

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

### **Item 1 –Cover Page**

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**Filing Date: March 31, 2011**  
**Date Amended: March 23, 2020**

This brochure provides information about the qualifications and business practices of Fayez Sarofim & Co. If you have any questions about the contents of this brochure, please contact us at 713-654-4484 or [contact@sarofim.com](mailto:contact@sarofim.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 Fayez Sarofim & Co. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Fayez Sarofim & Co. is an investment adviser that is registered with the SEC in compliance with the Investment Advisers Act of 1940. Such registration does not imply a certain level of skill or training.

## **Item 2 –Material Changes**

**Filing Date: March 31, 2011**

**Date Amended: March 23, 2020**

While Fayez Sarofim & Co. has made certain revisions to this Form ADV Part 2A for the passage of time, we do not believe the changes would be deemed material. However, please carefully review this Form ADV Part 2A in its entirety.

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## **Item 4 –Advisory Business**

### **Our History and Organization**

Fayez Sarofim & Co. was founded in August 1958 by Fayez Sarofim, who continues to lead the firm as our Chairman, and Co-Chief Investment Officer. Since our founding, we have focused on the investment counseling business. The firm is located in one office in Houston, Texas. As of December 31, 2019, the firm had 50 full-time employees (excluding clerical workers), including 17 investment professionals.

Fayez Sarofim & Co. is registered under the Investment Advisers Act of 1940 and regulated by the Securities and Exchange Commission. The firm's registration as an investment adviser is required by law and does not imply a certain level of skill or training.

Fayez Sarofim & Co. is a wholly-owned subsidiary of The Sarofim Group, Inc., which is 100 percent owned by current, active employees of Fayez Sarofim & Co. and members of the Sarofim family. Fayez Sarofim is the majority shareholder of The Sarofim Group. The Sarofim Group is the ultimate corporate parent of a group of affiliated corporations that includes the firm, three other registered investment advisers, and other business entities. The other registered adviser affiliates are:

- Sarofim International Management Company
- Sarofim Trust Co.
- Sarofim Realty Advisors Co.

In our more than five decades of operations, Fayez Sarofim & Co. has served a broad range of clients through numerous business cycles. As of December 31, 2019, the firm's assets under management totaled \$18,828 million. The firm's other registered investment adviser affiliates had assets under management of \$2,776 million. Thus, the total assets under management by the investment professionals of the firm and the registered investment adviser affiliates were \$21,604 million as of December 31, 2019.

The firm is not affiliated with a brokerage firm.

### **Our Advisory Services**

Fayez Sarofim & Co. provides investment supervisory services and other investment advisory services to a broad range of clients. Portfolio managers at the firm operate within the guidelines set by our Investment Committee. The Committee, chaired by Mr. Sarofim, is comprised of eight senior investment professionals and five sector leaders that serve in a non-voting capacity. The Investment Committee is responsible for the firm's portfolio structures and all investment decisions.

## **Large Capitalization Equity Product**

Fayez Sarofim & Co.'s primary investment product is our Large Capitalization Equity Product, which is available to both institutions and individuals. You can access this product directly by opening an account at Fayez Sarofim & Co. You can also access this product by opening a wrap fee account through a sponsoring financial services firm, by investing in certain of the mutual funds that we sub-advise for BNY Mellon Investment Adviser, Inc., a subsidiary of Bank of New York Mellon Corp, or by investing in the Sarofim Equity Fund (an SEI Advisors' Inner Circle Fund). The firm also has advisory and sub-advisory arrangements with banks and trust companies.

Our equity strategy is focused on domestically traded common stocks with large market capitalizations and high daily trading volumes. American Depositary Receipts, preferred stocks, and foreign stocks may also be included if permitted by client guidelines. We invest in the stocks of high quality, financially sound industry leaders that have an expanding global presence. We maintain an investment perspective of at least three to five years, which generally results in low portfolio turnover and is typically tax efficient for taxable investors. Our strategy does not use derivatives, options, short-selling, leverage, or initial public offerings. We do not attempt to time the market.

## **Global Equity Product**

Institutions and individuals seeking greater international equity exposure may wish to invest in Fayez Sarofim & Co.'s Global Equity Product. While the investment approach is similar to that of our Large Capitalization Equity Product, the Global Equity Product has a larger concentration in foreign-based companies and may include shares that are not traded on domestic exchanges. You can access this product by opening a separate account with the firm; by investing in the BNY Mellon Worldwide Growth Fund, which we sub-advise; or by opening a wrap fee account through a sponsoring financial services firm.

Global Equity Product portfolios primarily have their assets in common stock, ordinary shares, or American Depositary Receipts. We focus on high quality multinational companies with large market capitalizations. Generally, at least 25 percent of assets are invested in companies organized in the United States and at least 25 percent of assets are invested in companies organized in other countries. We maintain an investment perspective of at least three to five years, which generally results in low portfolio turnover and is typically tax efficient for taxable investors.

## **Core Fixed Income Product**

Fayez Sarofim & Co. also offers a Core Fixed Income Product, which is available directly to both institutions and individuals when they open an account with the firm. Our fixed income strategy emphasizes risk-averse management, current income and low cash reserves. Portfolio holdings may include United States Treasury securities, United States government agency securities, high quality corporate and municipal bonds, high quality commercial paper, and shares of money market funds. We select specific sectors and securities that we believe offer the best combination of quality, liquidity, income generation, and relative value consistent with our

risk parameters. Foreign government and foreign corporate bonds are generally not part of our strategy.

### **Municipal Bond Portfolios**

The firm also manages tax-free income portfolios, consisting of high quality municipal bonds rated AA or higher. Portfolios are customized relative to the client's state of residence.

### **Balanced Portfolios**

Fayez Sarofim & Co. will also construct balanced portfolios for our institutional and individual clients. These balanced portfolios combine the firm's equity and fixed income strategies in proportions tailored to client requirements.

### **Meeting Individual Client Needs**

The firm manages its separate portfolios for institutions and individuals on an account by account basis, taking into consideration a client's financial resources, investment objectives, and needs. The firm addresses individual requirements for such items as current income, cash flow, and taxes. The firm will also vote the proxies related to securities held in a client's account if requested to do so by the client. Proxies are voted in accordance with the firm's Proxy Voting policy and established procedures. Please refer to Item 17—Voting Client Securities beginning on page 35.

Fayez Sarofim & Co. prefers not to be constrained by client instructions that prohibit holding certain securities. We believe that the ability to select from the widest range of investments that are consistent with our strategy results in higher returns over time. However, the firm does manage a number of accounts subject to instructions that specify various exclusions or that limit weightings in individual sectors, industries, or securities. We will accept new accounts subject to these types of instructions as long as we do not view the proposed directives as overly restrictive or too difficult or impossible to implement and monitor.

### **Discretionary and Non-Discretionary Accounts**

Fayez Sarofim & Co. manages clients' assets on either a fully discretionary basis or a non-discretionary basis. Most of our clients have granted us full discretionary authority to manage the investment of assets in their accounts. With full discretionary authority for an account, we are able to do the following without obtaining the client's consent:

- Determine which securities to buy or sell and when to execute the transactions
- Determine the total amount of securities to buy or sell, subject to available funds
- Determine the broker or dealer through which securities are bought or sold
- Negotiate with the selected broker regarding commission rates for securities transactions

Item 12 beginning on page 26 of this brochure provides more information on the firm's brokerage practices, and Item 16 beginning on page 34 discusses investment discretion.

When we provide services on a non-discretionary basis, we give the client investment advice, but we do not have the authority to implement our recommendations in the client's portfolio without the client's approval. In certain non-discretionary arrangements, the client's portfolio is not managed by Fayeze Sarofim & Co., and the firm provides advice only.

As of December 31, 2019, the firm managed \$17,945 million in client assets on a discretionary basis and \$883 million on a non-discretionary basis.

### **Wrap Fee Programs**

The firm also provides advisory services for equity portfolios under various agreements related to wrap fee programs. Wrap fee programs are sponsored by third-party financial services firms, in most cases brokerage firms. Program sponsors make the advisory services of a registered investment adviser such as Fayeze Sarofim & Co. available to their clients. Fayeze Sarofim & Co. manages most portfolios of wrap fee program clients with a strategy that is similar to its Large Capitalization Equity Product. Additionally, the wrap fee program on Edward D. Jones & Co. L.P.'s platform is managed with a strategy similar to the Global Equity Product and utilizes American Depositary Receipts for exposure to foreign-based companies.

Fayeze Sarofim & Co. has been introduced to wrap fee program sponsors primarily through the efforts of BNY Mellon Securities Corporation (BNYMSC). In our wrap fee programs, BNYMSC acts as the account administrator and serves as the liaison between Fayeze Sarofim & Co. and the sponsors and the sponsors' clients in accordance with our agreement with BNYMSC. Each wrap fee program sponsor establishes the fees to be paid by program clients. BNYMSC receives a fee for its account administration services and calculates the fee to be paid to Fayeze Sarofim & Co. in accordance with our agreement with them. Currently, the firm participates directly or indirectly in wrap fee programs sponsored by:

- Charles Schwab & Co. Inc.
- Envestnet, Inc.
- Lockwood Advisors, Inc.
- LPL Financial Corporation
- Stifel, Nicolaus & Company, Incorporated
- UBS Financial Services, Inc.
- Wells Fargo Bank, National Association

Each sponsor is paid a fee based on the amount of assets under management. The sponsor then pays BNYMSC a fee ranging from 25 to 55 basis points annually for BNYMSC's account administration services and the investment advisory services of Fayeze Sarofim & Co. In accordance with an agreement between BNYMSC and Fayeze Sarofim & Co., BNYMSC in turn pays Fayeze Sarofim & Co. a fee of 21.75 basis points annually based on the amount of assets under management.

Client suitability for participation in a wrap fee program is generally determined by the client and program sponsor. Fayeze Sarofim & Co. may accept or reject a wrap fee program client, but

the information received from a wrap program sponsor with respect to a potential client may not be sufficient for Fayez Sarofim & Co. to make an investment suitability determination.

Fayez Sarofim & Co. recognizes that certain conflicts of interest may arise with respect to trading for clients in wrap fee programs. Wrap arrangements generally require or encourage trading through the sponsoring broker-dealer. Such arrangements can result in “breaking up” trades across several brokers that might otherwise be sent to a single broker, and there is a potential for wrap program clients to trade after non-wrap clients, possibly on less favorable terms. In an effort to mitigate these potential conflicts, wrap clients and UMA clients (discussed below) trade at specific times throughout the day as determined by a randomly generated number run daily. Fayez Sarofim and Co.’s equity trading desk is responsible for developing and maintaining a record of the rotation schedule for wrap program clients.

### **ERISA Plans in Wrap Fee Programs**

For ERISA plans that participate in wrap fee programs, Fayez Sarofim & Co. acts not only as a registered investment advisor under the Investment Advisors Act of 1940 as amended but also as a plan fiduciary within the meaning of the Employee Retirement Security Act of 1974 as amended (ERISA). Fayez Sarofim & Co. does not receive direct compensation from ERISA plans for the services we provide through wrap fee programs. As discussed above, the program sponsor or an affiliate makes a payment to BNYMSC for Fayez Sarofim & Co.’s services. For information about the direct compensation the program sponsor receives in conjunction with these programs, please see your client agreement with the sponsor and the sponsor’s fee disclosure notice as required by section 408(b)(2) of ERISA (408(b)(2) disclosure notice).

Fayez Sarofim & Co. does not receive soft dollar benefits related to wrap fee accounts. We do not pay compensation to other parties in conjunction with wrap fee accounts, and we do not receive compensation when an account in a wrap fee program terminates.

### **UMA Programs**

Fayez Sarofim & Co. also participates in various model-based programs, which are often referred to as unified managed account (UMA) programs. Under its UMA agreements, the firm provides the sponsoring broker our model portfolio and position weightings. The firm continuously updates the model portfolio with specific instructions to buy or sell certain securities. The model portfolio furnished by the firm under these agreements is substantially similar to the portfolios of institutional and individual clients who are invested in the firm’s Large Capitalization Equity Product.

UMA programs may be either active or passive. When the firm participates in an active program, an overlay portfolio manager at the sponsor is responsible for model level and individual account level trades and has the discretion to deviate from the model portfolio and instructions provided by Fayez Sarofim & Co. In passive programs, the sponsor executes trades strictly in accordance with our model portfolio and instructions. Deviations are not permitted in passive programs except to accommodate specific client restrictions.



The firm's UMA agreements differ by program sponsor, but the role played by BNYMSC in the UMA programs in which the firm participates is similar to its role in the wrap fee programs. BNYMSC is the primary administrative contact with plan sponsors and acts as account administrator. The plan sponsor establishes the fees to be paid by program clients. The division of the fee between Fayeze Sarofim & Co. and BNYMSC is determined by an agreement between them (Please refer to the discussion in the next paragraph). Currently, the firm participates in UMA programs sponsored by:

- Edward D. Jones & Co. L.P.
- Investnet Asset Management, Inc.
- FolioDynamix, Inc.
- Merrill, Lynch, Pierce, Fenner & Smith Incorporated
- Morgan Stanley Smith Barney Consulting Group
- PNC Financial Services Group, Inc.
- Wells Fargo Advisors
- Vestmark Advisory Solutions, Inc.

Each sponsor is paid a fee based on the amount of assets under management. The sponsor then pays BNYMSC a fee ranging from 25 to 55 basis points for BNYMSC's account administration services and the investment advisory services of Fayeze Sarofim & Co. In accordance with an agreement between BNYMSC and Fayeze Sarofim & Co., BNYMSC in turn pays Fayeze Sarofim & Co. a fee of 21.75 basis points based on the amount of assets under management.

### **ERISA Plans in UMA Programs**

For ERISA plans in certain UMA programs, Fayeze Sarofim & Co. acts as a registered investment advisor under the Investment Advisors Act of 1940 as amended and, in some instances, as a plan fiduciary within the meaning of the Employee Retirement Security Act of 1974 as amended (ERISA). Fayeze Sarofim & Co. does not receive direct compensation from ERISA plans for the services we provide through UMA programs. As discussed above, the program sponsor or an affiliate pays a fee to BNYMSC for Fayeze Sarofim & Co.'s services. For information about the direct compensation the program sponsor receives in conjunction with these programs, please see your client agreement with the sponsor and the sponsor's fee disclosure notice as required by section 408(b)(2) of ERISA (408(b)(2) disclosure notice).

Fayeze Sarofim & Co. does not receive soft dollar benefits related to UMA program accounts. We do not pay compensation to other parties in conjunction with UMA program accounts, and we do not receive compensation when an account in a UMA program terminates.

### **Sub-Advised Mutual Funds**

Fayez Sarofim & Co. is the sub-adviser for five mutual funds established by BNY Mellon Investment Adviser, Inc. BNY Mellon Investment Adviser, Inc. serves as the investment adviser for the funds. These mutual funds are:

- BNY Mellon Appreciation Fund, Inc.
- BNY Mellon Worldwide Growth Fund
- BNY Mellon Tax Managed Growth Fund
- BNY Mellon Variable Investment Fund, Appreciation Portfolio, a separate diversified portfolio of BNY Mellon Variable Investment Fund

Our role as sub-adviser is subject to the approval of BNY Mellon Investment Adviser, Inc. and the boards of directors of the mutual funds. Currently, we provide investment advisory assistance and day-to-day management of the funds, including placing orders to execute trades. We also provide investment research and statistical information. For our services as a sub-adviser, Fayez Sarofim & Co. is paid monthly fees by either the mutual fund or BNY Mellon Investment Adviser, Inc., according to the contract for each fund.

### **Sarofim Equity Fund**

Fayez Sarofim & Co. serves as investment advisor to a mutual fund named the Advisor's Inner Circle Fund, also known as the Sarofim Equity Fund. The fund and Fayez Sarofim & Co. have entered into an investment advisory agreement pursuant to which we serve as the investment adviser and make investment decisions for the fund and continuously review, supervise and administer the investment program of the fund, subject to the supervision of and policies established by the trustees of the fund. For our services as investment adviser, Fayez Sarofim & Co. is paid a monthly fee by the fund.

### **Other Services**

In a few instances, Fayez Sarofim & Co. has agreed to provide advisory services to clients who wish to invest in a portfolio of securities issued by the United States government or its agencies through margin transactions. The firm is not currently seeking new accounts of this type.

## Item 5 –Fees and Compensation

### Advisory Service Fees

If you open an account at Fayeze Sarofim & Co., the fee you will pay for our advisory services is calculated according to one or more of the schedules presented below. Fees are billed in three month rolling periods, after the end of each such period, and are based on the market value of the assets at the end of the last day of such period on which the New York Stock Exchange is open. Asset-based advisory fees charged for the provision of Fayeze Sarofim & Co.'s investment management services are based upon the valuation of securities and investments provided by Fayeze Sarofim & Co.'s pricing services, which are reflected on its internally generated portfolio appraisal statements. These statements may show different market values for particular investments than what is reflected on a client's custodial statement. Fayeze Sarofim & Co. maintains policies and procedures regarding the valuation of securities and investments held in client accounts.

#### **Equity Fees: Large Capitalization Equity Product and the Equity Portfolios of Balanced Accounts**

The fees for equity securities are calculated as follows:

Market Value of Equities	Rate
First \$2,000,000 is billed at	0.75% (or 75 basis points) per year (i.e., 0.1875% per quarter)
Next \$18,000,000 is billed at	0.50% (or 50 basis points) per year (i.e., 0.1250% per quarter)
Next \$20,000,000 is billed at	0.40% (or 40 basis points) per year (i.e., 0.1000% per quarter)
Next \$20,000,000 is billed at	0.35% (or 35 basis points) per year (i.e., 0.0875% per quarter)
Over \$60,000,000 is billed at	0.20% (or 20 basis points) per year (i.e., 0.0500% per quarter)

#### **Equity Fees: Global Equity Product**

The fees for equity securities in the Global Equity Product are calculated as follows:

Market Value of Equities	Rate
First \$50,000,000 is billed at	0.75% (or 75 basis points) per year (i.e., 0.1875% per quarter)
Over \$50,000,000 is billed at	0.50% (or 50 basis points) per year (i.e., 0.1250% per quarter)

## **Fixed Income Fees**

The fee for fixed income securities is 0.20% (20 basis points) per year or 0.05% (5 basis points) per quarter.

## **Cash Fees**

Our investment advisory agreements authorize Fayeze Sarofim & Co. to bill cash positions in our portfolios at an annual rate of 0.20%, or 20 basis points. Cash assets may be held temporarily in money market funds or other short-term interest-bearing arrangements. If this is the case, such assets may also be subject to fees payable to the manager of these funds in addition to the fees charged by Fayeze Sarofim & Co. Notwithstanding the above, we currently waive our fees on cash positions in our portfolios for all clients; however, this should not be interpreted as a permanent waiver, and we reserve the right to reinstitute the above-referenced cash position billing rate.

## **Our Billing Practices**

For the purpose of computing fees, we may agree to treat managed assets in related accounts as if all the assets were in one account. After the fee is computed in this way, it is divided among the accounts involved, usually in proportion to the market value of each account. This grouping of related accounts must be approved in advance by the firm, and approval is not assured.

We do not regard our fees as negotiable because we believe our fees are in the low end of the range of fees in the industry for comparable services. However, in a few instances, the firm has granted exceptions to the application of our regular fee schedules when we believe there are highly unusual factors involved that justify exceptional treatment. The firm attempts to ensure that other clients having similar unusual factors are treated in a similar manner for fee purposes, but this cannot be assured. From time to time, the firm will seek to determine if such unusual factors continue to justify deviations from our regular fee schedule.

As mentioned earlier, the firm's fees are billed quarterly, in arrears. Our clients may direct their custodians to deduct Fayeze Sarofim & Co.'s fees from the assets in their account. Alternatively, clients may choose not to have the fees deducted from their accounts and may arrange to pay the fees by check or wire transfer. The firm does not accept advance fee payments.

## **Third Party Fees You May Incur**

Fayeze Sarofim & Co. does not provide custodial services, and we are not affiliated with a brokerage firm. The firm's brokerage practices are discussed in Item 12 beginning on page 26 of this brochure. The advisory service fee you pay to us does not include other fees or charges you may incur in connection with your account at Fayeze Sarofim & Co. The following is a list of the types of fees and charges that might be payable to third parties in connection with your account. This list is not meant to be exhaustive. There may be additional fees that are not included in this list.

#### Examples of Fees Paid to Third Parties

- Custodial fees
- Broker commissions
- SEC fees
- Wire transfer or other transaction fees
- Exchange fees
- Odd lot differentials
- Fees charged by mutual funds, including money market funds

### **Wrap Fee Programs and UMA Programs**

If you are a client of one of the wrap fee programs or UMA programs that Fayeze Sarofim & Co. participates in, you do not pay any fees directly to our firm. As discussed in greater detail in Item 4 on pages 7-10, a portion of the fee you pay to the plan sponsor will compensate Fayeze Sarofim & Co. for our advisory services. Please consult with your plan sponsor regarding the fees you will pay, what is included in these fees, and what additional expenses you may incur.

### **Mutual Funds**

If you invest in a mutual fund that Fayeze Sarofim & Co. sub-advises for BNY Mellon Investment Adviser, Inc. or the Sarofim Equity Fund, you do not pay any fees directly to our firm. For our sub-advisory services, Fayeze Sarofim & Co. is paid monthly fees by either the applicable mutual fund or BNY Mellon Investment Adviser, Inc. according to the contract for each fund.

Information about the mutual funds sub-advised for BNY Mellon Investment Adviser, Inc., including fees, can be obtained from BNY Mellon Investment Adviser, Inc., [www.bnymellonim.com/us](http://www.bnymellonim.com/us) or 1-800-645-6561.

Fayeze Sarofim & Co. is not affiliated with a brokerage firm. Neither the firm nor any of our employees receives compensation for the sale of securities, mutual funds or other investment products.

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

Fayez Sarofim & Co. does not have fee structures that include performance-based fee arrangements.

Generally speaking, side-by-side management is a reference to the simultaneous management of mutual funds and hedge funds. Fayez Sarofim & Co. has not formed a hedge fund and is not a manager to hedge funds.

## Item 7 –Types of Clients

Fayez Sarofim & Co. serves as an investment adviser for a broad range of clients, including but not limited to:

- Private employer pension and profit-sharing plans
- State and local government retirement systems
- Taft-Hartley union plans
- Employee savings and thrift plans
- Keogh plans
- Individuals—retirement accounts
- Individuals—taxable accounts
- Endowments, foundations, or other tax-exempt organizations
- Banks
- Trusts and estates
- Registered investment companies, i.e., mutual funds
- Insurance companies
- Insurance Company Separate Accounts
- Corporations and small businesses

We continue to seek new clients. Generally, the minimum dollar amount for new managed accounts is \$5 million, subject to the firm's discretion. However, the minimum dollar amount for new managed accounts in our Global Equity Product is \$10 million, subject to the firm's discretion. The firm may waive size requirements if related accounts are currently under management and otherwise on a case-by-case basis.

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

### **Large Capitalization Equity Product**

Fayez Sarofim & Co.'s primary investment product is our Large Capitalization Equity Product. This product seeks to generate total return through long-term capital appreciation and a growing stream of dividend income. Over periods of three to five years or longer, we strive to achieve a total return greater than the S&P 500 with less volatility than this index.

Our equity investment strategy is focused on domestically traded common stocks with large market capitalizations and high daily trading volumes. American Depositary Receipts, preferred stocks, and foreign stocks may also be included if permitted by client guidelines. Under most circumstances, our portfolios are fully invested with low cash balances. Our longer-term investment perspective generally results in low portfolio turnover and is typically tax-efficient for taxable investors. Our strategy does not use derivatives, options, short-selling, leverage, or initial public offerings. We do not attempt to time the market.

Central to our strategy is the belief that earnings growth is the most important driver of long-term stock price appreciation. In our experience, companies with dominant franchises in structurally attractive industries are most likely to generate durable growth. Generally, we invest in the stocks of high quality industry leaders that have a market capitalization of \$5 billion or higher. These established companies have demonstrated sustained patterns of earnings and dividend increases. They have an expanding global presence and sustainable competitive advantages. Their balance sheets are strong, and their management teams have a record of successfully redeploying capital.

To shape our portfolios, Fayez Sarofim & Co. employs a predominantly “bottom-up” investment process managed by the Investment Committee. Drawing on the fundamental research of our in-house analysts and select external resources, the Committee formulates a macroeconomic and capital market outlook and evaluates the attractiveness of the various economic sectors and industries. The most attractive segments are identified along with those areas that should be underweighted or avoided. This macro overlay provides a context for the analysts’ research efforts and helps direct them to the industries and companies most aligned with the Committee’s current outlook. The analysts present specific buy and sell recommendations to the Investment Committee, which makes the final decision. The Investment Committee is responsible for the firm’s portfolio structure and all investment decisions.

Our internal research function is crucial to this investment process. We perform independent, fundamental analysis on all of our investments and potential investments. Our research analysts visit companies, interview company managers, attend trade conferences, review corporate reports, filings and press releases, and stay abreast of financial and market news. We subscribe to numerous software and on-line products and selectively utilize numerous outside sources of information, such as government agencies, consultants, and Wall Street sources. The most important output of our internal research effort is proprietary projections of a company’s earnings, cash flow and dividends over a multiple-year period. These projections drive our valuation analysis.



We seek to control investment risk through disciplined adherence to our investment decision-making process. We continuously monitor the underlying operating and earnings trends of the companies represented in the portfolio and remain alert to changes in demand, competition, or technology that may influence these trends. Diversification also plays a role in our approach to controlling risk, and we monitor portfolios by industry exposure and individual stock concentration. We confine our equity holdings to securities with large market capitalizations and high daily trading volumes to help limit liquidity risk.

Although we strive to mitigate risks that may accompany an investment in our Large Capitalization Equity Product, clients who invest in this product can lose money, including losing a portion of their original investment. The prices of the securities in our portfolios fluctuate. We cannot guarantee any particular level of performance. Below is a list of the types of risks you should consider before investing in our product:

- *Market risk.* Stock prices may decline due to changes in general market conditions that are not specifically related to a particular company, such as changes in the economic outlook, inflation expectations, interest rates, currency rates, or investor sentiment. A company's stock price may also decline because of factors that affect a certain industry such as changes in raw material costs or enacted and proposed changes in the law.
- *Company-specific risk.* A company's stock price may decline for numerous reasons that relate directly to the company, such as a loss of competitive advantage, impairment of capital or earnings power, legal difficulties, or management changes.
- *Risks associated with foreign companies.* Special risks associated with investments in foreign companies may include greater exposure to fluctuations in currency exchange rates, less comprehensive company information, different financial reporting and legal standards, and political instability.
- *Allocation risk.* Certain companies, industries or market sectors may be significantly overweighted or underweighted in Faye Sarofim & Co.'s portfolios relative to the broader market indices. Consequently, the performance of our portfolios may be more or less sensitive than the overall market to factors affecting those companies, industries or sectors.
- *Style risk.* Our investment strategy focuses on high quality stocks with large market capitalizations. As a result, our portfolios may underperform the broader market during intervals when such securities are out of favor with investors.

## **Global Equity Product**

The objective of Faye Sarofim & Co.'s Global Equity Product is to achieve long-term capital appreciation consistent with preservation of capital. Generating current income is a secondary goal. Over periods of three to five years or longer, we strive to achieve a total return greater than the MSCI World Index on a risk-adjusted basis.

Our Global Equity investment strategy primarily utilizes common stock, ordinary shares, and American Depositary Receipts of high-quality companies based either in the United States or in other countries. Companies represented in the portfolio typically have market capitalizations of at least \$5 billion. In selecting securities to be included in our Global Equity portfolios, we first identify the economic sectors and industries that we believe will expand on a worldwide basis over the next three to five years or longer. Using fundamental analysis, we then seek to identify companies in these business segments that have demonstrated superior profitability, financial flexibility, and capital stewardship and are positioned to maintain above-average earnings growth longer term. We are also alert to companies that we consider undervalued in terms of earnings, assets, or growth prospects. Most of the companies included in our portfolios are industry-leading multinationals with an expanding global presence.

Fayez Sarofim & Co. generally employs a buy and hold investment strategy that results in low portfolio turnover. We will liquidate a holding when we believe there has been a significant adverse change in a company's business fundamentals that may lead to a sustained impairment of earnings power. In addition, we may reduce or eliminate a holding to provide funds to invest in another security that we believe will generate a superior return.

Fayez Sarofim & Co. strives to control investment risk through disciplined adherence to our investment decision-making process, through continuous monitoring of the business fundamentals of the companies represented in the portfolio, and through diversification of investments by geography, industry, and individual stock concentration. Furthermore, we seek to limit liquidity risk by focusing on equity holdings with large market capitalizations and high daily trading volumes.

Although we strive to mitigate risks that may accompany an investment in our Global Equity Product, clients who invest in this product can lose money, including losing a portion of their original investment. The prices of the securities in our portfolios fluctuate. We cannot guarantee any particular level of performance. The types of risks you should consider before investing in this product are similar to those for our Large Capitalization Equity Product, which are enumerated on the preceding page. You should pay particular attention to the discussion of risks associated with foreign companies.

## **Core Fixed Income Product**

Fayez Sarofim & Co.'s Core Fixed Income Product emphasizes risk-averse management, current income and low cash reserves. Portfolio holdings may include United States Treasury securities, United States government agency securities, mortgage pass-through securities of government-sponsored enterprises (GSE) such as Ginnie Mae, investment grade corporate bonds, municipal bonds, high quality commercial paper, and shares of money market funds. Foreign government and foreign corporate bonds and sub-prime mortgages are not part of our strategy.

In our fixed income portfolios, we emphasize certain sectors and select specific securities that we believe offer the best combination of quality, liquidity, income, and value consistent with our overall duration target. The duration of a fixed income portfolio is a measure of risk that indicates the sensitivity of the portfolio's market value to changes in interest rates. We will

make modest shifts in our duration target to reflect changes in the Investment Committee's projections for interest rates and inflation.

The Investment Committee determines the firm's overall outlook for the economy, interest rates, and inflation. Given this backdrop, the investment professionals serving on the firm's Fixed Income Investment Committee establish the specific parameters for fixed income portfolios. The Fixed Income Investment Committee meets quarterly to set duration targets and sector emphasis and to review and approve the list of corporate bond issuers that may be utilized. The firm's research analysts conduct fundamental credit analysis. Our approach considers not only the current creditworthiness of an issuer but also the ability of the issuer to grow and finance its future business plans. Our research analysts monitor the credit quality of existing holdings and recommend high quality corporate issuers to the Fixed Income Investment Committee for possible inclusion on the list of approved issuers.

Within the framework set by the Fixed Income Investment Committee, fixed income portfolio managers structure portfolios to meet client requirements. Before transactions are executed, the portfolio managers utilize the CMS/Bond Edge portfolio management system to simulate the transaction and its effect on the portfolio. This process includes an analysis of the effect on the portfolio's duration, current yield, average maturity and other characteristics. The simulated portfolio can also be stress-tested under various interest rate assumptions.

While we emphasize risk-averse management and capital preservation in our Core Fixed Income Product, clients who invest in this product can lose money, including losing a portion of their original investment. The prices of the securities in our portfolios fluctuate. We cannot guarantee any particular level of performance. Below is a representative list of the types of risks you should consider before investing in this product.

- *Interest rate risk.* Prices of bonds tend to move in the opposite direction to interest rate changes. Typically, a rise in interest rates will negatively affect bond prices. The longer the duration and average maturity of a portfolio, the greater the likely reaction to interest rate moves.
- *Credit (or default) risk.* A bond's price will generally fall if the issuer fails to make a scheduled interest or principal payment, if the credit rating of the security is downgraded, or if the perceived creditworthiness of the issuer deteriorates.
- *Liquidity risk.* Sectors of the bond market can experience a sudden downturn in trading activity. When there is little or no trading activity in a security, it can be difficult to sell the security at or near its perceived value. In such a market, bond prices may fall.
- *Call risk.* Some bonds give the issuer the option to call or redeem the bond before the maturity date. If an issuer calls a bond when interest rates are declining, the proceeds may have to be reinvested at a lower yield. During periods of market illiquidity or rising rates, prices of callable securities may be subject to increased volatility.

- *Prepayment risk.* When interest rates fall, the principal of mortgage-backed securities may be prepaid. These prepayments can reduce the portfolio's yield because proceeds may have to be reinvested at a lower yield.
- *Extension risk.* When interest rates rise or there is a lack of refinancing opportunities, prepayments of mortgage-backed securities or callable bonds may be less than expected. This would lengthen the portfolio's duration and average maturity and increase its sensitivity to rising rates and its potential for price declines.

## **Municipal Bond Portfolios**

The firm also manages tax-free income portfolios, consisting of high-quality municipal bonds with laddered maturities of 7-14 years. The municipal bonds included in the portfolios have a quality rating of AA or higher. School district and general obligation bonds are preferred while securities of municipalities in coastal areas or with low income demographics are generally avoided. Turnover is low to avoid unnecessary transaction costs and to maintain predictable income streams. Portfolios are customized relative to the client's state of residence.

The risks accompanying an investment in our municipal bond portfolios are similar to those for our Core Fixed Income Product, excluding prepayment risks, which do not apply.

## **Item 9 –Disciplinary Information**

On November 21, 2014, Mr. Sarofim, who currently serves as chairman of the Board and Co-Chief Investment Officer of Fayeze Sarofim & Co., submitted four corrective filings to the Federal Trade Commission (the “FTC”) as required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), pertaining to his personal acquisition of voting securities of Kinder Morgan, Inc. (“KMI”) and Kemper Corporation (“Kemper”). On October 27, 2016, Mr. Sarofim settled the corresponding civil complaint by paying a monetary fine.

Mr. Sarofim’s acquisitions of the KMI and Kemper securities in question were for investment purposes; however, since he was a member of each company’s board of directors at the time, the “investment-only” exemption from the premerger notification requirements did not apply. Mr. Sarofim’s failure to observe the requirements under the HSR Act was inadvertent.

Additionally, Mr. Sarofim did not realize any benefit or advantage by not filing and observing the appropriate HSR Act waiting periods, and the acquisitions in question did not raise any competitive concerns. Mr. Sarofim’s holdings in KMI and Kemper were otherwise publicly disclosed through filings with the Securities and Exchange Commission, and Mr. Sarofim has taken steps to ensure that any future acquisitions of voting securities, assets, or non-corporate interests comply with the requirements of the HSR Act.

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

Fayez Sarofim & Co. is affiliated with three other registered investment advisors: Sarofim International Management Company, Sarofim Trust Co., and Sarofim Realty Advisors. While the firm and certain of its “management persons” have a relationship with the above-listed “related person” investment advisors, Fayez Sarofim & Co. does not believe that the relationship is material to the firm’s advisory business or to the firm’s clients or that the relationship may result in a material conflict of interest.

For purposes of this response, the firm's investment and administrative professionals are considered “management persons” since they are considered to have a controlling influence over the firm’s management or policies or the general investment advice given to the firm’s clients. A “related person” for purposes of this response includes all employees of the firm and its affiliates other than those performing only clerical, administrative support or similar functions.

The firm seeks to avoid and mitigate all conflicts of interest and has adopted policies and procedures to be followed in determining and eliminating conflicts of interest. For example, please see the discussion in the response to Item 11 Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading beginning on page 23.

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

As required by SEC rules and in line with what we believe to be good business practices, Fayeze Sarofim & Co. has adopted a Code of Ethics for employees and certain on-site contractors. The Code of Ethics is designed to reinforce a culture of compliance within the firm and to ensure that we fulfill our fiduciary duty to our clients and prospective clients. To help our employees understand, appreciate and uphold their fiduciary responsibilities, the Code of Ethics sets standards of expected conduct and outlines prohibited conduct. The code requires that each employee must:

- Comply with the spirit and the letter of the federal securities laws and the rules governing the capital markets
- Act with competence, dignity, integrity, and in an ethical manner, when dealing with clients, the public, prospects, third-party service providers and fellow employees
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, trading, promoting Sarofim's services, and engaging in other professional activities
- Adhere to the highest standards with respect to any potential conflicts of interest with clients
- Recognize that he or she should never benefit at the expense of any client
- Conduct all personal securities transactions in a manner consistent with fiduciary obligations to clients, and avoid any actual improprieties, as well as the appearance of impropriety
- Treat as confidential the identity of clients and their financial circumstances and security holdings

Employees are required upon hire and annually thereafter to acknowledge that they have received, read, understood, and agree to comply with the Code of Ethics. Annual compliance training sessions, which are mandatory for all employees, review key precepts of the code. To help us enforce the Code of Ethics, we regulate and monitor employee securities trading activity and require certain periodic disclosures from employees.

Within ten days of starting employment with the firm, an individual must submit an initial holdings report to the firm's Chief Compliance Officer, detailing security holdings and the accounts in which they are held. An updated holdings report must be submitted semiannually by all employees. Employees must also have trade confirmations and monthly or quarterly statements sent to the firm. In addition, certain key employees are required to complete quarterly transactions reports. The firm's Chief Compliance Officer or her designee reviews these reports periodically for accuracy and unusual trading activity.

Employees must receive preclearance for most personal securities transactions. Sarofim may disapprove any proposed transaction, particularly if the transaction appears to pose a conflict of interest or otherwise appears improper. The firm maintains a restricted list that includes securities that are being traded in client accounts and securities that are being considered for

purchase in client accounts. Employee trades in securities on the restricted list may not be approved. Furthermore, employees are prohibited from engaging in securities transactions or recommending transactions for client accounts that place, or appear to place, their own interests above the interests of our clients or the firm.

As an investment adviser, we hold many of the same securities that we recommend for our clients. A significant portion of the firm's assets and our investment professionals' net worth is invested in equity portfolios constructed and managed similarly to those of most of our clients; however, at times the firm and its employees may invest in directionally different ways from our clients. Consequently, the firm often effects transactions on behalf of clients in discretionary accounts or recommend transactions to clients with non-discretionary accounts that involve securities held in the firm's account or in the accounts of employees. When this is the case, employee trading in the particular security must be conducted in accordance with the principles and procedures outlined in the Code of Ethics.

Fayez Sarofim & Co. and our registered investment adviser affiliates have adopted and follow policies and procedures that prohibit trading while having material information that is not available to the public and during "blackout periods." An individual employed by or associated with Fayez Sarofim & Co. may be an officer or director of a publicly traded company or a party to contractual arrangements with a publicly traded company. If so, such an individual may be prohibited by the policies of the public company from trading in the securities of that company during blackout periods imposed or recommended by the company. It is also the policy of Fayez Sarofim & Co. and our registered adviser affiliates that these individuals may not trade in securities of the public company during a blackout period. These policies also require that all directors, officers and other employees of Fayez Sarofim & Co. and our affiliates are subject to the same restrictions.

Although trading in securities of the designated public company during a blackout period is prohibited in the personal accounts of employees and in the firm's account, Fayez Sarofim & Co. and our affiliates may trade in securities of the public company on behalf of our discretionary investment advisory clients provided:

- The individual who is the officer, director, or affiliate of the public company does not exercise sole investment discretion over the trading of these securities for client accounts during the blackout period; and
- This individual has not, does not and will not disclose material information that is not available to the public.

In addition, our compliance policies and procedures require us to make certain disclosures if any of our employees have these types of relationships with a public company.

In an effort to streamline compliance reporting requirements for employee security purchases and sales, Fayez Sarofim & Co. is utilizing Compliance Science, Inc. Compliance Science offers Fayez Sarofim & Co. online access to a system, the Personal Trading Control Center (PTCC), which assists the firm in the approval of employee personal trades, semi-annual reporting of securities held and quarterly transactions reporting.



Other topics discussed in the firm's compliance policies and procedures, including the Code of Ethics, include:

- Prohibition against insider trading
- Restricting access to material non-public information
- Approval for outside business affiliations
- Contributions to candidates for political office
- Communications with clients
- Entertainment, gifts and gratuities

Clients or prospective clients may receive a copy of the firm's Code of Ethics by sending a written request to:

Mrs. Raye G. White  
Executive Vice President  
and Chief Compliance Officer  
Fayez Sarofim & Co.  
Two Houston Center  
Suite 2907  
Houston, Texas 77010  
[rgwhite@sarofim.com](mailto:rgwhite@sarofim.com)

## Item 12 –Brokerage Practices

Fayez Sarofim & Co. is not affiliated with a brokerage firm. The firm's brokerage practices related to transactions in clients' accounts may differ among clients depending on the degree of discretionary authority the client has given us. We prefer to have full discretionary authority to manage the investment of a client's assets. Full discretionary authority includes brokerage discretion, which gives the firm the ability to select the broker to execute transactions in a client's account and to negotiate the commission rate. In some instances, the firm's brokerage discretion is limited by directions from the client or by agreements the client has entered into with third parties.

The firm also has non-discretionary arrangements with clients. In certain non-discretionary arrangements, once the client has approved a particular transaction, the firm is authorized to place the order and select the broker to execute it. In other non-discretionary arrangements, the client places the order and selects the broker to execute the transaction. Please see also Item 16 Investment Discretion on page 34.

Fayez Sarofim & Co.'s general policy when placing orders for the purchase or sale of securities in a client's account is to seek to secure the best net execution, including both execution prices and commission rates. In selecting brokers or dealers to execute transactions, we consider such factors as:

- the price of the security
- the commission rate
- the size and difficulty of the order
- the reliability, integrity, financial condition and general execution and operational capabilities of competing brokers and dealers
- the research services that competing brokers provide

Orders are placed with brokers that we believe are responsible and will give effective execution of orders under conditions favorable to our clients. On an overall basis, we believe we obtain favorable executions and competitive commission rates for client transactions. However, it is possible that a more favorable execution or a lower commission rate would have been obtained if the order had been placed with another broker.

In selecting brokers, we may give preference to brokers that provide research and other services to us so long as we believe that the objective of best net execution is not being sacrificed. A discussion of what is meant by research and other services and our policy governing procedures for giving preference to the brokers that provide them is included on the next page in the section Research and Other Soft Dollar Benefits.

The firm will not choose a broker to execute a transaction solely on the basis that the broker has referred clients or prospective clients to us. Please refer to the discussion on Brokerage for Client Referrals on page 29.

When orders from our portfolio managers are received concurrently for more than one client account, the firm may seek to aggregate or batch the orders in an effort to obtain reduced commission rates or more favorable execution. A broker may be selected to execute an aggregated order because of the broker's ability to handle such executions, provided that the primary consideration of best net execution is met. Generally, when trades are aggregated, each client account within the block will receive the same price and commission.

From time to time, the firm will evaluate the performance of the brokers that have been selected to execute orders for our clients' accounts. If we believe a broker's performance has been unsatisfactory, we will cease doing business with this broker entirely or until improvement has been demonstrated.

The firm's executive officers are available to discuss brokerage allocation with clients or prospective clients upon request.

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

Brokers and dealers may provide research or other services in addition to the services required to execute an order. When a portion of the commission paid to a broker for the execution of an order is considered to be a payment for these additional services, this portion of the commission is often referred to as "soft dollars." The additional research and other services received are sometimes referred to as "soft dollar benefits."

Fayez Sarofim & Co. uses the soft dollar benefits received from brokers to supplement our own internal research activities and to consider a broader range of information and opinions in formulating our investment decisions. The soft dollar benefits will be used in servicing all of our client accounts as well as the firm's proprietary accounts, not just those accounts that paid commissions to the brokers providing the soft dollar benefits. A client account may pay a higher commission because of the soft dollar safe harbor benefits provided by a broker, but this will only occur if we have determined in good faith that this commission is reasonable in relation to the value of the soft dollar safe harbor benefits provided by the broker. However, the value we receive from these soft dollar benefits is difficult to quantify in a dollar amount.

The use of soft dollar benefits may create conflicts of interest. One such conflict is that when client brokerage commissions are used to obtain research or other products and services, Fayez Sarofim & Co. receives a benefit because the firm does not have to produce or pay for the research, products, or services. Also, Fayez Sarofim & Co. may have an incentive to select broker-dealers based on the firm's interest in receiving research or other products or services, rather than on the clients' interest in receiving most favorable execution.

Fayez Sarofim & Co. has adopted a soft dollar policy to address the conflicts of interest that may arise when the firm has discretionary authority to direct brokerage related to clients' accounts to brokers from which we also receive soft dollar benefits. Under our soft dollar policy, Fayez Sarofim & Co. will only use soft dollars to obtain products and services that fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as interpreted by the Securities and Exchange Commission.

The following products and services fall within the definition of “research services” within the soft dollar safe harbor:

- Research reports;
- Discussions with research analysts and meetings with corporate executives;
- Fees to attend conferences or seminars that provide substantive content regarding issuers, industries, and/or securities;
- Research related to the market for securities, such as trade analytics (including analytics available through order management systems), and advice on market color and execution strategies;
- Market, financial, economic, and similar data;
- Pre-trade and post-trade analytics used during the investment decision-making process; and
- Proxy services that the adviser uses during the investment decision-making process, as opposed to services used to satisfy the adviser’s own voting, recordkeeping, or disclosure obligations.

These safe harbor services do not include the referral of clients to Faye Sarofim & Co.

The Section 28(e) safe harbor applies to research products and services that are “provided” by a broker-dealer. In addition to proprietary research produced directly by a broker-dealer, the safe harbor also applies to third-party research. Faye Sarofim & Co. may be involved in deciding what third-party research will be provided, and the third-party may send the research directly to us, but the broker-dealer must either (a) have a legal obligation to pay for the research, or (b) pay for the research directly, review the description of the research for red flags that would indicate that it was outside of the safe harbor, and develop and maintain procedures so that research payments are documented and paid for promptly.

From time to time Faye Sarofim & Co. may enter into commission sharing agreements with certain brokers that allow us to use client commissions to pay for research produced by someone other than the executing (or introducing or clearing) broker-dealer. It is our belief that such arrangements may offer efficient execution venues that provide high quality, low-cost execution while research providers compensated out of the shared commissions offer valuable research ideas that benefit our clients. Each commission sharing arrangement is evidenced by written agreement. We evaluate such arrangements on a case-by-case basis and negotiate each commission sharing agreement accordingly.

In the event that a product or service has multiple uses, some of which are eligible under the soft dollar safe harbor, and others of which are not, Faye Sarofim & Co. may only use soft dollars to pay for that portion of a product or service that falls within the safe harbor. We must use hard dollars to pay for the portion of the product or service’s costs that are outside of the safe harbor. In such a case, Faye Sarofim & Co. will make a reasonable allocation of the cost of the product or service according to its use. We will maintain adequate books and records so as to be able to demonstrate that the allocation was made in good faith. We are subject to a conflict of interest when making any such allocation determination.

Soft dollar credits are assets of Fayeze Sarofim & Co.'s clients that must be treated with appropriate care. We review at least monthly soft dollar accrual and expenditure reports sent by broker-dealers and reconcile such reports against our internal records. Any discrepancies should be promptly reported to the CCO.

Fayeze Sarofim & Co. will periodically review soft dollar credit and debit balances, and if we develop large credit balances, we will consider whether clients are paying unnecessarily high commissions. Conversely, if we develop large deficits, we will evaluate whether we should curtail our soft dollar spending or take other actions in order to avoid the appearance that we must trade accounts excessively in order to reduce our soft dollar deficits.

Over the past year, the soft dollar benefits we have received have been limited to the research and other services that fall within the soft dollar safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934.

### **Brokerage for Client Referrals**

Fayeze Sarofim & Co. has a policy that precludes the firm from selecting a broker to execute transactions solely on the basis that this broker has referred clients or prospective clients to us. This practice is prohibited because of the conflicts of interest that could result. In exercising our brokerage discretion, we may select brokers that have referred clients or prospective clients to us to execute portfolio transactions, but this selection cannot be based solely on referrals and must be made in accordance with the general policies and procedures discussed throughout Item 12.

### **Client-Directed Brokerage**

A client of Fayeze Sarofim & Co. may direct the firm to give preference to certain brokers or dealers in allocating brokerage transactions for the client's account. The firm will comply so long as we, in good faith, believe that the objective of best net execution is not being sacrificed or that the amount of commission being paid to such broker or dealer is reasonable in relation to the value of the services provided.

In some instances, the firm is directed to use a specific broker for executing transactions either as a result of instructions from a client or as a result of arrangements entered into by the client such as a wrap fee program agreement. (Please see the discussion of wrap fee programs in Item 4 Advisory Business beginning on page 4.) In these instances, the designated broker may charge higher commission rates than those generally available to us. We will follow the client's direction and seek to obtain the lowest commission rate and best net execution available from this broker as long as the client understands that this arrangement limits our ability to negotiate commissions on the client's behalf and to aggregate or batch the client's order with the orders of other clients to attain reduced commission rates or better executions. The client in these instances must understand that if the firm were free to select a broker, negotiate for institutional brokerage rates, and to batch orders, the client might pay rates below customary retail brokerage rates and might achieve better executions.

When a broker has custody of a client's securities, the client may direct us to use this custodial broker for executing trades in the client's account. Often, a client and the custodial broker enter into a brokerage arrangement to contain the total costs related to a client's account by avoiding the higher fees for trust, custody, or other services that may be charged by another custodian, such as a bank or trust company. In these instances, the firm will seek to obtain the lowest commission rate and best net execution available from the custodial broker. Despite the firm's efforts, however, the commission rate charged by the custodial broker may be higher or the executions less favorable than the firm could have achieved for the client if we had been granted brokerage discretion. From time to time, the firm will evaluate the performance of the custodial broker in executing portfolio transactions. If the firm believes the custodial broker's executions are sufficiently unfavorable or the commissions charged sufficiently excessive considering the brokerage and custody services being provided by the custodial broker, we will advise the client of our assessment. We may also recommend that the client change the custodial broker. (See also Item 15 Custody on page 33.)

For accounts subject to directed brokerage arrangements, Fayeze Sarofim & Co. will not aggregate trades or seek better execution services or prices from other broker-dealers unless the client has allowed Fayeze Sarofim & Co. some discretion with respect to brokerage. Generally, Fayeze Sarofim & Co. will place trades on behalf of accounts subject to directed brokerage arrangements after trading on behalf of other client accounts. Consequently, the firm may not obtain best execution on behalf of clients that direct brokerage; such clients may pay materially disparate commissions, greater spreads, or other transaction costs, or receive less favorable net prices on transactions than would otherwise be the case. In order to meet directed brokerage mandates and trade in an efficient manner, Fayeze Sarofim & Co. may ask clients that direct brokerage to permit the use of "step-out" trades. Traders will document any step-out trades on the relevant trade ticket and in our electronic trading system.

## Item 13 –Review of Accounts

Fayez Sarofim & Co. accounts are managed within the guidelines set by the firm's Investment Committee. Teams of two to four investment professionals share the client servicing and portfolio management responsibilities for each account. We manage accounts on an individual basis, taking into consideration a client's known financial resources, investment objectives, and needs. Each account is reviewed at least quarterly by one of the investment professionals assigned to the portfolio management team for the account. This review is conducted in conjunction with the quarterly reporting process discussed below. Several factors may prompt a more frequent review, including significant cash flows, unusual liquidity requirements, or changes in a client's situation, investment objectives, or guidelines. Accounts may also be reviewed more frequently if there is a dramatic change in market conditions or a significant shift in the firm's economic and market outlook. Matters reviewed include portfolio holdings, asset mix, cash flow and liquidity requirements, account-specific instructions or guidelines, and other pertinent factors.

Portfolio reports are distributed to clients on a quarterly basis. In some instances, the report may be prepared monthly. These written reports typically include:

- summary of investment performance, including current and longer-term results
- S&P sector classifications of portfolio holdings
- portfolio appraisal by individual security, including purchase cost, current market value, percent of portfolio, unrealized gains and losses, estimated current income and current yield
- corporate capital changes and dividend changes
- commission report
- purchases and sales during the period
- income and expense report
- realized gains and losses

This written portfolio report also strongly recommends that clients compare our portfolio appraisal with statements received from their custodians and to notify us immediately of any discrepancies. This recommendation is made in accordance with our obligation to protect client interests and is consistent with the SEC rules for investment advisers.

Periodically, clients receive our commentary on the economy and the market outlook. One or more of the investment professionals assigned to an account will confer with the client from time to time. Clients may also request a conference to review their account. Client communication is an important part of our investment advisory services, and we encourage clients to contact us if they have questions.

## Item 14 –Client Referrals and Other Compensation

Fayez Sarofim & Co. and our affiliate Sarofim International Management Company have both entered into several written solicitation agreements.

Fayez Sarofim & Co. has one such agreement with BNY Mellon Securities Corporation (BNYMSC). BNYMSC has agreed to solicit investment advisory clients for the firm on a non-exclusive basis. The firm, in turn, has agreed to pay BNYMSC a referral fee, which is based on the investment advisory fees the firm receives from a client referred by BNYMSC. The referral fee is computed quarterly and due within 30 days after the end of a quarter. For accounts managed less than 12 months, the referral fee is 50 percent of the investment advisory fee. For all other accounts, the fee is 20 percent. No accounts are to be solicited in states in which such solicitations are not in compliance with state laws.

The firm also has three written solicitation agreements with Papamarkou Wellner Asset Management Inc. (PWAM). One agreement is for institutional accounts, one for non-institutional accounts, and the third agreement, which is inactive, is for incentive-fee government margin accounts. PWAM has agreed to solicit investment advisory clients for the firm on a non-exclusive basis. For accounts referred under the institutional and non-institutional account agreements, the firm has agreed to pay PWAM a referral fee, which is computed quarterly at 40 percent of the aggregate quarterly investment advisory fees the firm receives from clients referred by PWAM. The referral fee is due promptly after the firm collects the advisory fees. No accounts are to be solicited in states in which such solicitations are not in compliance with state laws.

Fayez Sarofim & Co.'s affiliate Sarofim International Management Company has also entered into a written solicitation agreement with PWAM. For accounts referred under the agreement, the firm has agreed to pay PWAM a referral fee, which is computed quarterly at 40 percent of the aggregate quarterly investment advisory fees the firm receives from clients referred by PWAM. The referral fee is due promptly after the firm collects the advisory fees. No accounts are to be solicited in states in which such solicitations are not in compliance with state laws.

From time to time, brokers, dealers, or other persons may refer clients or prospective clients to Fayez Sarofim & Co. and our affiliates on an informal basis. The firms do not pay fees for these informal referrals. Furthermore, the firms will not select brokers or dealers to execute portfolio transactions solely on the basis that they have referred clients or prospective clients to the firm. Please refer to Item 12 Brokerage Practices—Brokerage for Client Referrals on page 29.



## **Item 15 –Custody**

“Custody” means holding, directly or indirectly, client funds or securities or having authority to obtain possession of them. Fayez Sarofim & Co. does not hold client assets or provide custodial services. Assets of clients of our firm are held by a “qualified custodian” as defined by the SEC, which is usually a bank or brokerage firm. If the firm inadvertently receives client funds, we are generally required to return them to the sender within three business days.

Before entering into an investment advisory agreement with Fayez Sarofim & Co., you must first establish an account with a qualified custodian. If you need assistance in selecting a custodian, the firm will make suggestions, taking into consideration the cost, the perceived quality of the custodial services, and the types of securities involved as well as other factors we think may be relevant. Clients should receive account statements from their qualified custodian on at least a quarterly basis. If you do not receive such statements, please notify us immediately.

As a client, you should compare the quarterly portfolio report you receive from us with the account statements you receive from your qualified custodian. We urge you to notify us immediately if you find discrepancies. For tax purposes, the account statement you receive from your custodian is the official record of your transactions and assets.

## Item 16 –Investment Discretion

Fayez Sarofim & Co. will manage clients' assets on a fully discretionary basis, a limited discretionary basis or a non-discretionary basis. Most of our clients have granted us full discretionary authority to manage the investment of the assets in their accounts, and we prefer to manage accounts on this basis.

Before the firm may assume discretionary authority, the firm and the client must execute an investment advisory agreement. The investment advisory agreement includes:

- A statement of the firm's appointment as investment manager
- A discussion of the duties and powers of the firm as investment manager including discretionary authority
- A description of the duties of the client, including advising the firm of investment objectives and any specific restrictions
- Other pertinent information on matters such as compensation and termination

With full discretionary authority for an account, the firm is able to do the following without obtaining the client's consent:

- Determine which securities to buy or sell
- Determine the total amount of securities to buy or sell, subject to available funds
- Determine the broker or dealer through which securities are bought or sold
- Negotiate with the selected broker regarding commission rates for securities transactions

Unless the client notifies the firm in writing of specific restrictions, the investments made on behalf of the client are considered not to be restricted. The firm manages a number of accounts subject to client instructions that prohibit holding certain securities or types of securities or that limit weightings in individual sectors, industries, or securities.

In certain instances, the firm's discretion to determine the broker through which client securities are bought or sold is limited due to arrangements entered into by the client such as wrap fee programs or directions from the client. For example, a particular broker may have custody of a client's securities, and the client may direct the firm to use this custodial broker to purchase or sell securities in the client's account. In other instances, the client may direct the firm to give preference to one or more brokers in allocating brokerage transactions for the account. For a discussion of the firm's policies and procedures in these instances, please refer to Item 12 Brokerage Practices beginning on page 26.

When we provide services on a non-discretionary basis, we give the client investment advice, but we do not have the authority to implement our recommendations in the client's portfolio without the client's approval. The client may or may not follow the firm's advice. In certain non-discretionary arrangements, once the client has approved a particular transaction, the firm is authorized to place the order and select the broker to execute it. In other non-discretionary arrangements, the client places the order and selects the broker to execute the transaction.

## Item 17 –Voting Client Securities

### Proxy Voting and Class Actions Policy

A client may give Fayez Sarofim & Co. the authority to vote the proxies requested by the issuers of securities in the client's account. To guide us as we exercise this authority and to comply with SEC rules, the firm has adopted a Proxy Voting and Class Actions policy and procedures. We evaluate each proxy on a case-by-case basis and generally seek to vote proxies in a way that maximizes the value of clients' assets. In deciding how to vote on a particular proxy proposal, we rely, for the most part, on the business judgment of the management and directors of the issuer of the security, and the fiduciary responsibilities that the issuer's directors have with respect to the issuer's shareholders. If we decide the recommendation of the issuing company's management is not in the best interests of shareholders, we will not follow management's recommendation.

To avoid conflicts of interest, no employee of Fayez Sarofim & Co. may participate in the voting process for a particular proxy if the employee meets any one of the following criteria:

- is an officer or director of the company issuing the proxy
- beneficially owns 5 percent or more of the outstanding shares of any class of securities of the company issuing the proxy
- otherwise is interested in any way in the outcome of the vote, with the exception of being a beneficial owner of less than 5 percent of the outstanding shares of any class of securities of the company issuing the proxy

Fayez Sarofim & Co., or a third party acting on the firm's behalf, retains:

- copies of all proxy statements received regarding client securities
- records of votes cast on behalf of clients
- records of client requests for proxy voting information
- documents used or prepared by the firm that were material to deciding how to vote on a particular issue
- copies of the Proxy Voting and Class Actions policy and procedures adopted by the firm

Clients may obtain a copy of our Proxy Voting policy and procedures by writing to:

Mrs. Raye G. White  
Executive Vice President  
and Chief Compliance Officer  
Fayez Sarofim & Co.  
Two Houston Center  
Suite 2907  
Houston, Texas 77010  
[rgwhite@sarofim.com](mailto:rgwhite@sarofim.com)

Clients who have given us authority to vote proxies on their behalf may obtain an annual, semiannual, or quarterly record of these votes by submitting a written request to Mrs. White at the address above. Clients who have given us authority to vote proxies but wish to direct a particular vote may do so by submitting their instructions in writing to Mrs. White.

Clients may choose to retain the authority to vote the proxies related to securities in their accounts. In such instances, clients would receive the proxy statements from their custodians. Clients may contact Mrs. White at the address above if they have questions about a particular solicitation.

### **Proxy Voting Procedures**

Fayez Sarofim & Co. has retained Glass Lewis & Co. ("Glass Lewis") to assist in the proxy voting process. Charles Sheedy, Chairman of the Proxy Committee, or his delegatee manages Sarofim's relationship with Glass Lewis. Glass Lewis provides the following in connection with the voting of proxies by Fayez Sarofim & Co.: (i) analyses of proposals, (ii) vote recommendations, (iii) vote execution services, and (iv) record keeping services. Glass Lewis provides its analyses of proposals and vote recommendations pursuant to and in accordance with the proxy voting guidelines furnished to it by the firm.

Absent specific client instructions, Fayez Sarofim & Co. has adopted the following proxy voting procedures designed to ensure that proxies are properly identified and voted, and that any conflicts of interest are addressed appropriately. First, Glass Lewis analyzes the proxy proposal in accordance with a set of policy guidelines established by Fayez Sarofim & Co.'s Proxy Committee and makes a vote recommendation to the firm. This recommendation, which becomes the default position for the vote, is then sent to the analyst at our firm who is responsible for the research coverage of that security.

If our analyst agrees with the vote recommendation submitted by Glass Lewis, he or she will instruct Glass Lewis to cast the vote according to that recommendation. If the analyst at our firm does not agree with the default recommendation provided by Glass Lewis, the analyst must provide a written explanation of the reasons for the different opinion. This written explanation is reviewed by the chairman of the firm's Proxy Committee. If the chairman agrees with the analyst's recommendation, that recommendation becomes final and binding, and Glass Lewis is instructed to vote according to the analyst's recommendation. In the rare instance that the chairman and the analyst cannot reach an agreement, the matter is considered by all the investment professionals on the Proxy Committee. The decision of the group is final and binding. No employee of the firm may participate in the voting process for a particular proxy if any one of the three disqualifying factors enumerated in the Proxy Voting Policy section above applies.

Fayez Sarofim & Co. and Glass Lewis, acting on our behalf, maintain as permanent records the original proxy bulletin, the voting instructions, and the reasons for such votes.

### **Class Actions**

Fayez Sarofim & Co. does not direct clients' participation in class actions.

## **Item 18 –Financial Information**

The disclosures required by Item 18 do not apply to Fayeze Sarofim & Co. The firm is in sound financial condition, and we are confident that we can meet future contractual commitments to our clients. The firm does not require, solicit or permit prepayment of fees. Neither Fayeze Sarofim & Co. nor any of our affiliates has ever filed a bankruptcy petition.

## **Item 19 –Requirements for State-Registered Advisers**

Fayez Sarofim & Co. is not a state-registered adviser.