

## Item 1 – Cover Page



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March 18, 2020

This ADV Part 2A, our Disclosure Brochure, provides information about Highland's qualifications and business practices as required by the Investment Advisers Act of 1940.

If you have any questions about the contents of this Brochure, please contact Michael Greene, Chief Compliance Officer at 425-739-6500 or via email at [michael@highlandprivate.com](mailto:michael@highlandprivate.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 Regulatory Authority.**

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us.

Additional information about our firm and our employees is available to you through the Securities and Exchange Commission's "public disclosure" website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This section is used to highlight material changes since the date of our last annual update. This brochure, dated March 18, 2020, contains no material changes when compared to our last Annual Updating Amendment dated March 28, 2019.

We have made some minor stylistic or editing changes for the sake of clarity. We encourage you to read the brochure carefully and to contact us with any questions.

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## **Item 4 – Advisory Business**

### **Overview of the Firm and Principal Owners**

Highland Private Wealth Management was established and initially registered as an investment adviser in May of 1999. John C. Christianson, Highland's controlling shareholder, serves as President and CEO.

### **Services Offered / Provided**

We provide financial life management services to primarily West Coast-based high net worth and ultra-high net worth individuals and families. We specialize in serving executives, professionals, business owners, and sudden wealth beneficiaries who are seeking a partner to guide and steward the financial complexities and details associated with wealth.

We use a comprehensive and relational approach, and divide our services into two broad categories: Investment Management and Wealth Advisory. We have a written wealth management agreement with each client who receives our services. This agreement describes the specific services we will provide you, any limitations or restrictions, and the fees you pay us for our services. This Brochure describes generally the services we make available. Individual clients may not, however, receive all services as our agreement is intended to align the scope of work performed with client values and objectives. Though we provide certain evaluations or recommendations to all clients (such as the importance of reviewing estate plans) based on our professional judgment, to the extent you do not place particular value on specific services, those services are unlikely to be a component of the agreement.

### **Investment Management**

We work with you to create a strategy that aims to protect and build on your wealth. Using a goal-based portfolio management approach that we refer to as Smart Indexing™, we offer an efficient, cost-conscious method to add incremental value to your investments. We implement this through some or all of the following:

- Liquid asset management, focused on optimizing your portfolio based on your risk tolerance, objectives, and cash flow; rebalancing your portfolio when needed; capturing tax losses; and helping you take the emotion out of your investment decisions
- Diversifying and managing concentrated stock and stock option positions
- Reviewing and being a sounding board for alternative investment opportunities (real estate, private companies, creating a new business), both from a strategic and allocation standpoint

- Customized reporting, based on your circumstances and as agreed between you and Highland
- Other investment management services responsive to the individual's situation

Our investment management services are tailored to your individual needs and, to the extent necessary and possible, we will work with you to implement any restrictions you may have with respect to certain types of investments or specific securities. The specific investment management services provided will be described in the advisory agreement, as applicable.

Our liquid asset management services are implemented on a discretionary basis and may include the selection and recommendation of other investment managers for a portion of your assets. If we select other managers, you will receive disclosures concerning those managers; enter into advisory agreements with them that supplement your agreement with Highland; and agree to the asset-based fees charged by that manager.

### **Wealth Advisory**

A key aspect of our wealth advisory role is developing a big-picture understanding of your current financial situation and your short- and long-term financial goals. We help identify where gaps exist, help mitigate risk, and develop customized solutions aligned with your values and objectives.

We offer a number of Wealth Advisory services, including comprehensive financial planning tailored to provide a single holistic view of your financial health. As applicable, we seek to build collaborative relationships with all of your other professional advisers (e.g. insurance agents, accountants, and attorneys) in the development and execution of your financial plan. With your consent, we may serve a coordinating role to help ensure that all of your advisers understand how the pieces fit together.

While we provide financial advice that takes into account general taxation principles and legal concepts, we do not provide (and are not qualified to provide) you with legal or tax advice. We encourage you to consult with your own attorney or tax professional to receive advice and guidance about your specific circumstances.

Our Wealth Advisory services include:

- Processes to define your goals and the life you want to live
- Utilizing our Wealth Clarity System™ to create confidence in your ability to achieve your ideal outcomes

- Helping you respond and adjust your plans to life transitions when they occur, such as career changes, marriage or divorce, children and wealth transfer, aging parents, death of a loved one, health issues, and retirement
- Being available when you need wealth management and advice, and communicating in a way that makes sense

### **Rollovers from Retirement Plans; Fiduciary Status for Retirement Investors**

In recommending that any client roll over retirement plan assets to our discretionary asset management, we have a conflict of interest. Before making any such recommendation we review your existing investment options, fees and expenses, and your overall investment objectives. We only make the recommendation once we've determined that doing so is in your best interest.

As an investment advisor we are a fiduciary to all of our clients. We also acknowledge that we are a "fiduciary" under ERISA or the Internal Revenue Code, or both, with respect to our investment advisory recommendations and discretionary asset management provided to retirement investors under this Agreement.

### **Assets Under Management**

As of December 31, 2019 we had approximately \$787 million in discretionary assets under management, and approximately \$29.9 million in non-discretionary assets.

## **Item 5 – Fees and Compensation**

Fees for investment management and wealth advisory services are unique to each client and documented in the advisory agreement along with other related investment expenses, transaction and custodial fees. We believe that our fees should not be one-size-fits-all, but instead should reflect the complexity of your circumstances, the composition of your assets, and the services that are most important to you. Our compensation is structured to reflect the depth of service and value provided to you.

We charge a custom advisory fee, structured as a fixed annual amount. One quarter of the fixed fee is charged quarterly in advance. We do not have a "standard" fee schedule; the custom fee varies from client to client and is based on two components: wealth advisory and investment management. Our process is to review client needs, investment asset size and composition, and the complexity of work required, and to align our assessment with the client's own reported needs and values. We then prepare a proposal describing the custom advisory fee and related services in advance of the agreement.

We provide both basic and premium investment management services. Our basic service is liquid asset management, including discretionary investment selection, allocation, and rebalancing. We consider this largely a commodity and price our services for this element accordingly, based on the following schedule: 35 basis points of the approximate total of assets managed up to \$10 million; 25 basis points on the next \$10 million; and another 10 basis points on all assets over \$20 million.

Premium investment management services include services such as providing opinions concerning illiquid investments, managing and diversifying concentrated holdings, and custom reporting. The fee for these services is customized and incorporated into our fee separately.

We specify the approximate amount of assets subject to our basic investment management fees at the time clients enter into an agreement with us, as well as provide a detailed description of other investment management and wealth advisory services. We then identify the total fixed custom fee to be assessed annually and billed quarterly. Absent any change in premium investment management and wealth advisory services detailed in the client agreement, we typically adjust annually the basic liquid asset management component of the fee up or down if the approximate value of those assets has fluctuated materially. We will notify clients in writing at least 30 days prior to any fee change taking effect. Our notice will include the revised liquid assets value (based on our determination of approximate value as recorded by qualified custodians), any changes in premium investment management or wealth advisory services, and the revised annual fee. The date of any such notice will establish a new 12-month fixed fee term.

Our fees are generally not negotiable, though clients may choose to add or subtract premium investment management or wealth advisory services from the proposal, which will cause the stated fee to increase or decrease accordingly. We also reserve the right to grant market based adjustments and discounts, where warranted, by applying a negotiated discount to the total flat fee, rather than altering our fee calculation methodology.

We believe Highland's fee structure is designed to minimize conflicts of interest and to enhance transparency. We also recognize that fees based solely on a percentage of assets are common in the industry and that it's possible a given client could receive similar services for more or less on an asset basis than we are charging on a fixed, custom annual fee basis.

We are mindful of our fiduciary status and the importance of putting client interests ahead of our own. We have developed our approach with that understanding and have identified a possible conflict of interest inherent in a custom advisory arrangement, which we describe to ensure full and fair disclosure. Our own role as advisor means we have greater expertise in financial matters generally and are in a position to potentially encourage clients to agree to more services than they might need or want. We believe that our actual practice and the

collaborative nature in which we identify those services clients value, mitigates any conflicts that might arise.

We bill our fees quarterly, in advance. At inception, fees for partial periods will be prorated from the date of the agreement through the end of the calendar quarter. For agreements that are terminated during the quarter, we will refund the unearned portion of that quarter's prepaid advisory fee on a pro-rata basis. Our agreements provide for a 30-day termination notice. At termination, we may mutually agree to perform certain actions or transactions needed to accomplish an orderly transition away from Highland.

Fee Payment: Subject to your written authorization in the advisory agreement, we will deduct fees directly from the account held by your broker / custodian (see Item 10) in accordance with the terms of the agreement. The custodian does not verify the accuracy of the fee deduction; please review your statements carefully to confirm the fee deduction is correct and notify us immediately of any discrepancies.

### **Third-Party Managers**

For clients with sufficient assets and appropriate risk profiles, we may recommend that some portion of the portfolio be placed with third-party managers ("TPM"). The TPM provides expertise in the tax-efficient management of individual equities and individual bonds. Fees to these TPMs are asset-based, charged in advance directly by the TPM through the custodian on a quarterly basis, and negotiated separately from Highland's fee. Clients will typically enter into a separate agreement with the TPM describing the terms of the arrangement and the specific fees to be charged. Where Highland allocates your assets to the TPM without your entering into an agreement directly with that manager, we will notify you separately of the fee that manager will charge and provide a copy of their disclosure brochure.

### **General Information on Advisory Services and Fees**

- Official record of your account(s): Your third party qualified custodian (e.g., bank, broker, trust company, insurance company, mutual fund company) is the "official" record keeper of your account data and information, including market value, cost basis, and capital gains and losses. As a result, although we try to manage tax lots in taxable portfolios for long-term gains or losses, your custodian will ultimately determine how tax lots are recorded and what information is reported to the IRS. Please contact your relationship manager to discuss tax lot management or if you have questions about how your custodian is reporting specific items.
- Additional fees or expenses: Your portfolio may incur other fees and expenses in addition to those you pay Highland for investment management and wealth advisory



services. These fees are separate from, and in addition to, Highland's fees. They may include trade commissions, custodial or transaction fees, and third-party manager fees, and are paid directly to the custodians, brokers and third-party managers as disclosed to you by account agreements, trade confirmations, and prospectuses. Your custodian provides detailed notice to you of the service fees applicable to your accounts. Client assets may be invested in mutual funds, including open-end and closed-end mutual funds and exchange-traded funds, as well as other types of pooled investment vehicles, which generally pay an investment management fee, separate from our advisory fees, to another investment adviser.

Please see Item 12 - Brokerage Practices, for additional information and disclosure related to other costs you may incur.

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

We do not charge advisory fees on a share of the capital appreciation of the funds or securities in client accounts ("performance-based fees"). This item is not applicable to our business.

### **Item 7 – Types of Clients**

We provide our services to the following types of clients:

- Individuals and families
- Retirement and education accounts (e.g. IRAs, 401(k)s, 529 plans)
- Private entities owned by our individual clients (e.g. partnerships, LLCs)
- Trusts and private foundations

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

Highland's investment committee is responsible for all firm-level decision making regarding investment philosophy, strategy, and portfolio construction. The core tenets of our investment strategy are wealth preservation and global diversification. The investment committee also considers client goal alignment and appropriate risk-adjusted returns. Once the strategic asset allocation decision has been made, we employ primarily passive (index) strategies, along with active management as we deem appropriate. Our goal is to create the best risk/return profile, at the most efficient operating expense and tax cost, for your unique goals, objectives, and portfolio constraints.

Index investors typically benefit from lower expenses, turnover, and tax costs. Active investors pay more overhead, but the assumption is that the added costs more than pay for themselves over time, because managed funds should outperform after fees. There is substantial research indicating that most active managers do not achieve sustainable outperformance over time. Given the additional cost and complexity of many active management strategies, we believe the decision to include them (and how to do so most effectively) is critical.

In our view, there can be benefits to both strategies that aren't necessarily mutually exclusive. There are many factors to consider including your comfort with complexity, and the liquidity of your investments. The higher your performance expectations, the more important it is to think carefully about potential costs, due diligence requirements, and the reporting needs that tend to come with complex investments. We see our job as taking responsibility for such evaluations and for determining which mix of approaches is most likely to serve you well over time.

### **Risks of Particular Asset Classes, Types of Investments, and Strategies**

While we may purchase individual stocks and bonds for clients, in most cases we invest in exchange traded funds ("ETFs") or mutual funds to obtain exposure to equities, fixed income markets, foreign securities, commodities, real estate, natural resources, and other asset classes. While we describe the risks of ETFs generally, the other risks described below will in most cases also apply to the underlying assets of a specific ETF or mutual fund.

- **Exchange-Traded Funds.** Exchange-traded funds ("ETFs") are funds bought and sold on a securities exchange that attempt to track the performance of a specific index (e.g. S&P 500), a commodity, or a basket of assets such as a set of technology-focused, country-specific, or other sector-specific stocks. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in its value being more volatile than the underlying securities. ETFs have management fees that increase their costs. ETFs are also subject to other risks, including: (i) the risk that their prices may not correlate perfectly with changes in the underlying index; and (ii) the risk of possible trading halts due to market conditions or other reasons that, in the view of the exchange upon which an ETF trades, would make trading in the ETF inadvisable.
- **Common Stocks and Equity-Related Securities.** Prices of common stock react to the economic conditions of the company that issued the security, industry and market conditions, as well as other factors, and may fluctuate widely. Investments related to the value of stocks may rise and fall based on an issuer's actual and anticipated earnings, changes in management, the potential for takeovers and acquisitions, and other economic factors. Similarly, the value of other equity-related securities, including preferred stock, warrants and options, may also vary widely.

- **Small- and Mid-Cap Securities.** Securities of small-cap issuers may present greater risks than those of large-cap issuers. For example, some small- and mid-cap issuers often have limited product lines, markets, or financial resources. They may be subject to high volatility in revenues, expenses and earnings. Their securities may be thinly traded, may be followed by fewer investment research analysts and may be subject to wider price swings and thus may create a greater chance of loss than when investing in securities of larger-cap issuers. The market prices of securities of small- and mid-cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments and to market rumors than are the market prices of large-cap issuers.
- **Environmental, Social, Governance (ESG).** We may select investments wholly or in part based on ESG factors. The factors considered may be specified by the client or may be established by our investment committee. In addition to its own judgment, the investment committee relies on ESG ratings and reports provided by industry analysts. Some of this analysis relies on corporate self-reporting, which we believe is inherently suspect, but may be the only data available in certain cases. While there is research to suggest that ESG factors, when integrated into investment analysis and portfolio construction, may offer potential performance advantages, there is also the risk that investing based on these factors may, under certain market conditions, lead to underperformance relative to investments that don't pursue ESG priorities. The factors we use in ESG selection will filter out companies that could be profitable, especially if a particular sector is in favor but we choose to avoid it for ethical reasons. Further, we may mis-judge which ESG factors are most important or rely on inaccurate corporate self-reporting and therefore select sub-optimal investments from a both a performance and an ESG perspective.
- **Foreign Securities.** The securities markets of many foreign countries, including emerging countries, have substantially less trading volume than the securities markets of the US, and securities of some foreign companies are less liquid and more volatile than securities of comparable US companies. As a result, foreign securities markets may be subject to greater influence by adverse events generally affecting the market, by large investors' trading significant blocks of securities, or by large dispositions of securities, than US markets. Further, many foreign governments are less stable than the US. There can be no assurance that any significant, sustained instability would not increase the risks of investing in the securities markets of certain countries. While we typically gain exposure to foreign markets through ETFs, funds, or similar pooled vehicles rather than investing directly in foreign securities, the limited liquidity of some foreign markets may affect our ability to acquire or dispose of securities at a price and at the time we think is advisable. We may also obtain exposure to foreign markets through debt securities with

multi-national banks. These securities pose the risks associated with domestic fixed income securities, as well as the risks posed by foreign securities. Overseas investments are subject to fluctuations in the value of the dollar versus the local currency of the investment's originating country. This is also referred to as exchange rate risk.

- **Fixed Income Securities.** Prices of fixed income instruments (e.g., bonds) can exhibit volatility and change daily. Fixed income investments present numerous risks, including credit, interest rate, reinvestment and prepayment risk, all of which affect price. For instance, an increase in interest rates will generally cause the price of bonds to go down. If the security is held to maturity and the issuer does not default, the client should receive the face amount of the bond at the maturity date, as well as stated interest payments while the bond is held. In this case, the change in price prior to maturity may not affect the client. If the client sells prior to maturity, however, the investor would likely experience a loss. Where a client's fixed income exposure is to bond funds or fixed income ETFs, the fund or ETF does not itself "mature," although different issues held by the fund/ETF will mature and will experience price fluctuations. Investors are therefore highly dependent on the manager's ability to accurately anticipate the impact of rate changes and to appropriately manage the portfolio to achieve both adequate returns and reasonable risk. The US has experienced a prolonged period of historically low interest rates; while rates have increased recently, future rate increases could have a material negative impact on the value of current fixed income holdings. In addition, the value of fixed income securities may decline in response to events affecting the issuer, its credit rating or any underlying assets backing the instruments. For corporate bonds prices may be especially sensitive to developments affecting the company's business and to changes in the ratings assigned by rating agencies. The prices of high-yield, fixed income securities fluctuate more than high-quality debt issues. High-yield securities can experience sudden, sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. In the event of a default, the investment may suffer a partial or total loss.
- **Alternative Strategy Mutual Funds/ETFs.** Certain mutual funds or ETFs invest primarily in alternative investments and/or strategies. Investing in alternative investments and/or strategies may not be suitable for all investors and involves special risks, such as risks associated with commodities, real estate, leverage, selling securities short, the use of derivatives, potential adverse market forces, regulatory changes and potential illiquidity. There are special risks associated with funds that invest principally in real estate securities, such as sensitivity to changes in real estate values and interest rates, and price volatility because of the fund's concentration in the real estate industry.

- **Private Placements (*e.g. unregistered hedge funds, private equity or debt*).** These investments are exempt from registration under federal securities laws, may have limited or no transparency as to the underlying investments, and are generally available only to “accredited” or “qualified” investors who are assumed to be sophisticated purchasers with little or no need for liquidity from such investments and are able to withstand the loss of some or all of their investment. Limitations on withdrawal rights and non-tradability of interests create higher liquidity risk, and such securities should be viewed as long-term investments. Clients do not have access to public information, and the securities purchased are deemed restricted, are not traded on a secondary market or exchange and the instrument is thus illiquid. Expenses in such vehicles may be a higher percentage of net assets than traditional investment strategies and may include performance or incentive fees. Private fund investments with longer-term securities are more sensitive to interest rates and include the possibility of more volatility than other investments. This is not an exclusive list of potential or actual risks in any particular investment. While we do not source or otherwise recommend private placements, we will review offering documents, provide our questions and responses to those documents, and provide asset allocation input where desired. Clients must execute separate subscription documents to invest in private placements, and transactions in these securities are never executed pursuant to our discretionary authority.
- **Options/Derivatives:** Purchasing a long option gives the buyer the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor writes (or sells) an option, if the buyer exercises the option prior to expiration, the investor is obligated to deliver to the buyer of the option a specified number of shares, a pre-determined price per share, or the calculated money difference. The seller receives a premium in exchange for writing the option. The potential loss on short (naked) call options is hypothetically unlimited and this is not a strategy we employ (we generally limit our options activity to writing covered calls), but may be used by ETFs, funds, or third party managers we select. Options are wasting assets and expire on pre-determined dates. Commission charges for option transactions may be higher than those assessed for other assets, such as individual equities.
- **Market Liquidity Risks.** The value of securities held in client accounts that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, in 2001, 2008, and the “Flash Crash” in May 2010 (the biggest one-day point decline, 998.5 points, on an intraday basis in Dow Jones Industrial average history) could lead to violent price swings in securities held within client portfolios and could limit the ability to buy or sell securities. Liquidity risks can result in substantial losses.

- **Volatile Markets.** Securities prices can be highly volatile. Many things influence prices, including interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs, government policies, and national and international political and economic events. Clients are also subject to the risk of failure of any of the exchanges on which their positions trade or of its clearinghouses.
- **Short Selling.** We do not typically employ short selling in our client portfolios but funds or ETFs purchased for clients may use short selling. We may also use short funds or ETFs on a limited basis in client portfolios. Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the client of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position are available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.
- **Manager Risk.** For some clients we recommend or utilize the services of other registered investment advisers in the management of account assets. ETFs and mutual funds we select are also ultimately managed by third parties. Both Highland and the other managers charge fees for their services. Third-party investment advisers who have been successful in the past may not be successful in the future; they may deviate from their stated investment mandate or strategy; and since we does not control the third-party investment adviser, we may not be able to fully identify internal control weaknesses or fully evaluate the accuracy of representations made by such investment advisers when performing due diligence on them.

Highland prides itself on working closely with clients to do the best job possible of aligning risk tolerance, risk capacity, and objectives with the specific investments we recommend. We also take the time to educate clients on the potential upside opportunities and downside risks of particular strategies and investments. The strategies and risks described above are for informational purposes and may or may not reflect the investment strategy employed for any given client. Investing in securities through Highland (or any financial services professional) involves risk that investors must be prepared to bear, including the potential for partial or entire loss of your investment. Although we do our very best to meet your goals, objectives and risk tolerance, we do not directly or indirectly assure you of any level of performance or investment return, or guarantee that we will be able to meet your objectives.

## **Item 9 – Disciplinary Information**

We do not have any items to disclose to you about Highland or any of our management persons (executive officer or person with a similar status or responsibility).

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

We do not have any other financial industry activities or affiliations to disclose to you for Highland or our management persons.

## **Item 11 – Code of Ethics**

Highland has adopted a Code of Ethics which applies to all persons in our firm. It describes our fiduciary duty to our clients, our standards of business conduct, and our policies on a wide range of topics including information privacy and security, electronic communications (including social media), giving and receiving gifts and gratuities, political contributions, and employee trading. All Highland personnel must acknowledge the terms of the Code annually, and adhere to it every day.

We follow our own advice. As a result, we permit our employees and their family members to invest in the same securities that we recommend to you. However, we may choose to own securities that we don't recommend to you, due to individual risk assessment, appropriateness for our employee or family account and/or lack of suitability for you. We may also recommend the purchase of securities for you that Highland and its employees would not purchase in its own accounts, for these same reasons.

Employees may choose to give Highland trading discretion over their personal accounts, in which case they are treated as client accounts, and traded with them. Otherwise, Highland employees may not place trades in their accounts until all client transactions have been completed for the day. Such employee trades must be pre-approved by our Chief Compliance Officer or their designee.

Policies and procedures within our Code, including the disclosure and ongoing monitoring of beneficial securities accounts in our employees' households, are designed to ensure that the trading activity of Highland staff does not conflict with our recommendations to you, our fiduciary duty or violate securities law. If you would like a copy of our Code, please contact our Chief Compliance Officer, Michael Greene, at 425-739-6500 or [michael@highlandprivate.com](mailto:michael@highlandprivate.com).

## **Item 12 – Brokerage Practices**

### **Recommendation of a Broker / Custodian; Factors Considered in our Recommendations**

Highland does not maintain custody of your assets, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account to pay our fees or to direct funds to third parties you authorize (see Item 15—Custody, below). In all cases, client assets must be held with a “qualified custodian,” generally a broker-dealer or a bank. Although we occasionally work with other broker/dealers and custodians, we recommend Charles Schwab & Co., Inc. (“Schwab”), a registered broker-dealer, member SIPC, as the qualified custodian.

We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities as we instruct them to. While we recommend you use Schwab, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We don’t open the account for you, though we assist you with the process and handle the administrative aspects.

When considering whether the terms Schwab provides are overall most advantageous to you when compared with other available providers and their services, we take into account a range of factors, including:

- Combination of transaction execution services and asset custody services, generally without a separate fee for custody
- Capability to execute, clear, and settle trades
- Capability to facilitate transfers and payments to and from accounts
- Breadth of available investment products
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services and willingness to negotiate prices
- Reputation, financial strength, security and stability
- Prior service to us and our clients
- Services delivered or paid for by Schwab
- Availability of other products and services that benefit us, as discussed below



## **Schwab's Brokerage and Custody Costs**

Schwab generally does not charge clients separate for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Schwab is also compensated by earning interest on the uninvested cash in Schwab's Cash Features Program or on any margin balance maintained in Schwab accounts, and from other ancillary services.

Most trades no longer incur commissions or transaction fees, though there are exceptions. Schwab discloses its fees and costs to clients and we take those costs into account when executing transactions on your behalf. Schwab charges you a flat dollar amount as "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account.

Certain mutual funds and ETFs are also made available for no transaction fee; as a result many confirmations show "no commission" for a particular transaction. Typically, the custodian (but not Highland) earns additional remuneration from such services as recordkeeping, administration, and platform fees, for the funds and ETFs on their no-transaction fee lists. This additional revenue to the custodian will tend to increase the internal expenses of the fund or ETF. Highland selects investments based on our assessment of a number of factors, including liquidity, asset exposure, reasonable fees, effective management, and low execution cost. Where we choose a no-transaction fee fund or ETF, it is because it has met our criteria in all applicable categories.

## **Products and Services Available to Highland from Schwab**

Schwab Advisor Services<sup>TM</sup> is Schwab's business serving independent investment advisory firms like Highland. They provide us and our clients with access to their institutional brokerage services (trading, custody, reporting, and related services), some of which are not typically available to Schwab retail customers. Certain retail investors, though, may be able to get institutional brokerage services from Schwab without going through us or another advisor. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to ask for them) and at no charge to us. Following is a more detailed description of Schwab's support services.

### **Schwab's Services that Benefit Clients**

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. These services generally benefit you and your account.

### **Schwab's Services that do not Directly Benefit Clients**

Schwab also makes available to us other products and services that benefit us but do not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts and operating our firm. They include investment research, both Schwab's own and that of third parties. We use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

Provides access to client account data

- Facilitates trade execution and the allocation of blocked orders for multiple accounts
- Provide pricing and other market data
- Facilitate payment of Highland's fees directly from your account, if authorized in your advisory agreement
- Assistance with back-office functions, recordkeeping and client reporting

### **Schwab's Services that Generally Benefit Only Us.**

Schwab also offers other services intended to help us manage and further develop our business enterprise, a number of which we make no use of (such as access to employee benefits providers and marketing consulting) but which are available. The services we do tend to make use of include:

- Consulting on technology and business needs
- Consulting on legal and related compliance needs
- Educational conferences and events
- Publications and conferences on practice management, business management, and industry data
- Occasional business entertainment of our personnel

Schwab provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. If you did not maintain your account with Schwab, we would be required to pay for these services from our own resources. The software, technology, and account access Schwab provides create an operational and compliance benefit for Highland that does not necessarily translate directly into a client benefit. While we believe that Schwab is quite competitive and provides good value to our clients overall, the efficiencies provided to Highland create an incentive for us to recommend Schwab over other custodians, even though other custodians offer similar services and support. In some cases, this means that clients could pay more for custody and execution through the custodian we recommend than through others. This is a conflict of interest which we mitigate through disclosure. We also review the capacities and costs of Schwab regularly to ensure that our clients are receiving quality executions and competitive pricing, as well as more intangible service benefits.

### **Special Circumstances**

We may assist some of our clients with opening and maintaining brokerage accounts for which we have ongoing reporting and monitoring responsibility only; we do not exercise brokerage or investment discretion over these accounts ("non-discretionary accounts"). Although the client maintains sole trading decision-making authority, Highland may place specific transactions as an accommodation for these clients at their request.

### **Third Party Managers**

As described above, in some cases we may select third party managers ("TPM") to advise on a portion of your assets. TPMs will typically place all transactions for your account at your broker/custodian, subject to its obligation to you to seek best execution. As custodians typically charge fees for transactions are placed with outside brokers ("trade-away transactions"), TPMs will most often select your custodian as the broker who provides the best execution on a specific transaction after weighing possible price improvement versus the trade-away fee. However, TPMs may choose to trade away from your custodian when they believe (in their sole determination) that doing so is in your best interest. As a result, in addition to the trade-away fee described below, you may pay an additional fee to the broker/dealer used for your transactions.

### **Directed Brokerage**

Because we execute your investment transactions through the custodian holding your assets, we are effectively requiring that you "direct" your brokerage to your custodian, absent other specific instructions as discussed below. Because we are not choosing brokers on a trade-by-

trade basis, we may not be able to achieve the most favorable executions for clients and this may ultimately cost clients more money. Not all investment advisers require directed brokerage.

We do not use, recommend, or direct activity to brokers in exchange for client referrals.

Although not a normal business practice for Highland, we may permit clients to direct us to use brokers other than the custodian. If we agree to accommodate your request to do this, we will likely have little or no ability to negotiate commissions or influence execution price, and you will also not benefit from any trade aggregation we may implement for other clients. This may result in greater costs to you.

### **Aggregated or Block Transactions**

We routinely aggregate client transactions with those of other client accounts at the same custodian. This results in client trades being executed and billed at the same price. The flat commission rate we have negotiated with Schwab will be applied to each account participating in the transaction; for other custodians, the current commission schedule will apply and a discount may or may not be available for executing a block trade.

When we choose to place a block transaction, we issue instructions to purchase a particular number of shares or face amount of a security (usually an exchange traded fund or mutual fund) and all participating clients and their pro-rated shares of the block are known at the time of the transaction. We generally trade in liquid securities and partial allocations are not a concern under normal market conditions. However, should we not receive the full amount of the requested, or if multiple executions are required, the following apply:

- If the full amount we requested is not obtained (and we determine to stop trading), we will pro-rate the purchased shares equally across all participating accounts. However, if employee transactions are included in the block and only a partial fill is completed, employee transactions are excluded (per our Code) until all client trades are completed.
- If multiple fills occur to complete the full block, then all purchases are averaged to price and each participating client receives their full allocation at that average price.

## **Item 13 – Review of Accounts**

### **Reviews and Reviewers**

Highland's investment committee regularly reviews the firm's current investment recommendations. Advisors are responsible for implementing these recommendations at the client account level. Advisors conduct ongoing account reviews both in response to new

investment committee recommendations and in light of individual client requirements, such as cash flow needs and tax concerns. Accounts are reviewed for possible rebalancing at least quarterly. Trading associates review the firm's securities positions and client trades daily. Reviews will also be conducted if there are changes to your personal circumstances which cause a change in your strategies, risk tolerance or goals. Additional reviews may be conducted during periods of significant global or economic events, and as you may request.

## Reports

Our clients have on-demand access to written investment summary reports via electronic delivery. Account information is available daily to all clients; certain performance reports are available on an as-requested basis. In addition, depending on the services we agree to with you, we may periodically provide additional comprehensive reports and related reviews of these reports. These reports are in addition to and separate from the statements you receive from your broker(s) or custodian(s).

Available reports include the following:

- Computation of investment returns for the report period by strategy
- Strategy benchmarks to assist in assessing relative performance
- Summary of assets held in the account or under our management
- Current market value and cost basis (although the custodian is the official record-keeper of cost basis information)

We urge you to carefully compare the information on your custodial statements to reports provided by Highland. You may note nominal differences in the total portfolio value provided by your custodian when compared to our reports. This is common and can be caused by many issues, including:

- Owed but unpaid accrued interest on fixed income securities
- Trade date versus settlement date reporting
- Pricing differences (our performance reporting platform, Black Diamond, will use an independent third party pricing service such as IDC to validate the pricing of liquid securities in your portfolio if variances occur)
- Dividends that have not yet been paid
- Manually priced securities included on our reports (and not held by your custodian)

Please notify us or your custodian immediately if you believe there is a discrepancy between the Highland report and the custodian's statement, or if you do not receive a monthly statement directly from your custodian.

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

### **Client Referrals**

We do not pay any entity or person, directly or indirectly, for client introductions or referrals.

### **Affiliation with JC Christianson, Inc.**

Highland's primary owner and CEO, John Christianson, also owns JC Christianson, Inc. The entity provides wealth and life coaching, and also supports John's public speaking and writing endeavors. JC Christianson does not provide financial services. While the services touch on financial matters, such as clarifying values around money, and the purpose of money in a meaningful life, they are not investment advice and are outside the scope of Highland's investment advisory services. Where appropriate, Highland may refer clients to JC Christianson. If Highland clients enter into a fee-generating agreement with JC Christianson, both that firm and John as its owner will receive additional compensation as a result of the referral. Highland does not, however, receive referral fees or share in any fees generated by JC Christianson.

Similarly, JC Christianson may refer clients who do not have an investment advisor to Highland. Neither JC Christianson nor John Christianson will receive payment for the referral but if the JC Christianson client also becomes a Highland client, John Christianson will benefit from the referral as an owner of Highland.

## **Item 15 – Custody**

All client funds and securities are maintained with a qualified custodian; we don't take physical possession of client assets. Clients will receive account statements and transaction confirmation notices directly from the custodian at least quarterly, which they should carefully review. We urge clients to carefully compare the custodian's account statements with the periodic statements and reports they receive from us and to notify us promptly of any discrepancies.

We have the ability to deduct our advisory fees directly from client accounts based on the client's written authorization to do so, and this ability is technically considered "custody" but doesn't require separate reporting or surprise audits of Highland. In addition, in some cases clients execute standing letters of authorization ("SLOAs"), which are written directives from the client authorizing us to initiate payments from their custodial accounts to client-specified third parties. Although SLOAs are client-initiated and client-authorized, our ability to facilitate the payments covered by the SLOAs is considered "custody" under SEC guidance and requires us to report that we have custody over these account assets on our ADV 1A. To the extent the SLOAs comply with certain conditions, however, including that clients have the right to

terminate the SLOA, and that the qualified custodian will confirm the status of the SLOA annually directly with the client, Highland is not subject to a surprise custody audit.

### **Item 16 – Investment Discretion**

As indicated in Item 4, above, we provide investment management services to you on a discretionary basis. Our investment discretionary authority is granted in the written advisory agreement we have with you and may be updated as you determine. We do require that you provide all limitations or restrictions in writing.

### **Item 17 – Proxy Voting**

Highland does not have any authority to and does not vote proxies on behalf of any advisory clients. You retain responsibility for receiving and voting proxies for any and all securities maintained in your portfolios or accounts. If you request, we will provide information or our professional insight into various matters related to your proxies. TPMs we recommend may retain the authority to vote proxies in accounts they manage for you, subject to their stated policies.

### **Item 18 – Financial Information**

Highland does not have any financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients. In addition, neither Highland nor its management persons have been the subject of a bankruptcy proceeding.