.
- **Rebates** consist of credits to customers. Rebates are recorded when quantifiable and shown as reduction of commissions or advisory fees on the statement of operations.

The following contract assets and liabilities are presented under the requirements of Topic 606:

	<u>1/1/2019</u>	<u>12/31/2019</u>
IA Fee Receivables	<u>\$ 298,083</u>	<u>\$ 355,765</u>
Deferred IA Fees	<u>\$ 200,527</u>	<u>\$ 235,640</u>
Revenue recognized in the period from: Amounts included in the contract liability at the beginning of the period	<u>\$ 200,527</u>	

The incremental costs of obtaining a contract with a customer are incurred by the Company only when a new contract is obtained. The following are incremental costs that the Company incurs: Commissions and Investment Advisory fees paid to the Company's investment representatives as well as clearing expenses. The Company elected a practical expedient for recording the incremental costs of obtaining a contract with the customer, wherein the Company recognizes such costs as incurred.

## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Income taxes:** The Company has elected to be treated as a qualified subchapter "S" corporation under the Internal Revenue Code. As a result, the Company does not pay any federal corporate income taxes. Instead, stockholders are liable for individual federal income taxes on their respective shares of the Company's taxable income.

FASB guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense and liability in the current year. Through December 31, 2018 management has determined that there are no material uncertain tax positions.

The Company is generally not subject to examination by the U.S. Federal and state tax authorities for tax years before 2017.

**Subsequent events:** The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were issued.

#### Note 2. Receivable from and Deposit with Clearing Broker

The Company clears customer transactions on a fully disclosed basis and proprietary transactions through the Company's clearing broker.

Amounts receivable from and on deposit with the clearing broker at December 31, 2019, consist of the following:

Cash	\$	21,084
Money market funds		543,732
Unsettled securities		28,541
Deposit		100,000
Fees receivable		103,175
	\$	<u>796,532</u>

The deposit is required to be maintained in accordance with the Company's agreement with the clearing broker.

At December 31, 2019, cash on deposit with the Company's clearing broker may serve as collateral for amounts due to the clearing broker and securities sold short, not yet purchased, if any.

#### Note 3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. Financial assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### Note 3. Fair Value Measurements (Continued)

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly, and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial investment.

The following table presents the Company's financial assets and liabilities measured at fair value at December 31, 2019 using the fair value hierarchy:

Description	Level 1	Total
Assets		
Receivable from and deposit with clearing broker -		
Money market funds	\$ 543,732	\$ 543,732
Securities owned -		
Equity securities	2,550,600	2,550,600
	<u>\$ 3,094,332</u>	<u>\$ 3,094,332</u>

Description	Level 1	Total
Liabilities		
Securities sold short, not yet purchased	<u>\$ (28,533)</u>	<u>\$ (28,533)</u>

Equity securities are traded on a national securities exchange and are stated at the last reported sales price on the day of valuation. Money market funds are valued based on the published net asset value per share on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

As of December 31, 2019, the Company had no financial instruments categorized as Level 2 or Level 3 of the fair value hierarchy.

The Company assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Company's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy.



## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### Note 4. Furniture, Equipment and Leasehold Improvements

Furniture, equipment, and leasehold improvements at December 31, 2019 consisted of the following:

Furniture and equipment	\$	266,028
Leasehold improvements		427,112
		<u>693,140</u>
Less accumulated depreciation and amortization		(614,949)
	\$	<u><u>78,191</u></u>

#### Note 5. Leases

The Company leases office space under a noncancelable operating lease agreement and expires in March 2022. The future minimum annual rentals, exclusive of additional payments that may be required for certain increases in taxes and operating costs, are as follows:

Maturities of the Company's operating leases, excluding short-term leases, are as follows:

For the year ending December 31, 2020	\$	406,790
For the year ending December 31, 2021		416,867
For the year ending December 31, 2022		<u>109,842</u>
<b>Total lease payments</b>		933,499
Less: imputed interest		<u>(56,371)</u>
<b>Operating lease liabilities at December 31, 2019</b>	\$	<u><u>877,128</u></u>

#### Note 6. Profit Sharing Plan

The Company has a discretionary profit-sharing plan that covers all eligible employees. Profit sharing amounts may be contributed at the option of the Company's Board of Directors.

The Company earns commissions from executing trades for the profit-sharing plan. In addition, investment advisory fees for services rendered to the plan were absorbed by the Company.

#### Note 7. Related Party

The Company provides brokerage and investment services to certain shareholders and executive officers and their family members. Advisory fees are waived and commissions charged may be reduced. The Company has an expense-sharing agreement with one of its officers whereby the officer is responsible for a portion of overhead expenses equaling \$100,000 and is located in other income on the statement of operations. At December 31, 2019 a receivable of approximately \$25,000 was due from the related party and is located in other assets on the statement of financial condition.

#### Note 8. Indemnifications

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties that provide indemnifications under certain circumstances. The Company's maximum exposure under these agreements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications. Management of the Company expects the risk of loss to be remote.

## **Rothschild Investment Corporation**

### **Notes to Statement of Financial Condition**

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#### **Note 9. Financial Instruments with Off-Balance-Sheet Risk**

Customers' transactions are introduced to and cleared through Pershing, LLC, the Company's clearing broker. Under the terms of its clearing agreement, the Company guarantees the performance of its customers in meeting contracted obligations. In conjunction with the clearing broker, the Company seeks to control the risks associated with its customer activities by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines. Compliance with the various guidelines is monitored daily and, pursuant to such guidelines, the customers may be required to deposit additional collateral, or reduce positions where necessary.

The Company is exposed to off-balance-sheet counterparty risk resulting from principal transactions in securities. Such risk arises in the event that counterparties fail to satisfy their obligations and the related collateral is insufficient. The Company monitors such risk on a daily basis.

The receivable from and deposit with the clearing broker, and cash equivalents held by the clearing broker, resulting from the Company's trading and brokerage activities, represent a concentration of credit risk. The Company does not anticipate nonperformance by its customers or clearing broker. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company maintains cash in its trading accounts at its clearing broker and in bank deposit accounts. The cash in bank deposit accounts may at times exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk on cash.

#### **Note 10. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2019, the Company had net capital of \$1,196,532 which was \$946,532 in excess of its required net capital \$250,000. The Company's net capital ratio was 1.51 to 1.