

**PRINCIPIUM INVESTMENTS, LLC  
DBA PRINCIPIUM**

**DISCLOSURE BROCHURE  
FORM ADV 2A**

**LAST UPDATED: 03/25/2020**



**PRINCIPIUM**  
I N V E S T M E N T S

**6450 GUNPARK DR., SUITE 228, BOULDER, CO, 80301**

*This brochure provides information about the qualifications and business practices of  
Principium Investments, LLC dba Principium.*

*If you have any questions about the contents of this brochure,  
please contact us at (303) 351-5353 or by email at:  
[michael.tracy@principiuminvestments.com](mailto:michael.tracy@principiuminvestments.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.*

*Additional information about Principium Investments, LLC is also available  
on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*The CRD number for Principium Investments is: 124989*

## **Item 2      Material Changes**

In this Item, Principium Investments, LLC, dba Principium, is required to discuss any material changes that have been made to the Disclosure Brochure since the Firm's annual amendment dated March 27, 2019. The following material changes have occurred:

- Principium Investments, LLC is owned by The Michael P. Tracy Revocable Trust. (Item 4)
- Principium Investments, LLC has changed their office address. (Cover Page)
- Principium Investments, LLC has updated their disclosures in Items 4 & 5.

## Item 3      Table of Contents

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

## **Item 4      Advisory Business**

Principium Investments, LLC (Principium Investments), dba Principium, is a fee-only, SEC-registered investment adviser, wholly owned by The Michael P. Tracy Revocable Trust.

Principium Investments, LLC is a name change from Vinoy Capital, LLC, which took place on March 31, 2014. Principium Investments, LLC is therefore the successor to the registration and business of Vinoy Capital, LLC, which began conducting business in April 2008 as a combination of two previously established investment advisory firms – Global Capital Advisors, LLC and Sarasota Asset Management, Inc. – both of which had been in operation since 2003.

Principium Investments offers a range of investment advisory services, which include investment supervisory and management services, financial planning, estate planning, investment consulting and a donor advised fund for charitable giving. As of December 31, 2019, Principium Investments had approximately \$117,298,091.00 in assets under management, out of which \$117,298,091.00 was managed on a discretionary basis and \$0 was managed on a non-discretionary basis. Prior to the rendering of the foregoing advisory services, clients are required to enter into a written agreement with Principium Investments setting forth the relevant terms and conditions of the advisory relationship (the “Agreement”).

While this brochure generally describes the business of Principium Investments, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees, or any other person who provides investment advice on Principium Investments’ behalf and is subject to the Firm’s supervision or control.

### **Investment Management Services**

Principium Investments manages client investment portfolios by actively allocating assets between one or more of its 10 model portfolios. In managing each of these model portfolios, the Firm uses a variable mix of 6 Asset Classes, and 60 distinct, globally diversified investment strategies, which seek to obtain asset class exposure primarily through mutual funds (MFs) and exchange-traded funds (ETF’s). These portfolios are held at one of our recommended custodians including Raymond James and Associates (Raymond James), Fidelity Investments, Inc. (Fidelity), Charles Schwab & Co., Inc. (Schwab), Foliofn Investments, Inc. (Folio), TD Ameritrade, and Nationwide (for annuities).

We provide an additional service for accounts not held at our recommended custodians but where we do have discretion and may leverage an Order Management System to implement asset allocation or rebalancing strategies on behalf of the client. These are primarily employer-sponsored retirement accounts (i.e. 401Ks), qualified tuition plans (i.e. 529 plans), variable annuities, and other assets not held at our recommended custodians but rather maintained at the custodian designated by the plan’s provider. We regularly review the current holdings and available investment options in these accounts, monitor the accounts, rebalance and implement our strategies as necessary.

Principium Investments tailors its advisory services to accommodate the needs of its individual clients, and continuously seeks to ensure that its clients' portfolios are managed in a manner consistent with their specific investment profiles. Principium Investments consults with clients on an initial and ongoing basis to determine their specific risk tolerance, time horizon, liquidity constraints and other factors relevant to the management of their portfolios. Clients are advised to promptly notify Principium Investments if there are changes in their financial situation, or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if Principium Investments determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts. Principium Investments does not limit its advice to any specific types of investments.

These investment management services do not include securities brokerage services, as Principium Investments does not serve as the sponsor or manager to a wrap fee program (i.e., an arrangement where brokerage commissions and transaction costs are absorbed by the Firm).

### **Financial Planning**

Principium Investments offers a collaborative financial planning process that pairs advice from a Certified Financial Planner (CFP®) with powerful financial planning software to build financial plans that are based on live data and constantly updated. Principium Investments' financial planning system gives clients a consolidated view of their financial picture and offers both goals-based and cash-flow-based analyses, simulations and projections.

### **Estate Planning**

Principium Investments offers estate planning, wealth transfer planning, charitable giving and other legacy strategies. Non-legal estate planning services include modeling financial implications of various wealth transfer scenarios and decisions in addition to general CFP® estate planning and charitable giving advice. Legal documents such as estate plans, wills, living wills, trusts, financial durable power(s) of attorney, medical durable power(s) of attorney and other related documents are prepared by a licensed estate attorney chosen by the client.

### **Consulting Services**

Principium Investments may also offer clients a variety of consulting services. In performing these services, Principium Investments is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. Principium Investments may recommend the services of itself, and/or other professionals to implement its recommendations.

Clients are advised that a conflict of interest exists if Principium Investments recommends its own services. Clients are under no obligation to act upon any of the recommendations made by

Principium Investments under a consulting engagement or to engage the services of any such recommended professional, including Principium Investments itself. Clients retain absolute discretion over all such implementation decisions. Clients are advised that it remains their responsibility to promptly notify Principium Investments if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Principium Investments' previous recommendations and/or services.

### **Donor Advised Fund**

Principium Investments offers a Donor Advised Fund (DAF) through Impact Charitable, dba Principium Charitable, a 501c3 public charity. The DAF is a philanthropic vehicle that allows donors to make a charitable contribution, receive an immediate tax benefit and then recommend grants from the fund over time. Funds contributed to the DAF and not yet disbursed as grants can grow tax free in investment vehicles. Principium Investments is one of the firms that manages those funds using its investment strategies (see Item 8). Impact Charitable, DBA Principium Charitable, determines the investment manager for each DAF donation in consultation with the donor.

## **Item 5 Fees and Compensation**

Principium Investments offers its services on a fee basis, which generally entails a fee based upon a percentage of assets under management for investment management relationships, as well as a fixed and/or hourly fee for certain consulting engagements.

### **Investment Management Fees**

Principium Investments generally charges an annual asset-based fee for accounts maintained at its recommended custodians and for held-away accounts in accordance with the following blended fee schedule:

<b>ASSETS UNDER MANAGEMENT</b>	<b>ANNUAL FEE</b>
The First \$1,000,000	1.5% if under \$500,000*
	1.2% if over \$500,000*
The Next \$2,000,000	0.95%
The Next \$2,000,000	0.75%
Thereafter	0.55%

\*A client relationship valued at less than \$500,000 will incur a 1.50% annual fee. When such relationship exceeds \$500,000 at the end of a calendar quarter, the fee will shift to 1.20% for the entire amount under management.

Principium Investments' annual fee is prorated and charged quarterly in advance and is based upon the market value of the assets, including any margin amount, being managed by the Firm on the last day of the previous quarter. Clients retain the ability to make account deposits or withdrawals

at any time, provided that investment management fees will be adjusted to reflect partial inflows and outflows of more than \$100,000 that occur after the inception of a billing period. These inflows and outflows to the account are billed using the following formula: billed value \* bps / 365 \* the number of relevant calendar days in a quarter. For the initial term of an engagement, the fee is calculated on a pro rata basis. In the event the Agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the unearned portion is refunded to the client, as appropriate. Principium Investments' annual fee is exclusive of, and in addition to, brokerage commissions, transaction fees, and other related costs and expenses that are incurred by the client at the custodian. Principium Investments does not, however, receive any portion of these commissions, fees, and costs.

### **Financial Planning Fees**

Principium Investments normally provides financial planning services to its investment management clients at no extra cost. Principium Investments reserves the right to charge consulting fees (see Consulting Fees) for financial plans of individuals or families that are not investment management clients or require unusually extensive financial planning services.

### **Estate Planning Fees**

Principium Investments normally provides non-legal estate planning services to its investment management clients at no extra cost. Principium Investments reserves the right to charge consulting fees (see Consulting Fees) for non-legal estate planning advice in cases where no investment management relationship exists, or unusually extensive non-legal estate planning services are required. All legal estate planning services are provided through a licensed estate attorney chosen by the client. Principium Investments does not receive any portion of legal estate planning fees.

### **Consulting Fees**

Principium Investments may charge a fixed fee and/or hourly fee to provide clients with stand-alone consulting services. These fees are largely determined by the scope and complexity of the agreed upon services and generally range from \$250 to \$500 on an hourly basis, and \$5,000 to \$10,000 per month on a fixed fee basis.

The specific terms and fee structure are negotiated in advance and set forth in the Agreement with Principium Investments. Generally, Principium Investments requires one-half of the consulting fee payable upon execution of the Agreement and the balance due at the time the financial plan is delivered, or the underlying services are rendered to completion. Depending on the arrangement, if the client engages Principium Investments for additional investment advisory services, Principium Investments may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

**Fee Discretion**

Principium Investments, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationship, account retention, client referrals, public charity status and pro bono activities. Lower fees for similar services may be available elsewhere.

**Additional Fees and Expenses**

In addition to the fee paid to Principium Investments, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively “Financial Institutions”). These additional charges may include securities brokerage commissions, transaction fees, custodial fees, charges imposed directly by a mutual fund or ETF in a client’s account, as disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

**Fee Debit**

The Firm’s Agreement and the separate agreement with any Financial Institutions generally authorize Principium Investments to debit its clients’ accounts for the amount of the management fee and to directly remit that fee to Principium Investments. Any Financial Institutions recommended by Principium Investments have agreed to send statements to clients not less than quarterly indicating all amounts disbursed from the account, including the amount paid directly to Principium Investments. Alternatively, Principium Investments may, in its sole discretion and under limited circumstances, agree to send clients invoices for direct payment.

**Account Additions and Withdrawals**

Clients may make additions to and withdrawals from their account at any time, subject to Principium Investments’ right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or decline to accept particular securities into a client’s account. Clients may withdraw account assets on notice to Principium Investments, subject to the usual and customary securities settlement procedures. However, Principium Investments designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client’s investment objectives. Principium Investments may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees; fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.



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

Principium Investments does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

## **Item 7      Types of Clients**

Principium Investments offers its services to individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

### **Minimum Account Requirements**

Principium Investments does not impose a stated minimum portfolio value for starting and/or maintaining an investment advisory relationship.

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

### **Methods of Analysis**

Principium Investments utilizes an integrated analysis approach that includes

1) Fundamental Financial Analysis; 2) Technical Financial Analysis; and 3) ESG - Environmental, Social Responsibility and Corporate Governance Analysis. The Firm takes a long-term view of risk management and avoidance, drawn from financial, economic and systems theorists.

**1) Fundamental analysis** involves an evaluation of the fundamental financial condition and competitive position of a particular fund or issuer. At the fund level, this process typically involves an analysis of a fund's management team, investment strategies, style drift, past performance, reputation and financial strength in relation to the asset class concentrations and risk exposures of the Firm's model asset allocations. At the individual security level, the analysis focuses on solid fundamental indicators such as sales, cash flow, dividends, and book value ratios. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, evolving market conditions may negatively impact the security.

**2) Technical analysis** involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Principium Investments will be able to accurately predict such a reoccurrence.

**3) ESG analysis** involves assessing risks and opportunities related to environmental, social and corporate governance (ESG) factors that may not be captured by conventional financial analyses.

Principium Investments utilizes information from leading ESG research and analysis service providers, as well as in-house ESG research. We assess the potential value impact of corporate performance in areas such as waste management, natural resource use, contribution to climate change (Environmental), human capital development, supply chain labor standards, product safety (Social), and board independence, management diversity and business ethics (Governance), among others. A substantial risk of relying on ESG analysis is that it does not provide sufficient information on the financial health of a company. Measuring investments using ESG criteria is a new field of investment analysis and may not predict positive trends in the future.

### Investment Strategies

Principium Investments has engineered its investment strategies to maximize traditional returns while also optimizing social and environmental benefits. Principium Investments uses a unique and flexible investment process, which actively allocates client accounts into a variable mix of 6 Asset Classes, and 60 distinct investment strategies. The Firm uses a mixture of these 60 globally diversified strategies in varying percentages to make up its nine model portfolios:

PRINCIPIUM INVESTMENTS RISK PROFILE MATRIX		
Model Portfolios	<u>Appreciation</u> Securities focused on appreciation of principal value with minimal dividends Capital Appreciation Focused Equities	<u>Total Return</u> Dividend & interest paying securities with potential gain in principal Yield – Dividend Yielding Equities Income – Allocation, Hybrids, Bonds
01. Preservation – 10/90	10%	90%
02. Preservation – 20/80	20%	80%
03. Conservative – 30/70	30%	70%
04. Conservative – 40/60	40%	60%
05. Moderate – 50/50	50%	50%
06. Moderate – 60/40	60%	40%
07. Assertive – 70/30	70%	30%
08. Assertive – 80/20	80%	20%
09. Aggressive – 90/10	90%	10%
10. Aggressive – 100/0	100%	0%
<i>2019 Principium Investments, LLC - The Principium Investments Matrix is used as guidelines and may or may not reflect actual client account allocations at any specific time.</i>		

In managing each of these model portfolios, the Firm utilizes a mixture of primarily mutual funds and exchange-traded funds (ETFs). The following page contains further detail on the 6 Asset Classes and 60 Strategies that Principium Investments uses to construct client portfolios.

Principium Investments uses the following variable mix of strategies in its portfolio construction:

<b><u>1. BEST US APPRECIATION</u></b>	<b><u>2. BEST WORLD APPRECIATION</u></b>	<b><u>3. BEST SECTOR APPRECIATION</u></b>
101. Large Cap Value	201. Developed Markets Value	301. Cyclical - Materials
102. Mid Cap Value	202. Developed Markets Blend	302. Cyclical - Financials
103. Small Cap Value	203. Developed Markets Growth	303. Cyclical - Real Estate
104. Large Cap Blend	204. Emerging Markets	304. Sensitive - Communications
105. Mid Cap Blend	205. Asia/Pacific	305. Sensitive - Energy
106. Small Cap Blend	206. Europe	306. Sensitive - Industrials
107. Large Cap Growth	207. Latin America	307. Sensitive - Technology
108. Mid Cap Growth	208. Mid-East/Africa	308. Defensive & Cyclical - Consumer
109. Small Cap Growth	209. Regions	309. Defensive - Healthcare
110. Long/Short	210. Long/Short	310. Defensive - Utilities
<b><u>4. DIVIDEND TOTAL RETURN</u></b>	<b><u>5. ALLOCATION TOTAL RETURN</u></b>	<b><u>6. BOND TOTAL RETURN</u></b>
401. US Dividend	501. Allocation 85%+ Equity	601. Convertible Securities
402. DM Dividend	502. Allocation 70%-85% Equity	602. Preferred Securities
403. EM Dividend	503. Allocation 50%-70% Equity	603. Unconstrained Bond
404. Asia/Pacific Dividend	504. Allocation 30%-50% Equity	604. World Bonds
405. Europe Dividend	505. Allocation 15%-30% Equity	605. Mortgage Bonds & TIPS
406. Global South Dividend	506. World Allocation	606. High Yield Bonds
407. Real Estate Dividend	507. Options	607. Multi-Sector Bonds
408. Financials Dividend	508. Tactical Allocation	608. Investment Grade Bonds
409. Technology Dividend	509. Real Asset Allocation	609. Government Bonds
410. Utilities Dividend	510. Multi-Alternative & Market Neutral	610. Cash
<b><i>2019 Principium Investments, LLC – The Principium Investments Matrix is used as a guideline and may or may not reflect actual client account allocations at any specific time.</i></b>		

### Selection of Mutual Funds and ETFs

Inside each of the 60 strategies, Principium Investments selects mutual funds and ETFs whose managers have demonstrated the ability to consistently outperform their peer groups and their appropriate market indices, as well as provide superior risk return and capture ratios versus their peer group and their corresponding indices to provide clients with superior performance in a variety of market environments. When superior active management cannot be elicited during certain market cycles, Principium Investments will employ indexing philosophies. Principium

Investments utilizes leading Environmental, Social, and Governance (ESG) research and analysis service providers to grade mutual funds and ETFs on ESG criteria.

### Systematic Review

The Firm closely monitors its holdings and constantly makes adjustments as market conditions warrant. While Principium Investments' process is built with the objective of maximizing performance, the Firm's goal is also to achieve that performance using minimum levels of risk and volatility and maximum social and environmental benefit.

### Portfolio Allocation

As part of the investment process, clients generally complete a scientifically based investment volatility analysis. When used in conjunction with a personal interview and values assessment, this analysis helps Principium Investments to develop a portfolio that reflects the client's psychological feelings toward risk and return, in addition to addressing their financial needs for income and capital appreciation in alignment with their values. The Firm then develops a plan for each client to invest their accounts into one or several of its model allocations, in order to achieve an overall portfolio that is consistent with the client's needs, values and comfort levels.

## **Risks of Loss**

### General Risk of Loss

Investing in securities involves the risk of loss. Clients should be prepared to bear potential loss.

### Market Risks

The profitability of a significant portion of Principium Investments' recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. There can be no assurance that Principium Investments will be able to predict those price movements accurately or be able to capitalize on any correct assumptions or projections.

### Mutual Funds, Exchange-Traded Funds (ETFs)

An investment in a mutual fund or ETF involves risk, including the loss of principal.

Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholder fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for index-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### Management Through Similarly Managed "Model" Accounts

Principium Investments manages certain accounts through the use of similarly managed "model" portfolios, whereby the Firm allocates all or a portion of its clients' assets among various mutual funds and/or securities on a discretionary basis using one or more of its proprietary investment strategies. In managing assets through the use of models, the Firm remains in compliance with the safe harbor provisions of Rule 3a-4 of the Investment Company Act of 1940.

The strategy used to manage a model portfolio may involve an above average portfolio turnover that could negatively impact clients' net after tax gains. While the Firm seeks to ensure that clients' assets are managed in a manner consistent with their individual financial situations and investment objectives, securities transactions affected pursuant to a model investment strategy are usually done without regard to a client's individual tax ramifications. Clients should contact Principium Investments if they experience a change in their financial situation or if they want to impose reasonable restrictions on the management of their accounts.

### **Item 9      Disciplinary Information**

Principium Investments has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management.

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

Principium Investments is not engaged in any other financial industry activities and does not have any affiliations that are otherwise material to the firm's advisory business.

**Registration as a Broker/Dealer or Broker/Dealer Representative**

Neither Principium Investments nor its representatives are registered as or have pending applications to become a broker/dealer or as representatives of a broker/dealer.

**Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither Principium Investments nor its representatives are registered as to become a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor.

**Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

Neither Principium Investments nor its representatives have any material relationships to this advisory business that would present a possible conflict of interest.

**Item 11 Code of Ethics**

Principium Investments and persons associated with Principium Investments (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients, consistent with Principium Investments’ policies and procedures. Principium Investments has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“Code of Ethics”). Principium Investments’ Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by Principium Investments or any of its associated persons. The Code of Ethics also requires that certain of Principium Investments’ personnel (called “Access Persons”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

When Principium Investments is engaging in or considering a transaction in any security on behalf of a client, no Access Person may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the Access Person) a transaction in that security unless:

- The client transaction has been completed;
- The transaction for the Access Person is completed as part of a batch trade (as defined below in Item 12) with clients; or
- A decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds;

and (v) shares of ETFs based on a broad market index.

This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by Access Persons to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated above.

Clients and prospective clients may contact Principium Investments to request a copy of its Code of Ethics.

## **Item 12 Brokerage Practices**

### **Recommendation of Financial Institutions**

Principium Investments generally recommends that investment management clients utilize the custodial and clearing services of Raymond James Financial Services, Inc. (Raymond James), Fidelity Investments, Inc. (Fidelity), Charles Schwab & Co., Inc. (Schwab), Foliofn Investments, Inc. (Folio), TD Ameritrade, and Nationwide (for annuities).

Principium Investments may only implement its investment management recommendations after the prospective client has arranged for and furnished Principium Investments with all information and authorization regarding accounts held at their respective financial institutions, where Principium Investments can either manage the account there, or recommend the prospective client transfer the account to a custodian we commonly use. Factors that Principium Investments considers in recommending Raymond James, Fidelity, Schwab, Folio, TD Ameritrade and Nationwide, or any other custodian to clients include their respective financial strength, reputation, execution, pricing, research and service. Raymond James, Fidelity, Schwab, Folio, TD Ameritrade and Nationwide may enable Principium Investments to obtain many mutual funds without transaction charges and other ETF's or individual securities at nominal transaction charges. The transaction fees charged by Raymond James, Fidelity, Schwab, Folio, TD Ameritrade and Nationwide may be higher or lower than those charged by other Financial Institutions.

The transaction fees and other costs such as custodial annual account fees paid by Principium Investment's clients comply with Principium Investments' duty to obtain "best execution." Clients may pay transaction fees that are higher than another qualified Financial Institution might charge to affect the same transaction where Principium Investments determines that the commissions are reasonable in relation to the value of the brokerage and research services received. 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 Financial Institution's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Principium Investments seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other Financial Institutions with whom Principium Investments and the Financial Institutions have entered into agreements for prime brokerage



clearing services. Principium Investments periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

### **Brokerage for Client Referrals**

Principium Investments does not receive referrals from broker dealers in return for contracted brokerage services provided by those broker dealers.

### **Directed Brokerage**

A client may direct Principium Investments in writing to use a particular Financial Institution to execute some or all transactions for the client. As not all investment advisers require their clients to direct brokerage, the Firm does not routinely recommend, request or require a client do so. In direct brokerage situations, the client will negotiate terms and arrangements for the account with that Financial Institution, and Principium Investments will not seek better execution services or prices from other Financial Institutions or be able to “batch” client transactions for execution through other Financial Institutions with orders for other accounts managed by Principium Investments. As a result, the 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. Subject to its duty of best execution, Principium Investments may decline a client’s request to direct brokerage if, in Principium Investments’ sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

### **Trade Aggregation**

Transactions for each client generally will be affected independently, unless Principium Investments decides to purchase or sell the same securities for several clients at approximately the same time. Principium Investments may (but is not obligated to) combine or “batch” such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Principium Investments’ clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. In this situation, transactions will generally be averaged as to price and allocated among Principium Investments’ clients pro rata to the purchase and sale orders placed for each client on any given day.

To the extent that Principium Investments determines to aggregate client orders for the purchase or sale of securities, including securities in which Principium Investments’ Supervised Persons may invest, Principium Investments generally does so in accordance with applicable rules and regulations. Principium Investments does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Principium Investments determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include:

- When only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios,



- with similar mandates;
- Allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts;
  - If an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed);
  - With respect to sale allocations, allocations may be given to accounts low in cash;
  - In cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, Principium Investments may exclude the account(s) from the allocation and the transactions may be executed on a pro rata basis among the remaining accounts; or
  - In cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services that assist Principium Investments in its investment decision-making process. Such research generally will be used to service all of Principium Investments' clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Principium Investments does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

Principium Investments may receive from Raymond James, Fidelity, Schwab, Folio, TD Ameritrade, Nationwide without cost to Principium Investments, computer software and related systems support, which allow Principium Investments to better monitor client accounts. Principium Investments may receive the software and related support without cost because Principium Investments renders investment management services to clients that maintain assets at those custodians. The software and related systems support may benefit Principium Investments, but not its clients directly. In fulfilling its duties to its clients, Principium Investments endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Principium Investments' receipt of economic benefits from a custodian creates a potential conflict of interest since these benefits may influence Principium Investments choice of a custodian over another custodian that does not furnish similar software, systems support, or services.

Specifically, Principium Investments may receive the following benefits from Raymond James, Fidelity, Schwab, Folio, TD Ameritrade and Nationwide:

- Receipt of duplicate client confirmations and bundled duplicate statements;
- Access to a trading desk that exclusively services the institutional participants;
- Access to block trading which provides the ability to aggregate securities

- transactions and then allocate the appropriate shares to client accounts; and
- Access to an electronic communication network for client order entry and account information.

## **Item 13      Review of Accounts**

### **Account Reviews**

Principium Investments monitors the portfolios of its investment management clients as part of a continuous and ongoing process, while regular account relationship reviews are conducted not less than annually. For those clients to whom Principium Investments provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis by a duly licensed representative. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Principium Investments and to keep Principium Investments informed of any changes thereto. Principium Investments contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in their financial situations and/or investment objectives.

### **Account Statements and Reports**

Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. From time to time or as otherwise requested, investment management clients may also receive written or electronic reports from Principium Investments and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with those they receive from Principium Investments or an outside service provider.

As a convenience to certain clients to whom Principium Investments provides financial planning and/or consulting services, the Firm may also generate reports summarizing its analyses and conclusions, which are typically delivered in electronic format.

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

### **Client Referrals**

Principium Investments does not currently provide compensation to third-party solicitors for client referrals.

### **Other Economic Benefit**

Principium Investments may receive an economic benefit from a third party (non-client) for providing investment advice to the Firm’s advisory clients. Specifically, because Principium Investments generally recommends clients custody assets at Raymond James, Fidelity, Schwab,

Folio, TD Ameritrade or Nationwide, they may receive certain institutional benefits that are not otherwise available to retail investors. This relationship is further discussed in Item 12 (above).

## **Item 15 Custody**

Principium Investments is deemed to have custody over a client's assets when it is authorized to directly debit a client's account for payment of the Firm's quarterly management fee. In accordance with applicable custody rules, the Financial Institutions recommended by Principium Investments have agreed to send statements to clients, not less than quarterly, indicating all amounts paid to Principium Investments. As a result, the Firm is not required to engage an independent auditor to perform a surprise annual examination of its client accounts.

As discussed in Item 13, Principium Investments and/or a third-party vendor may also send periodic reports to clients. Clients are advised to carefully review the statements and confirmations sent directly by the Financial Institutions and to compare them with any reports received from Principium Investments or an outside service provider.

## **Item 16 Investment Discretion**

Clients generally grant Principium Investments the authority to exercise discretion on their behalf. Principium Investments is considered to exercise investment discretion over a client's account if it can affect transactions for the client without first having to seek the client's consent. The Firm is given this authority through a power-of-attorney included in the Agreement between Principium Investments and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold).

Specifically, Principium Investments takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold; and
- When transactions are made.

## **Item 17 Voting Client Securities**

Principium Investments does not accept the authority to vote client securities (i.e., proxies) on their behalf. Clients receive proxies directly from the Financial Institutions where their assets are custodied and may contact the Firm at the number on the cover of this brochure with questions about proxies and/or other such solicitations.

## **Item 18 Financial Information**

Principium Investments is not required to disclose any financial information pursuant to this Item due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six

months in advance;

- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.