

# **Stack Financial Management, Inc.**

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

**March 20, 2020**

**This brochure provides information about the qualifications and business practices of Stack Financial Management, Inc. (“SFM”). If you have any questions about the contents of this brochure, please contact us at 800-790-5001 or [sfm@StackFinancialManagement.com](mailto:sfm@StackFinancialManagement.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Stack Financial Management**

625 Wisconsin Avenue

Whitefish, Montana 59937-2129

Contact: Catherine M. Hetrick, Chief Compliance Officer

Website: [www.StackFinancialManagement.com](http://www.StackFinancialManagement.com)

SEC File Number: 801 – 45724

**Additional information about Stack Financial Management, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Stack Financial Management, Inc. as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2           Material Changes**

There have been no material changes made to SFM's Part 2A Brochure since last year's Annual Amendment filing on March 12, 2019.

ANY QUESTIONS: SFM Chief Compliance Officer, Catherine Hetrick, remains available to address any questions regarding this Part 2A, including the disclosure additions and enhancements below.

Consistent with current regulations, we will ensure that all clients of Stack Financial Management receive a summary of any material changes to this and subsequent Brochures within 90 days of the close of our business' fiscal year. Furthermore, we will provide all clients with other interim disclosures about material changes as necessary. These documents are provided, without charge, and may be requested by a client at any time by contacting us at 800-790-5001.

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#### **Item 4            Advisory Business**

Stack Financial Management, Inc. (“SFM”) is a corporation that was formed in the State of Montana on January 19, 1994. SFM was registered with the SEC as an Investment Adviser Firm in February 1994. SFM is principally owned by James B. Stack, and Mr. Stack is the firm’s President.

Stack Financial Management offers investment advisory services on a fee-only basis to its clients, which include individuals, pension and profit-sharing plans, business entities, trusts, estates and charitable organizations, etc. SFM may also serve as sub-advisor to clients of another registered advisor.

Investment advisory services offered by SFM primarily focus on the management of equity (stock-based) portfolios, with an analytical emphasis on adjusting allocation based on the measured or perceived level of risk in the stock market, as described in Item 8 below.

Stack Financial Management provides investment advisory services specific to the needs of each client, but within management guidelines and objectives established by SFM, which shall include, but not be limited to, Capital Appreciation Portfolios and Value & Dividend Portfolios. Individual clients may select an objective for each account based on his/her needs or preference. Prior to providing investment advisory services, an investment adviser representative will ascertain each client’s investment objective(s). Thereafter, SFM shall allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on our services or the types of securities to be held in their account.

#### **Wrap Fee Programs**

Stack Financial Management does not participate in any wrap fee programs.

#### **Assets Under Management**

As of December 31, 2019, Stack Financial Management had \$1,385,075,707 in assets under management on a discretionary basis.

#### **Other Business**

Stack Financial Management’s Principal, James B. Stack, is also the founder and owner of InvesTech Research, LLC, which conducts stock market research and publishes a general circulation investment newsletter known as “InvesTech Research.” In addition, InvesTech Research periodically publishes an Interim Bulletin, as well as a weekly financial information report entitled “InvesTech Financial Hotline” which is available to subscribers of the newsletter.

James and Lisa Stack (Mr. Stack’s wife and SFM’s Secretary/CFO) are co-owners of LBPI, LLC (Last Best Place Investments), which is the owner of an office building that is rented by Stack Financial Management.

#### **Miscellaneous:**

#### **Limitations of Financial Planning and Non-Investment Consulting/Implementation Services**

SFM does not hold itself out as a financial planner, nor does it provide comprehensive financial planning services. To the extent specifically requested by a client (depending on the nature of the issue presented) SFM may provide limited financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. SFM **does not** serve as an attorney, accountant, or insurance agency, and no portion of our services should be construed as same.

Accordingly, SFM **does not** prepare estate planning documents, tax returns or sell insurance products. To the extent requested by a client, we may recommend the services of other professionals for certain non-investment implementation purpose (i.e. attorneys, accountants, insurance, etc.). Clients are under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation that we make. **Please Note:** If the client engages any unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify SFM if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising SFM's previous recommendations and/or services.

#### **ERISA / IRC Fiduciary Acknowledgment**

If the client is: (i) a retirement plan ("Plan") organized under the Employee Retirement Income Security Act of 1974 ("ERISA"); (ii) a participant or beneficiary of a Plan subject to Title I of ERISA or described in section 4975(e)(1)(A) of the Internal Revenue Code, with authority to direct the investment of assets in his or her Plan account or to take a distribution; (iii) the beneficial owner of an Individual Retirement Account ("IRA") acting on behalf of the IRA; or (iv) a Retail Fiduciary with respect to a plan subject to Title I of ERISA or described in section 4975(e)(1)(A) of the Internal Revenue Code: then the firm represents that it and its representatives are fiduciaries under ERISA or the Internal Revenue Code, or both, with respect to any investment advice provided by the firm or its representatives or with respect to any investment recommendations regarding an ERISA Plan or participant or beneficiary account.

**Retirement Rollovers-Potential for Conflict of Interest:** A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If Stack Financial Management recommends that a client roll over their retirement plan assets into an account to be managed by the firm, such a recommendation creates a conflict of interest. SFM will earn new (or increase its current) compensation as a result of the rollover. **No client is under any obligation to rollover retirement plan assets to an account managed by Stack Financial Management.** SFM's Chief Compliance Officer, Catherine Hetrick, remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation.

#### **Sub-Advisory Engagements**

SFM may also serve as a sub-adviser to unaffiliated registered investment advisers per the terms and conditions of a written Sub-Advisory Agreement. With respect to its sub-advisory services, the unaffiliated investment advisers that engage SFM's sub-advisory services maintain both the initial and ongoing day-to-day relationship with the underlying client, including initial and ongoing determination of client suitability for SFM's designated investment strategies.

#### **Educational Workshops**

SFM occasionally conducts educational workshops or presents educational programs at conferences and other various events. The firm may receive direct or indirect compensation for these engagements.

#### **Inverse Market Strategies**

SFM may utilize short mutual funds and/or exchange traded funds that are designed to perform in an inverse relationship to certain market indices (at a rate equivalent to one times the inverse [opposite] result of the corresponding index) for the purpose of hedging against downside market risk. There can be no assurance that such strategy will prove successful or profitable. In light of this risk/reward, a client may direct SFM, in writing, not to employ such strategy for his/her/their/its accounts.

### **Client Obligations**

In performing our services, SFM shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify us if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

### **Please Note: Investment Risk**

Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by SFM) will be profitable or equal any specific performance level(s).

## **Item 5 Fees and Compensation**

The client can determine to engage Stack Financial Management to provide discretionary investment advisory services on a *fee-only* basis.

If a client determines to engage SFM to provide investment advisory services, our annual investment advisory fee shall be based upon a percentage (%) of the market value of assets placed under SFM's management as follows:

### **INVESTMENT ADVISORY SERVICE FEES**

<u>Total Value of Account(s)</u>	<u>Annual Fee</u>
\$750,000 - \$1,249,999	1.20%
\$1,250,000 - \$2,999,999	1.00%
\$3,000,000 - \$4,999,999	0.85%
\$5,000,000 - \$10,000,000	0.75%
Over \$10,000,000	Please Call

- Fees are calculated based on the total value of all related accounts (based on immediate family or household relationship) under management for an individual client.
- Account minimum asset level for investment advisory services is \$750,000, except as noted in Item 7 below.
- If an account is established above a particular fee schedule breakpoint or appreciates above a breakpoint to receive a lower management fee, then that lower fee shall apply even if the account drops below the breakpoint, *unless* the reduction in assets under management is primarily due to withdrawals.
- Fee Differentials: Although we price our advisory services based upon the client's assets under management as stated above, similarly situated clients could pay different fees based upon a combination of factors, including but not limited to, the complexity of the engagement, the level and scope of the investment advisory services to be rendered, and negotiations. Please note that the services provided by SFM could be available from other advisers at lower fees.

Stack Financial Management may maintain cash positions for defensive purposes at any specific point in time, depending upon perceived or anticipated market conditions/events (there being no guarantee that such anticipated market conditions/events will occur). All cash positions (money markets, etc.) shall be included as part of assets under management for purposes of calculating the advisory fee.

Stack Financial Management reserves the right to enter into contracts with clients that may result in fees that are less than the standard fee schedule set forth above based upon certain criteria including, but not limited to, anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, terms of a sub-advisor agreement, or account composition.

Stack Financial Management may choose, at its exclusive discretion, to waive a portion of the quarterly investment advisory fee for any billing period in which an average of thirty percent (30%) or more of our total assets under management is held in or allocated to cash or cash-equivalent investments such as Treasury Bills or Money Market Funds. Any percentage waiver shall apply equally to each account managed by SFM.

### **Billing Practices**

Stack Financial Management shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter. Clients may elect to have our advisory fees deducted from their custodial account. Both SFM's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of our investment advisory fee and to directly remit that management fee to SFM in compliance with regulatory procedures. In the limited event that SFM bills the client directly, payment is due upon receipt of our invoice.

### **Other Fees or Expenses**

Stack Financial Management recommends that Charles Schwab and Co., Inc. ("Schwab") serve as the broker-dealer/custodian for our clients' investment management assets. Broker-dealers such as Schwab may charge brokerage commissions and/or transaction fees for effecting certain securities transactions (e.g., transaction fees are charged for certain no-load mutual funds). The broker may also charge a fee for special client requested services such as wire transfers, overnight mail, etc. In addition to SFM's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g., management fees and other fund expenses).

### **Cancellation or Termination of Advisory Services**

Stack Financial Management's annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. For new accounts, unless otherwise specified, the initial quarterly fee is due beginning with the first full quarter following acceptance of the *Investment Advisory Agreement* and establishment of the account.

The *Investment Advisory Agreement* between SFM and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, SFM shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter. A new client shall also have five business days subsequent to executing the *Investment Advisory Agreement* to terminate SFM's services without penalty.

### **Other Compensation**

Neither Stack Financial Management, nor its representatives accept compensation from the sale of securities or other investment products.

**SFM's Chief Compliance Officer, Catherine M. Hetrick, is available to address any questions that a client or prospective client may have regarding the above fees, billing practices, or cancellation policy.**

## **ADDITIONAL INFORMATION**

### **Trade Error Policy**

If Stack Financial Management makes an error when submitting a trade order on a client's behalf, it is SFM policy that the error be corrected as soon as possible and in such a manner that the affected client is not disadvantaged and bears no loss. Immediately upon recognition of an error, we will contact the broker-dealer, Charles Schwab & Co., to initiate any correcting action necessary to rectify the error. If a correcting trade would result in a loss or gain within a client's account, the following will apply:

- If a loss of \$100 or more occurs, Stack Financial Management is responsible for the cost of correcting the trade.
- If an investment gain of \$100 or more occurs, the gain will remain in the client's account *unless*: a) the same error involved another client's account(s) that should have received the gain; or b) it is not permissible for the client to retain the gain; or c) the client decides to forego the gain (e.g., due to tax reasons). If the gain does not remain in the client's account, Schwab will donate any portion that is equal to or greater than \$100 to charity.
- If the loss or gain is less than \$100, then Schwab will be directed to correct the trade at its expense, and at no cost or benefit to the client's account or to Stack Financial Management.

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

Neither Stack Financial Management nor any supervised person of SFM accepts performance-based fees.

### **Item 7            Types of Clients**

Clients of Stack Financial Management shall generally include individuals, pension and profit-sharing plans, business entities, trusts, estates and charitable organizations. In addition, SFM may agree to serve as a sub-advisor for similar clients of another advisor pursuant to a Sub-Advisory Agreement.

Stack Financial Management generally requires a \$750,000 minimum asset level in a single account for investment advisory services, or \$1,000,000 in two accounts provided neither account is less than \$250,000. Existing clients may open additional related accounts, based on family or household relationship, with a minimum asset level of \$250,000 each. SFM, in its sole discretion, may reduce or waive its minimum asset requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, related accounts, family relationship with existing clients, terms of subadvisor agreement, account composition, etc.).

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

#### **Methods of Analysis**

Stack Financial Management utilizes historical, macroeconomic, and technical analysis to assess the degree of risk in the market and determine investment allocation based on that measured or perceived level of risk. This analysis includes indicators developed internally at InvesTech Research or published by other research firms and government agencies.

Sector studies, based on historical data and relative sector performance in past economic cycles or similar market climate, are also utilized in determining optimal sector allocation or weighting based on market conditions and economic outlook.



In addition, SFM employs fundamental analysis of corporate reports, balance sheets, income statements, and historical valuation metrics in the selection of individual securities for client portfolios.

### **Investment Strategies**

Stack Financial Management strives to meet the investment objectives of clients through two broad categories: Capital Appreciation Portfolios and Value & Dividend Portfolios, as described below.

#### ***Capital Appreciation Portfolios:***

Designed for clients whose primary objective is conservative growth and where income is not a primary consideration. These portfolios are particularly well suited for value-oriented investors seeking to maximize their retirement or long-term savings, and who have over 10 years until retirement or anticipated capital withdrawals. This strategy selects companies with strong internal growth characteristics in revenue and earnings, which typically are market leaders in their core business. While valuation is an important consideration, the emphasis is on growth at a reasonable price.

#### ***Value & Dividend Portfolios:***

Designed for clients who desire capital gain potential, but with a consistent and relatively high level of dividend income. This option is most suitable for conservative clients, who want more stable returns and a potentially lower level of price volatility, or retired clients seeking current income from their portfolio. This strategy identifies quality companies that are undervalued or temporarily out of favor, but offer solid earnings and attractive dividend yields.

Investments in both *Capital Appreciation Portfolios* and *Value & Dividend Portfolios* may include:

- Predominantly large-cap and mid-cap stocks, with some small-cap stocks.
- Exchange traded funds (ETF's), sector funds, or mutual funds.
- International stocks (ADRs) or funds.
- Defensive positions in bear market exchange traded funds (ETF's) or bear market mutual funds if conditions warrant.
- Limited positions in bonds or bond funds under special circumstances.
- Money market funds, certificates of deposit or T-bills.

### **Risk of Loss**

Investing in the stock market and in individual securities involves risk of loss. It should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Stack Financial Management) will be profitable or equal any specific performance level.

### **Material Risks**

As part of our investment strategy, Stack Financial Management allocates client investment assets among various individual stocks, exchange traded funds and/or mutual funds, bonds and other fixed income securities, or cash on a discretionary basis in accordance with the client's designated investment objective(s), as outlined above. Our methods of analysis and investment strategies do not present any unusual risks; however, every method of analysis or investment strategy has its own inherent risks.

To perform an accurate market analysis SFM must have access to current/new market information. We have no control over the timeliness or accuracy of market information; therefore, certain analyses may be based on market information that is outdated or inaccurate, thereby limiting the value of resulting analysis. Furthermore, an accurate market analysis can only produce a forecast of the level of market risk or direction of market values. There can be no assurances that such forecasts will materialize into

actionable and/or profitable investment opportunities, or that SFM will correctly measure and adequately protect against the level of market risk.

At any specific point in time, depending upon perceived or anticipated market conditions/events, Stack Financial Management may maintain substantial cash positions for defensive purposes. There is no guarantee that such anticipated market conditions/events will occur, in which case the cash level of the account may reduce the potential gain from what it otherwise may have been.

Also, SFM may utilize a position in a bear market fund (or inverse-index exchange traded fund) to offset long positions and reduce overall market exposure in the portfolio when there is significant risk of a severe market correction or bear market. There is, however, no guarantee that such a correction or bear market will occur, in which case potential gains in the portfolio will be reduced from what they might otherwise have been.

Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Stack Financial Management) will be profitable or equal any specific performance level.

#### **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. Neither Stack Financial Management nor any of our management personnel has ever been the subject of any legal or disciplinary events.

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

Neither Stack Financial Management, nor our representatives, are registered or have an application pending to register as a securities broker-dealer or a registered representative of a broker-dealer.

Neither Stack Financial Management, nor our representatives, are registered or have an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

Stack Financial Management does not have any relationship or arrangement that is material to our advisory business or to our clients with any related person.

Stack Financial Management does not receive, directly or indirectly, compensation from other investment advisors that we may recommend for our clients.

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

Stack Financial Management has adopted and maintains an investment policy relative to personal securities transactions. This investment policy is part of our overall Code of Ethics, which serves to establish a standard of business conduct for all of our representatives that is based upon fundamental principles of openness, integrity, honesty and trust – a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, we also maintain and enforce written policies reasonably designed to prevent the misuse of material non-public information by SFM or any person associated with SFM.

Neither Stack Financial Management nor any related person of SFM recommends, buys, or sells for client accounts, securities in which SFM or any related person of the firm has a material financial interest.

Stack Financial Management and/or representatives of SFM *may* buy or sell securities that are also recommended to clients. This situation could present a potential conflict of interest which is addressed in our policies and procedures. For instance, this creates a situation where the firm and/or its representatives are in a position to materially benefit from the sale or purchase of those securities. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if SFM did not have adequate policies in place to detect such activities. In addition, adequate policies can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of our clients) and other potentially abusive practices.

Stack Financial Management has a personal securities transaction policy in place to address and monitor the personal securities transactions and securities holdings of each of our “Access Persons.” Under that policy, Access Persons and their immediate families are restricted from purchasing or selling any security (other than open-end mutual funds, government-issued securities, annuities, certificates of deposit and money market securities) which SFM or its representatives are actively contemplating trading for clients’ accounts until after the transaction has been executed for all clients. Our securities transaction policy requires that each Access Person of SFM must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date that SFM selects; as well as quarterly reports of securities transactions executed during the previous three months. At any time that Stack Financial Management has only one Access Person, he or she shall not be required to submit any securities report described above. Intentional violation of this policy is punishable by, but not limited to, suspension or termination of employment.

Stack Financial Management and/or representatives of SFM *may* buy or sell securities at, or around, the same time as those securities are recommended to clients. This practice creates a situation where SFM and/or representatives of SFM are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above, SFM has a personal securities transaction policy in place to avoid potential conflicts of interest and to monitor the personal securities transactions and securities holdings of each of our Access Persons.

## **Item 12      Brokerage Practices**

In the event that the client requests that SFM recommend a broker-dealer/custodian for execution and/or custodial services, SFM generally recommends that investment advisory accounts be maintained at Charles Schwab & Co., Inc. The client will be required to enter into a formal *Investment Advisory Agreement* with SFM setting forth the terms and conditions under which SFM shall advise on the client’s assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that SFM considers in recommending Schwab (or any other broker-dealer/custodian to clients) include historical relationship with SFM, financial strength, reputation, execution capabilities, pricing, research, and service. Although the commissions and/or transaction fees paid by SFM’s clients shall comply with SFM’s duty to obtain best execution, a client may pay a commission or transaction fee that is

higher than another qualified broker-dealer might charge to effect the same transaction where SFM determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although SFM will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, SFM's investment advisory fee. In addition to SFM's advisory fee and transaction fees, the client will also incur the fees charged by any mutual funds or exchange traded funds that are held in the client's portfolio.

### **Research and Additional Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, SFM may receive from Schwab (or another broker-dealer/custodian, investment manager, platform or fund sponsor, or vendor) without cost (and/or at a discount) support services and/or products, certain of which assist SFM to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by SFM may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support-including client events, computer hardware and/or software and/or other products used by SFM in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that *may* be received may assist SFM in managing and administering client accounts. Others do not directly provide such assistance, but rather assist SFM to manage and further develop its business enterprise.

SFM's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no corresponding commitment made by SFM to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as result of the above arrangement.

**SFM's Chief Compliance Officer, Catherine Hetrick, remains available to address any questions that a client or prospective client may have regarding the above arrangements and any corresponding perceived conflict of interest such arrangements may create.**

### **Directed Brokerage**

SFM recommends that its clients utilize the brokerage and custodial services provided by Schwab. SFM does not generally accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and SFM will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by SFM. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. **Please Note:** In the event that the client directs SFM to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through SFM. Higher transaction costs adversely impact account performance. **Please Also Note:**

Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

### **Order Aggregation**

Transactions for each client account generally will be effected independently, unless SFM decides to purchase or sell the same securities for several clients at approximately the same time. SFM may (but is not obligated to) combine or “bunch” such orders to obtain better price execution or to allocate equitably among SFM’s clients differences in prices and other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. SFM shall not receive any additional compensation or remuneration as a result of such aggregation.

### **Item 13      Review of Accounts**

For those clients to whom SFM provides investment supervisory services, account reviews are conducted on an ongoing basis by SFM’s portfolio managers. All investment supervisory clients are advised that it remains their responsibility to advise us of any changes in their investment objectives and/or financial situation. All clients (in person, via telephone or via email) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with us on an annual basis.

Stack Financial Management *may* conduct account reviews on an other-than-periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, significant deposits or withdrawals, market corrections and client request.

Clients are provided, at least monthly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian for the client accounts. Stack Financial Management also provides a written quarterly report summarizing account activity and performance.

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

As referenced in Item 12 above, SFM may receive from Schwab, without cost (and/or at a discount), support services and/or products. SFM’s clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no corresponding commitment made by SFM to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangements.

SFM does not compensate, directly or indirectly, any person, other than its representatives, for client referrals.

### **Item 15      Custody**

Stack Financial Management shall have the ability to have our advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least monthly, with written transaction confirmation notices and regular written summary account statements directly from the broker-

dealer/custodian for the client accounts. Stack Financial Management also provides a written quarterly report summarizing account activity and performance.

**Please Note:** To the extent that Stack Financial Management provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by SFM with the account statements received from the account custodian. The account custodian does not verify the accuracy of SFM's advisory fee calculation.

**Please Also Note: Other Custody Situations**

Stack Financial Management engages in practices and/or services on behalf of its clients that require disclosure in ADV Part 1. Certain clients have established asset transfer authorizations which permit the qualified custodian to rely upon instructions from Stack Financial Management to transfer client funds or securities to third parties. These arrangements are disclosed at ADV Part 1, Item 9, but in accordance with the guidance provided in the SEC's February 21, 2017 Investment Adviser Association No-Action Letter, the affected accounts are not subject to an annual surprise CPA examination.

**Stack Financial Management's Chief Compliance Officer, Catherine M. Hetrick remains available to address any questions that a client or prospective client may have regarding custody-related issues.**

## **Item 16 Investment Discretion**

The client can determine to engage Stack Financial Management to provide investment advisory services on a discretionary basis. Prior to SFM assuming discretionary authority over a client's account, the client shall be required to execute an SFM *Investment Advisory Agreement* and a separate Schwab Limited Power of Attorney form, naming SFM as the client's attorney and agent in fact, granting SFM full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage us on a discretionary basis may, at any time, impose restrictions in writing on our discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, or exclude the ability to purchase securities with an inverse relationship to the market, etc.).

## **Item 17 Voting Client Securities**

Unless the client directs otherwise in writing, Stack Financial Management is responsible for voting client proxies (**However**, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits.). SFM shall vote proxies in accordance with our Proxy Voting Policy, a copy of which is available upon request. SFM shall monitor corporate actions of individual issuers and investment companies consistent with our fiduciary duty to vote proxies in the best interests of our clients. Although the factors which SFM will consider when determining how we will vote differ on a case by case basis, they may include, but are not limited to, the following: a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation. With respect to individual issuers, SFM may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), we may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and

mergers. SFM does not envision any situation or proposal in which it would face a conflict of interest in deciding proxy votes in the best interest of the client.

Stack Financial Management shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. A copy of SFM's proxy voting policy or information pertaining to how we voted on any specific proxy issue is also available upon written request. Requests should be made by contacting SFM's Chief Compliance Officer, Catherine M. Hetrick.

## **Item 18      Financial Information**

Stack Financial Management has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of bankruptcy proceedings.

Under no circumstances do we 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 not required to include a financial statement.

**Stack Financial Management's Chief Compliance Officer, Catherine M. Hetrick, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**