



## ADV PART 2A

### Service Academy Capital Management LLC

3838 Oak Lawn Ave., Suite 1000

Dallas, TX 75219

Phone (424) 835-4147

Email: [brian@sacmgt.com](mailto:brian@sacmgt.com)

Web Address: [www.serviceacademycapitalmanagement.com](http://www.serviceacademycapitalmanagement.com)

March 24, 2020

This brochure provides information about the qualifications and business practices of Service Academy Capital Management LLC (“**SACM**”), an investment adviser registered with the States of Florida, California, New York, New Mexico, Texas and Illinois pursuant to the applicable state laws, rules and regulations. If you have any questions about the contents of this brochure, please contact us at (424) 835- 4147 or *via* email at [brian@sacmgt.com](mailto:brian@sacmgt.com). The information in this brochure has not been approved or verified by any state securities authority. Registration with a state securities authority does not imply a certain level of skill or training. The oral and written communications of SACM provide you with information about which you determine to hire or retain SACM.

Additional information about SACM also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. SACM’s CRD number is 226628.

## ITEM 2. MATERIAL CHANGES

This Form ADV Part 2 (this “**Brochure**”) updates the prior annual amendment filing for SACM on 03/13/2019. The material changes to this brochure are as follows:

- SACM has updated outside business activities to remove reference to Kelson Capital (Item 10).
- SACM has updated brokerage practices to remove reference to Charles Schwab (Item 12).

SACM will further provide a new brochure as necessary based on changes or new information, at any time, without charge. Currently, this Brochure may be requested free of charge by contacting Brian Sears, CEO & Founder at: (424) 835-4147 or via email at [brian@sacmgt.com](mailto:brian@sacmgt.com).

### ITEM 3. TABLE OF CONTENTS

ITEM 1.	COVER PAGE.....	
ITEM 2.	MATERIAL CHANGES.....	2
ITEM 3.	TABLE OF CONTENTS .....	3
ITEM 4.	ADVISORY BUSINESS.....	4
ITEM 5.	FEES AND COMPENSATION .....	6
ITEM 6.	PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT .....	8
ITEM 7	TYPES OF CLIENTS.....	8
ITEM 8.	METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS .....	8
ITEM 9.	DISCIPLINARY INFORMATION.....	16
ITEM 10.	OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	16
ITEM 11.	CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING .....	16
ITEM 12.	BROKERAGE PRACTICES.....	18
ITEM 13.	REVIEW OF ACCOUNTS.....	23
ITEM 14.	CLIENT REFERRALS AND OTHER COMPENSATION .....	24
ITEM 15.	CUSTODY .....	25
ITEM 16.	INVESTMENT DISCRETION.....	26
ITEM 17.	VOTING CLIENT SECURITIES.....	26
ITEM 18.	FINANCIAL INFORMATION.....	26
	 BRIAN STEPHEN SEARS CRD# 2647229 .....	 28

#### **ITEM 4. ADVISORY BUSINESS**

Service Academy Capital Management LLC, a Delaware limited liability company (“**SACM**” or the “**Firm**”), is an investment adviser registered with the states of California<sup>1</sup>, New York<sup>2</sup>, New Mexico<sup>3</sup>, Florida, Texas, and Illinois<sup>4</sup> pursuant to the applicable state laws, rules and regulations (collectively, the “**State Laws**”). SACM has its principal place of business located in Texas. SACM was founded in 2015. Please note that registration with a state regulatory authority does not imply a certain level of skill or training.

##### **A. General Description of Advisory Firm**

###### **Firm History**

SACM’s focus is to provide sound financial advice to its clients. Its intent is to have at least one graduate from one of the service academies – United States Naval Academy (the “**USNA**”), United States Air Force Academy (the “**USAF**”), United States Military Academy/West Point (the “**USMA**”), United States Coast Guard Academy (the “**USCGA**”), and United States Merchant Marine Academy (the “**USMMA**”) on every team at the Firm. In addition, SACM is focused on hiring and training veterans for a career in financial services and returning a portion of the overall revenues of the Firm to veteran related charities.

SACM traces its heritage to the 1980’s when its principal and manager, Brian Stephen Sears, was a midshipman at the USNA. See ADV Part 2B for additional background on the Firm and its manager.

###### **Firm Ownership**

100% of Service Academy voting membership interests are owned individually by Mr. Sears.

##### **B. Description of Advisory Services**

SACM provides investment advisory services on a discretionary or non-discretionary basis to various types of clients as described below for a fee. Please refer to ITEM 7 for further information on the types of clients to which we provide our investment management services.

Through personal discussions with the client, SACM determines the client’s objectives, time horizon, risk tolerance, and liquidity needs in order to establish goals and objectives for a bespoke investment portfolio. This service encompasses providing asset management as well as financial planning/financial consulting for clients.

---

<sup>1</sup> Under the California Corporate Securities Law of 1968 and the regulations promulgated thereunder, the California Corporations Code and the California Code of Regulations Title 10, Chapter 3, Subchapter 2, Article 10.

<sup>2</sup> Under the New York Investment Advisory Act, Title 13 and the regulations promulgated thereunder, Part 11 New York Code of Rules and Regulations (NYCRR).

<sup>3</sup> Under the New Mexico Uniform Securities Act, NMSA 58-13C and the regulations promulgated thereunder, the New Mexico Administrative Code, Title 12, Chapter 11, Part 5 12.11.5 NMAC.

<sup>4</sup> Under the Illinois Securities Law of 1953, and the regulations promulgated thereunder, the Illinois Administrative Code, Section 130 ILAC subpart H.

The development of an investment strategy for a client's portfolio is a continuous process and, therefore, SACM's strategy may be modified from time to time. Investment decisions require the exercise of judgment by SACM and might, as a result of outside market forces, deviate in some instances from the initial strategy proposed for the client. It is SACM's desire to formally review the client's investment portfolio with the client on an annual basis to ensure we are meeting the client's current investment goals. If the client experiences any significant changes to his/her financial or personal circumstances, the client must notify us so that we can consider such information in managing the client's investments.

Prior to SACM providing investment management services, the client will be required to enter into an Investment Management Agreement with SACM (the "**IMA**") setting forth the terms and conditions under which SACM shall manage the client's assets, as well as a separate custodial/clearing agreement with the broker-dealer/custodian (*See*, ITEM 12 – Brokerage Practices). The IMA authorizes the broker-dealer/custodian to debit the account for the amount of SACM's investment management fee and to directly remit that management fee to SACM in accordance with required State Law procedures and any other applicable state authority procedures.

#### Separately Managed Accounts

The allocation of assets can include the use of one or more separately managed accounts managed by SACM. Investments in an account can include: mutual funds (open end and closed end), Exchange Traded Funds (ETFs), Limited Partnerships (LP), exchange funds and direct ownership of equities, fixed income and other capital markets investments based on the individual needs of the client.

SACM Account Minimum is \$100,000.00.

#### Selection of Other Advisers

SACM may direct clients to third-party investment advisers. Before selecting other advisers for clients, SACM will verify that all recommended advisers are properly licensed, notice filed, or exempt in the states where SACM is recommending the adviser to clients.

#### Client Assets Under Management

SACM has approximately \$180 million in client assets under management on a discretionary basis.

## ITEM 5. FEES AND COMPENSATION

### A. Advisory Fees and Compensation

#### General Information

The IMA will determine the exact fee structure; **however**, fees are generally charged as a percentage of assets based on the following schedule:

#### Fee Schedule:

• First \$1,000,000	-	1.50%
• Next \$4,000,000	-	1.25%
• Next \$5,000,000	-	1.00%
• Next \$15,000,000	-	0.75%
• Next \$75,000,000	-	0.65%
• Next \$150,000,000	-	0.50%
• Amount over \$250,000,000	-	negotiable

The maximum fee for investment advisory services is 1.50% of the assets advised in each account. The Firm's annualized fees are billed quarterly in arrears and are calculated based on the average daily value of the client's account over a quarter in a cumulative tiered basis according to the fee schedule. The fee billing schedule will be effective commencing the day that an advisory contract is executed by the client and SACM. Fees will be calculated from the day the client's account is funded unless otherwise mutually agreed to by the client and SACM.

The only fixed fees will be the administrative fee referred to in subsection C below.

SACM may, in its discretion, either (a) debit the client's account and cause the client's account to pay to SACM, any amount owing to SACM as described in the IMA or (b) bill the client for such amount, in which case the client will pay such amount to SACM within thirty (30) days of the client's receipt of such bill.

If fees are debited from the client's account, SACM will send the qualified custodian an invoice or statement of the amount of the fee to be deducted from the client's account. In the event the account does not maintain a sufficient cash or money market fund balance to cover the fees, the client may deposit additional funds (subject to any applicable restrictions for certain retirement accounts). Advisor intends to use the safeguards provided in California Code of Regulations Section 260.237.2 paragraph (b)(3) as well as any other safeguards provided for pursuant to the State Laws in connection with fee deductions.

Prospective clients are hereby advised that lower fees for comparable services may be available from other sources.

Unless a client has received this Brochure at least forty-eight (48) hours prior to signing the IMA, the IMA may be terminated by the client within five (5) business days of signing the IMA without incurring any

advisory fees.

### Limited Negotiability of Advisory Fees

Fees are negotiable based on particular client circumstances.

SACM will provide advisory services to a select number of veterans, veteran families, or widows of veterans for no fee or a substantially reduced fee.

Once SACM enters into an IMA with a client, SACM will only modify its fee as permitted under that agreement and applicable law.

### Selection of Other Advisers Fees

SACM may direct clients to third-party investment advisers. SACM will receive a flat fee on top of the fee paid to the third party adviser. The fees shared are negotiable and will not exceed any limit imposed by any regulatory agency. The notice of termination requirement and payment of fees for third-party investment advisers will depend on the specific third-party adviser selected.

## **B. Payment of Fees**

Clients have their fees deducted from their accounts on a quarterly basis as described in Section A of this ITEM 5. From time to time, we reserve the right to bill clients and have them pay us their fee directly.

### Payment of Selection of Other Advisers Fees

The timing, frequency, and method of paying fees for selection of third party managers will depend on the specific third-party adviser selected and will be disclosed to the client prior to entering into a relationship with the third-party advisor.

## **C. Other Fees and Expenses**

The advisory fees do not cover, and clients pay, if applicable;

- Commissions and other fees and charges for transactions, including execution or service charges, mark-ups, mark-downs spreads and odd-lot differentials
- fees charged by an investment product and which may be described in its prospectus, offering memorandum or other product documents, including fund investment management fees and redemption fees
- taxes relating to the account
- other fees charged by third parties including third party custodian fees, exchange fees, electronic fund transfer fees, ADR fees, auction fees, charges imposed by regulatory bodies and charges mandated by law.
- Fees in connection with foreign exchange transactions or conversions

Such charges, fees and commissions are exclusive of and in addition to SACM's fee, and SACM shall not

receive any portion of these commissions, fees, and costs. Neither SACM nor any of its supervised persons (employees) accept compensation for the sale of securities or other investment products. SACM does not receive any indirect compensation.

ITEM 12 further describes the factors that SACM considers in selecting broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

SACM, at its discretion, may charge an annual administrative fee (a fixed fee) of \$1000 per account every year. This fee will cover wires, administrative costs and other general expenses as determined by SACM.

## **ITEM 6. PERFORMANCE BASED FEES AND SIDE BY SIDE MANAGEMENT**

All of SACM's accounts are managed on a fee basis based on the amount of the advised assets in the account. SACM does not charge a performance-based fee for any accounts.

## **ITEM 7 TYPES OF CLIENTS**

Except as it relates to veterans and widows/widowers of veterans, SACM typically provides investment advisory services to high net worth individuals, pension and profit sharing plans (covered under ERISA), trusts, estates or charitable organizations, corporations or other business entities.

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

### **A. Methods of Analysis and Investment Strategies**

SACM may utilize a variety of methods when formulating our investment advice and/or managing client assets. Our methods of analysis may include (but are not necessarily limited to):

Fundamental Analysis. We look to invest in companies with superior growth, return, and risk characteristics that we believe are not fully reflected in the current price of the security. Our fundamental research focuses on each company's business model, management, financial condition, and industry trends.

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

Qualitative Analysis. We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data. A risk of utilizing qualitative analysis is that our subjective judgment may prove incorrect.

Cyclical Analysis. We may measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.

Quantitative Analysis. We may use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data. A risk in using quantitative analysis is that the models used may be based on



assumptions that prove to be incorrect and/or are no longer valid due to exogenous forces.

Technical Analysis. We may analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly managed or financially unsound company may underperform regardless of market movement.

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

The investment strategy for a specific client may be more specifically tailored to a client based upon the objectives stated by the client during consultations or in such client's written agreement.

The development of an investment strategy is a continuous process and, therefore, SACM's strategy may be modified from time to time. SACM's investment process described herein is not exhaustive. Investment decisions require the exercise of judgment by SACM and might, as a result of outside market forces, deviate in some instances from the strategy set forth herein. There is no guarantee that the strategies or methods utilized by SACM will result in profitable trading for the accounts advised.

No matter how much planning and analysis that SACM performs exogenous forces may cause each strategy to underperform resulting in losses to client portfolios.

## **B. Material Risks Relating to Investment Strategies**

SACM utilizes a variety of implementation strategies when managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizon, among other considerations. Unless specifically indicated otherwise below, the following material risks relate to each of the investment strategies that we offer:

### **Investment and Trading Risks in General; Risk of Loss.**

Investing in securities involves risk of loss that clients should be prepared to bear. All investments involve risks, including the risk that the entire amount invested may be lost. Securities investments are not guaranteed and you may lose money on your investment. No guarantee or representation is made that a client's investment objective will be achieved or that any specific level of performance will be obtained. SACM may utilize certain investment techniques and practices that can, in certain circumstances, increase the adverse impact to which an investment portfolio may be subject.

Please take note that past performance is not indicative of future results.

### **Securities Believed to Be Undervalued or Incorrectly Valued.**

Securities that SACM believes are fundamentally undervalued or incorrectly valued may not ultimately be

correctly valued in the capital markets at prices and/or within the time frame SACM anticipates. The broader market may turn against an underperforming sector even if the underlying company of the security being purchased is out-performing the market. As a result, client portfolios may lose all or substantially all of their investment in any particular instance.

### Interest Rate Risks

Generally, the value of fixed income securities changes inversely with changes in interest rates. As interest rates rise, the market value of fixed-income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed-income securities tends to increase. Long-term securities have a greater duration risk than short-term securities and as such the pricing may fluctuate with greater frequency.

### Long-Term Purchases

SACM may purchase securities with the idea of holding them in a client's account for a year or longer. Typically, we employ this strategy when we believe the securities to be currently undervalued, and/or when we want exposure to a particular asset class over time, regardless of the current projection for this class. A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

### Short-Term Purchases

When utilizing this strategy, SACM purchases securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. This strategy may yield negative tax consequences as compared with positions held for a longer duration. Many longer duration holds are taxed at a lesser rate and as such are more tax efficient.

### Long/Short Securities

Investment strategies such as long/short securities present certain market and other risks, such as the risk that a lack of volatility in the market would result in fewer price anomalies to exploit. The long/short securities strategies use trading strategies involving a higher degree of risk such as short selling and options (each as further described below). In long/short securities portfolios, long positions in securities are taken that are expected to increase in value and short positions in securities are taken that are expected to decrease in value. If the long-position in a security that is purchased increases in value, the investment makes money. If the short-position in a security that is borrowed and sold (which is known as short-selling) declines in value, the investment makes money because the security can be purchased back at a lower price and the security returned. A long/short securities strategy that involves buying an undervalued security and shorting an overvalued security can result in a favorable return on the investments so long as the undervalued security increases in value and the overvalued security decreases in value, or the long position declines in value but nevertheless outperforms the short-position. A long/short securities strategy generally seeks to minimize exposure to the market in general, and profit from a change in the difference, or spread, between the two securities (the long and short positions). In addition to general market risk and valuation risk described

above, and risks relating to short-selling or particular types of securities (such as, for example, equity securities) as described below, there are a number of other potential risks associated with long/short securities strategies. For example, if the long and short positions involve securities of companies in the same geographic market or economic sector, market, political, social, economic, and environmental developments affecting such geographic markets or economic sectors can affect the value of the securities. Factors affecting the liquidity of the securities also may affect the frequency in which trades can be effected or the value of the securities. Long/short securities strategies can have high fees and expenses associated with them and can result in significant losses. In periods of sharp market declines, long positions could lose more than short positions. There can be no assurance that SACM will correctly predict the relative performance of the securities in a long/short securities portfolio. Any one of the above factors could prove detrimental to the performance of a long/short securities strategy.

### Short Selling of Securities

From time to time SACM will engage in short selling of securities. 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. The extent to which the convertible arbitrage and long/short securities strategies engage in short sales will depend upon SACM's investment strategy and opportunities. 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 portfolio of buying those securities to cover the short position. There can be no assurance that the portfolio will be able to maintain the ability to borrow securities sold short. In such cases, the portfolio can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be 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. Additionally, the amounts charged by securities lenders to lend securities may rise dramatically, thus increasing the portfolio's expenses and adversely impacting investment performance.

### Other Derivative Instruments

SACM may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both legally permissible and consistent with client's investment objectives. Special risks may apply to instruments in which portfolios may invest in the future that cannot be determined at this time or until such instruments are developed or invested in by the portfolios. Certain swaps, options, hybrid instruments, and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

### Leverage; Interest Rates; Margin

SACM may borrow money to make investments when SACM believes that the potential return of an investment is particularly favorable. The use of leverage has attendant risks and can substantially increase the adverse impact to which the investment portfolio may be subject. In addition, to the extent a portfolio

uses leverage, it is subject to the risk that changes in the general level of interest rates may adversely affect expenses and operating results. The use of leverage may also have a negative impact on tax exempt accounts. SACM believes in a holistic approach in its investment strategy and urges clients to have their tax advisor involved in the investment process.

### Real Estate Investment Trusts (“REITs”)

SACM may purchase REITs in all of its investment strategies. REITs in which SACM invests client accounts are affected by underlying real estate values, which may have an exaggerated effect to the extent that those REITs concentrate investments in particular geographic regions or property types. Investments in REITs are also subject to the risk of interest rate volatility. Further, rising interest rates will cause investors in REITs to demand a higher annual yield from future distributions, which will in turn decrease market prices for equity securities issued by REITs. REITs are subject to risks inherent in operating and financing a limited number of projects because they are dependent upon specialized management skills, and have limited diversification. REITs depend generally on their ability to generate cash flow to make distributions to investors.

### Hedging Transactions

SACM is not required to attempt to hedge portfolio positions in any of its portfolios and, for various reasons, may determine not to do so. Furthermore, SACM may not anticipate a particular risk so as to hedge against it. SACM may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and for risk management purposes, in order to seek to:

- (i) protect against possible changes in the market value of the portfolio’s investments resulting from fluctuations in the securities markets and changes in interest rates;
- (ii) protect the unrealized gains in the value of the portfolio’s investments;
- (iii) facilitate the sale of any such investments;
- (iv) enhance or preserve returns, spreads or gains on any investments in the portfolio; or
- (v) hedge the interest rate or currency exchange rate on any of the portfolio’s liabilities or assets.

Hedging transactions also may be utilized for any other reason that SACM deems appropriate. While certain portfolios may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the portfolio than if it had not engaged in any such hedging transactions. For a variety of reasons, SACM may not seek to establish a perfect correlation between such hedging instruments and the portfolio’s holdings being hedged. Such imperfect correlation may expose the portfolio to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the portfolio’s holdings. While SACM long/short securities portfolios (specifically the covered call accounts where clients are long underlying securities and short call options against them) include both long and short positions, as described above, individual positions are not hedged. Rather, such portfolios seek to profit from individual long and short positions. While the result of this trading strategy may reduce the volatility of long/short securities portfolios over time, there is no guarantee that this will occur.

### Counterparty Risk

Some of the markets in which SACM may effect transactions for its clients' portfolios (in all of its investment strategies) are non-cleared "over-the-counter" or noncleared "interdealer" markets. The participants in such markets are typically not subject to the same credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such non-cleared "over-the-counter" transactions. This exposes the portfolios to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the portfolio to suffer a loss. Portfolios are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty.

### Highly Volatile Markets

The prices of derivative instruments, including futures and option prices, can be highly volatile. Price movements of derivative contracts in which a portfolio's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary, and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures, and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Portfolios are also subject to the risk of the failure of any exchanges on which their positions trade or of their clearinghouses.

### Illiquidity of Investments

The pooled investments, hedge funds, limited partnerships, MLP's and private equity funds that SACM advises clients to invest in may have a large portion of their assets in instruments that are not publicly traded instruments and, in some cases, may be contractually prohibited from disposing of such instruments for a specified period of time. Other investment strategies may buy securities that while liquid at the time of purchase become less liquid over time. Accordingly, the aforementioned investments and client accounts in other investment strategies managed by SACM may be forced to sell their more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of illiquid instruments.

### Frequent Turnover

SACM's covered call/buy & write portfolio and other long/short securities strategies utilize a trading strategy with a high portfolio turnover. SACM's across client accounts may utilize trading strategies from time to time resulting in higher portfolio turnover. As discussed under Item 5 of this Brochure, a client account pays transaction costs, such as commissions, when securities are bought and sold for the account (or an account's portfolio "turns over"). As a result of high portfolio turnover, transaction costs could be higher (and even significant), and taxable accounts may incur adverse tax consequences. These factors will offset client profits and affect a client's account performance.

## **C. Risks Associated With Types of Securities that are Primarily Recommended**

## Equity Securities

Equity (and equity-linked) securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates, and general economic environments. Investment strategies trading in equities face the risk that a stock's price will decline because the issuing company does not perform according to projections or the economy in general declines. Smaller to mid-capitalization companies are typically subject to a greater degree of change in earnings and business prospects than are larger, more established companies, and are therefore considered to have a higher level of volatility and risk. In addition, equities in general can be affected by changes in interest rates, general market conditions, and other political, social, economic, and environmental developments.

## Fixed Income and Debt Securities

Portfolios with high concentrations of fixed income securities have the risk that interest rates will increase, and the value of outstanding bonds (including both corporate and government bonds) will then decrease. Similarly, portfolios that hold such securities are subject to the risk that the portfolio's income will decline because of falling interest rates. There is also the risk that the return on the portfolio will not keep up with inflation, thereby eroding purchasing value. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline.

## Private Equity Securities; Illiquid Instruments

Private equity funds invest in the registered and unregistered equity and debt (including convertible securities) of companies, and have a higher degree of risk due to their illiquidity and lack of diversification. Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and SACM's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for SACM to obtain market quotations based on actual trades for the purpose of valuing a fund's portfolio.

SACM may invest in "**Rule 144A**" securities which may have restrictions on resale (and therefore be less liquid than other types of securities).

## Master Limited Partnerships ("MLPs")

SACM clients may directly own or through outside managers or their separately managed accounts ("**SMA**s") or index's own GP or LP investments in Master Limited Partnerships as part of their portfolios. MLPs are publicly traded partnerships that own stable cash flow producing assets like oil and gas storage facilities and pipelines. SACM may purchase MLPs for its clients' accounts because of the partnerships' relatively high current yield and the tax-advantaged nature of their cash distributions. MLPs' values are subject to a number of factors including the cash splits between the partnerships' managers and their limited partners. MLP valuations are also subject to interest rate changes as higher rates can negatively affect MLP

values. In addition, owners of MLPs are subject to special tax reporting requirements, which can often present special burdens for investors and/or their financial representatives.

## Call Options

SACM's covered call portfolio/buy and write portfolio and long/short securities strategies and certain high net worth separately managed accounts utilize call options in their trading process. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying instrument) assumes the risk of a decline in the market price of the underlying instrument below the purchase price of the underlying instrument offset by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying instrument above the exercise price of the option. The seller of an uncovered call option assumes the risk of theoretically unlimited increase in the market price of the underlying instrument above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money. We use "covered calls", in which SACM sells an option on a security owned by a client. In this strategy, the client receives a premium (*i.e.*, a fee) for selling the option contract, and the person purchasing the option has the right to buy the security from the client at an agreed-upon price for a specific time period. We also use a "spread strategy", in which SACM buys or sells two or more option contracts (for example, a call option that a client buys and a call option that a client sells) for the same underlying security. This technique effectively puts the client on both sides of the market, but with the ability to vary price, time, and other factors. From time to time SACM will sell naked calls.

## Put Options

SACM for its portfolios and certain high net worth separately managed accounts may utilize put options in their trading process. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying instrument) assumes the risk of an increase in the market price of the underlying instrument above the sale price of the short position of the underlying instrument offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying instrument below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying instrument to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

## Pooled Investment Vehicles

As discussed above, when permitted, SACM may invest client assets in mutual funds and ETFs as an efficient means of carrying out our investment strategies and seeking diversification for client portfolios. The value of an investment in a Mutual Fund or ETF may vary depending upon the performance of the underlying pool of investments held by the Mutual Fund or ETF, the fees and expenses charged by the Mutual Fund or ETF, and other factors. Mutual Funds may include closed-end investment companies the shares of which are traded on exchanges and may trade at, above or below the Mutual Fund's net asset value. Mutual Funds also may include open-end investment companies, the shares of which are redeemable from the Mutual Fund at the Mutual Fund's net asset value. Mutual Funds also may include money market mutual funds, the

shares of which are redeemable from the Mutual Fund and intended to maintain a stable net asset value under current regulation, although there are money market reforms pending that may permit or require a fluctuating net asset value per share or other reforms to money market funds. ETFs are traded on exchanges or on the over-the counter market, and the shares may trade at, above, or below their net asset value. With respect to closed-end Mutual Funds and ETFs, investors typically pay only customary brokerage fees to buy and sell shares. When shares are traded on an exchange, an active trading market for shares may not develop or be maintained, and trading of the shares may be halted if the listing exchange's officials deem such actions appropriate, the shares are delisted from the exchange or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally. An investment in a Mutual Fund or ETF invested in by SACM on behalf of clients generally will have the same primary risks as the investment strategy that SACM is utilizing to manage the client's account for which a Mutual Fund or ETF is purchased by SACM. The risks of investing in Mutual Funds and ETFs are described fully in their prospectuses and other offering documents. Like other investments, it is possible to lose money by investing in a Mutual Fund or ETF.

#### **ITEM 9. DISCIPLINARY INFORMATION**

Our Firm and our management personnel have no reportable disciplinary events to disclose.

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

Neither SACM nor its representatives are registered as, or have pending applications to become, a broker/dealer or a representative of a broker/dealer.

Neither the Firm nor any of its Supervised Persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person.

SACM provides fee-only advice, no products are sold. SACM's investment advisory services account for 100% of its business.

SACM, in the hiring of other advisors (outside managers) for its clients, will verify that those advisors are properly licensed and/or registered as an investment adviser.

SACM may direct clients to third-party investment advisers. Third-party advisers may pay SACM a flat fee and may also charge a standard fee for the advisers to which it directs those clients. The fees will not exceed any limit imposed by any regulatory agency. SACM will always act in the best interests of the client, including when determining which third party investment adviser to recommend to clients. SACM will ensure that all recommended advisers are exempt, licensed or notice filed in the states in which SACM is recommending them to clients. See ITEM 14 for more information regarding potential additional compensation.

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

Following is a description of SACM's code of ethics and related practices and certain conflicts of interest SACM faces when acting as portfolio manager for clients.



SACM has adopted a Code of Ethics (the “**Code**”) that obligates the Firm and its Supervised Persons to put the interests of our clients before their own personal interests and to act honestly and fairly in all respects in their dealings with clients. The Code sets forth high ethical standards of business conduct that we require of our Supervised Persons, including compliance with applicable federal securities laws. The Code is based on the general principle that Supervised Persons shall seek to avoid any actual or potential conflicts of interest.

The Code imposes restrictions on the purchase or sale of securities for our Supervised Persons’ own accounts and the accounts of certain affiliated persons. In addition to the Code, the Firm also has policies and procedures concerning the misuse of material non-public information that are designed to prevent insider trading by any of SACM Supervised Persons.

SACM and our personnel owe a duty of loyalty, fairness, and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code but to the general principles that guide the Code. Our Code is designed to assure that the personal securities transactions, activities, and interests of our Supervised Persons will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing Supervised Persons to invest for their own accounts.

SACM does not recommend investments to clients in which SACM has a material financial interest, however, SACM Supervised Persons may invest in the same securities (or related securities, e.g., warrants, options, or futures) that the Firm recommends to clients. Such practices present a conflict where, because of information in SACM’s possession, the Firm or its Supervised Persons are in a position to trade in a manner that could adversely affect clients (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients’ trades). In addition to affecting the Firm’s or its Supervised Persons’ objectivity, these practices by the Firm or its related persons may also harm clients by adversely affecting the price at which the clients’ trades are executed. SACM has adopted procedures in an effort to minimize such conflicts that include the requirement for pre-clearance of personal trades and political contributions, as well as the reporting of all personal securities transactions, except for certain exempt transactions or securities. The Code also requires the disclosure of personal holdings upon hiring of a new Supervised Person, and annually thereafter, as well as all outside business activities. Our Code includes oversight, enforcement, and recordkeeping provisions.

Client approval will be sought in connection with approvals required under the Advisers Act, including Section 206(3) thereunder, or otherwise and, if granted, such approval will be binding. If an agency cross transaction arises, Firm may execute such transaction with the consent of the applicable client or as otherwise permitted by the Advisers Act, including Section 206(3) thereof. An agency cross transaction is generally defined as a transaction where a person acts as investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Firm will only recommend client engages in this activity provided it is advantageous to both parties/clients.

Our Firm, in the course of its investment management and other activities, may come into possession of confidential or material nonpublic information about issuers, including issuers in which SACM or its related persons have invested or seek to invest on behalf of clients. SACM is prohibited from improperly disclosing

or using such information for our own benefit or for the benefit of any other person, regardless of whether such other person is a client. Our Firm maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that SACM is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, SACM may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell, or hold a security, but SACM will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Firm will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that SACM possesses such information), or not using such information for the client's benefit, as a result of following SACM's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

SACM believes its policies and procedures are reasonably designed to treat clients fairly and seek to prevent clients from being systematically favored or disadvantaged. Our compliance policies provide for review and testing of our policies and procedures no less frequently than annually as required by applicable State Laws and any other applicable state laws and regulations. Clients or prospective clients may obtain a copy of the Code by contacting Brian Sears, at [brian@sacmgt.com](mailto:brian@sacmgt.com) or by telephone at (424) 835-4147.

## **ITEM 12. BROKERAGE PRACTICES**

From time to time, SACM will allow a client to direct SACM to use a specific broker-dealer to execute transactions.

### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions**

Absent client direction to the contrary, SACM selects broker-dealers for trade execution which, in its best judgment, seeks best execution for that trade at favorable security prices and reasonable commission rates. SACM has discretionary authority to determine commission rates to be paid to a broker-dealer for a client's securities transaction.

SACM recommends Merrill Lynch, Fidelity Brokerage Services LLC, and TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade") Member FINRA/SIPC. TD Ameritrade is an independent SEC-registered broker-dealer. The best net price, giving effect to brokerage commission and other costs, is an important factor in choosing a broker-dealer, but a number of other factors also may enter into the decision. These factors may include, among others:

- knowledge of negotiated commission rates currently available;
- the nature of the security being traded;
- the size and complexity of the transaction;
- the desired timing of the trade;
- the activity existing and expected in the market for the particular securities;
- confidentiality; and
- the execution, clearance, and settlement capabilities, financial condition, and other relevant and appropriate services of the broker-dealer.

In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, SACM does not need to solicit competitive bids and does not have an obligation to seek the lowest available commission cost. For those trades that are executed at rates above "execution only" commission rates, clients may be deemed to be paying for research, brokerage, or other services provided by a broker-dealer which are included in the commission rate. SACM reviews these factors on an ongoing basis.

Advisor participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC. TD Ameritrade is an independent [and unaffiliated] SEC-registered broker-dealer. TD Ameritrade offers to independent investment Advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the program. (Please see the disclosure under Item 14 below.)

### Research and Other Soft Dollar Benefits

SACM may receive benefits other than execution from various broker-dealers in connection with client securities transactions. This is known as a "soft dollar" relationship. Consistent with its duty to seek best execution, SACM may direct client orders to broker-dealers in recognition of research and/or order execution services furnished by them, consistent with Section 28(e) of the Securities Exchange Act of 1934 ("**Section 28(e)**"). Research services within Section 28(e) have been, and may continue to be, received in the form of:

- written reports;
- attendance at certain seminars and conferences; and
- meetings with analysts, economists, government representatives, and corporate and industry spokespersons.

In some cases, research services that are generated by third parties may be provided by or through broker-dealers. This research generally provides information necessary to formulate investment decisions, and covers securities, industries, sectors, and the general economy. Brokerage services within Section 28(e) have included, and may continue to include:

- Services related to the execution, clearing, and settlement of securities transactions and functions incidental thereto (*i.e.*, connectivity services between an adviser and a broker dealer and other relevant parties such as custodians);
- trading software operated by a broker-dealer to route orders;
- Software that provides trade analytics and trading strategies;
- Software used to transmit orders;
- Clearance and settlement in connection with a trade;
- Electronic communication of allocation instructions;
- Routing settlement instructions;
- Post-trade matching of trade information;
- Services required by the SEC, a state authority, or a self-regulatory organization such as comparison services, electronic confirms, or trade affirmations; and

- Other permissible services.

Clients may pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (which is commonly referred to as “*paying up*”).

SACM does not attempt to allocate the relative costs or benefits of soft dollar benefits such as research to client accounts proportionately to the soft dollar benefits generated by the account. We believe that the soft dollar benefits (including research) are, in the aggregate, of assistance in fulfilling our overall responsibilities to clients. Accordingly, any soft dollar benefits (including research) received in exchange for a particular client’s brokerage commissions may be useful to that particular client; however, such soft dollar benefits (including research) may also be utilized by SACM in its management of other client accounts. Additionally, not all soft dollar benefits (including research services) received may be utilized by SACM in connection with the specific account which paid commissions (or markups or markdowns) to the broker providing such benefits and services.

SACM’s relationships with broker-dealers providing research and execution services may influence its selection of broker-dealers, and thereby create a conflict of interest in allocating brokerage business. We have an incentive to select or recommend a broker-dealer based on our interest in receiving research and other products and services (i.e., soft dollar benefits), rather than on our clients’ interest in receiving most favorable execution. For example, SACM will not have to pay for the product and services provided by the broker-dealers, which creates an incentive for the Firm to select or recommend a broker-dealer based on its interest in receiving those products and services.

SACM may participate in “*client commission arrangements*” pursuant to which SACM may execute transactions through a broker-dealer and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm that provides research to SACM. SACM excludes from use under these arrangements those services that are not eligible under Section 28(e) and applicable regulatory interpretations. During any given fiscal year, SACM, as a result of client brokerage commissions (or markups or markdowns), the Firm and/or its related persons acquired research and execution services, as described more specifically above. In determining whether to direct client brokerage transactions to particular broker-dealers, SACM reviews and evaluates SACM’s soft dollar practices on an ongoing basis and to determine in good faith whether, with respect to any research or execution services received from a broker-dealer, the commissions (or markups or markdowns) used to obtain those services were reasonable in relation to the value of the brokerage or research services provided by the broker-dealer.

SACM reviews commission reports which show commissions paid to each broker for our equity strategies (including high net worth separately managed accounts), and the convertible and convertible arbitrage strategies. The Firm’s portfolio manager reviews the contributions each broker made to the research process during the quarter. The portfolio manager will review whether the cumulative commissions for each broker are commensurate with the quality and amount of research and execution services provided.

### Brokerage for Client Referrals

We do not consider, in selecting or recommending broker-dealers, whether we or a related person receives client referrals from a broker-dealer or third-party. In no event will SACM select a broker-dealer as a means of remuneration for recommending SACM or any other product managed by SACM (or its affiliates) or

affording SACM with the opportunity to participate in capital introduction programs. From time to time SACM may participate in capital introduction programs arranged by broker-dealers. SACM may effect client portfolio transactions with firms who have made such recommendations or provided capital introduction opportunities, if the Firm determines that it is otherwise consistent with seeking best execution.

### Directed Brokerage

Except as discussed below, SACM routinely recommends a client execute transactions through a specific broker-dealer. Certain SACM clients may direct SACM to use a specified broker-dealer to execute all or a portion of the client's securities transactions. When this occurs, SACM treats the client direction as a decision by the client to retain, to the extent of the direction, the discretion the Firm would otherwise have in selecting broker-dealers to effect transactions and negotiate commissions for the client's account.

Although SACM attempts to effect such transactions in a manner consistent with its policy of seeking best execution, there may be occasions where it is unable to do so, in which case SACM will continue to comply with the client's instructions. Transactions in the same security for accounts that have directed the use of the same broker as SACM is utilizing for trading accounts for which it has brokerage discretion will be aggregated in SACM's Bunch Trades (as discussed below in Subsection B ("**Order Aggregation**")). When the directed broker-dealer is unable to execute a trade, SACM will select broker-dealers other than the directed broker-dealer to effect client securities transactions. Clients who direct SACM to use a particular broker-dealer to effect transactions should consider whether such direction may result in certain disadvantages to the client, such as, for example, the inability to participate in initial public offerings ("**IPOs**") underwritten by brokers other than the directed broker, and certain increased costs as compared to SACM's clients not requiring directed brokerage. Such costs may include higher brokerage commissions (because the Firm may not be able to aggregate orders to reduce transaction costs), less favorable price or overall execution of transactions, and the potential of exclusion from the client's portfolio of certain small capitalization or illiquid securities due to the inability of the particular broker dealer in question to provide adequate price and execution of all types of securities transactions. As discussed below, clients that direct brokerage also may be unable to participate fully in aggregated or Bunch Trades (as discussed below). By permitting a client to direct SACM to execute the client's trades through a specified broker-dealer, the Firm will make no attempt to negotiate commissions on behalf of the client and, as a result, in some transactions such clients may pay materially disparate commissions depending on their commission arrangement with the specified broker-dealer and upon other factors such as number of shares, round and odd lots, and the market for the security. The commissions charged to clients that direct SACM to execute the client's trades through a specified broker-dealer may in some transactions be materially different than those of clients who do not direct the execution of their trades. Clients that direct SACM to execute their trades through a specified broker-dealer may also lose the ability to negotiate volume commission discounts on batched transactions that may otherwise be available to other SACM clients.

### Separately Managed Accounts.

SACM can enter into agreements for clearance, settlement, and custody with TD Ameritrade and Fidelity. Accordingly, trades on behalf of such accounts may be executed through TD Ameritrade or Fidelity, as the case may be, unless another broker-dealer has been designated by the client or is otherwise appropriate, in which event TD Ameritrade or Fidelity may charge an "away fee". Absent directed trading instructions to

the contrary, this “away fee” may cause us to determine that better execution (in terms of price, for example) may be obtained by executing trades through TD Ameritrade or Fidelity (as the case may be). SACM does not share in brokerage commissions paid to TD Ameritrade or Fidelity, or in any “away fees”. Certain separately managed accounts with brokerage accounts held by TD Ameritrade or Fidelity may be insufficient in size to utilize trading through a broker other than TD Ameritrade or Fidelity (as the case may be).

## **B. Order Aggregation**

Because the size and mandate of client accounts may differ, the securities held in such client accounts may not be identical. In appropriate circumstances, some accounts managed by SACM may purchase or sell a security prior to other accounts managed by SACM. This could occur, for example, as a result of the specific investment objectives of the client or different cash resources arising from contributions or withdrawals. Additionally, smaller accounts may trade less frequently than larger accounts in an effort to minimize trading costs.

### **Bunch Trading & Trade Allocation**

Consistent with its duty to seek best execution, SACM may buy and sell securities on a “bunched” or aggregated basis (a “**Bunch Trade**”) for eligible accounts (including accounts in which SACM’s Supervised Persons may have an interest) where possible and when advantageous to clients. This bunching of trades permits the trading of aggregate bunches of securities composed of assets from multiple client accounts, so long as transaction costs are shared equitably and on a prorated basis between all accounts included in any such bunch (subject to certain size- or cost-related exceptions). Note, however, that certain of SACM’s smaller separately managed accounts may be insufficient in size to participate in Bunch Trades. In such cases, SACM may also be limited in its choice of executing brokers, and the client may pay higher commissions than if the transactions were effected through a broker-dealer of SACM’s choice. Therefore, SACM will be limited in its ability to seek best execution. Clients directing all or a portion of their brokerage to a particular broker-dealer (as described above) may be disadvantaged (and the performance of their accounts adversely affected) by not participating in Bunch Trades.

To implement its allocation procedures, SACM uses average pricing, which is an accounting convention utilized solely to allocate securities purchased or sold in multiple executions for a single order. Multiple orders cannot be aggregated into a Bunch Trade. Transactions are not settled through an average price account.

SACM seeks to aggregate trade orders in a manner that is consistent with its duty to: (i) seek best execution of client orders; (ii) treat all clients fairly and equitably over time; and (iii) not systematically advantage or disadvantage any client or group of clients.

When a Bunch Trade is filled in its entirety, each participating account will participate at the average price paid or received, per share or unit, on that day for the Bunch Trade, and share in any associated transaction costs, based upon the initial amount of securities requested to be purchased or sold for the account. When a Bunch Trade is partially filled, SACM will allocate the order in accordance with its written aggregation and allocation procedures, described generally below.

Pro rata allocation is generally used when a Bunch Trade, which usually involves only non-directed accounts, cannot be fully executed in a single day, unless the client has expressly directed otherwise. The partial fill is generally allocated among the participating client accounts based on the size of each account's original order, subject to rounding in order to achieve minimum lots. Unexecuted orders will continue until the Bunch Trade is completed or until all component orders have been cancelled. New orders for the same security may be aggregated with any remaining unexecuted orders and will continue in the same manner. SACM will generally apply a minimum order allocation amount of ten shares, which may be adjusted based on market convention associated with the particular security. If the remaining positions are too small to satisfy the minimum order amount, SACM may decide to allocate the remaining shares to those accounts seeking large positions that were unfilled. SACM may also decide to allocate remaining shares to those accounts whose orders would be completed as a result of the allocation subject to its *de minimis* policy.

While SACM will always try to allocate investment opportunities and the results of transactions pro rata in the first instance, SACM may allocate on a basis other than pro rata, if, under the circumstances, SACM believes that such other method of allocation is reasonable, does not result in improper or undisclosed advantage or disadvantage to participating accounts, and results in fair access, over time, to investment and trading opportunities for all eligible accounts managed by SACM. For example, SACM may identify investment opportunities that are appropriate for certain accounts but not others (or with respect to which relatively increased exposure is appropriate for one account or group of accounts over others) based on such factors as: investment objectives and style; risk/return parameters; legal, regulatory, and client requirements or restrictions; tax considerations; account size; sensitivity to turnover; and available cash and cash flows. Consequently, SACM may determine it is appropriate to place a given security in one account over another, or to allocate a security more heavily to a particular account over another. SACM may also invest in limited availability or thinly traded securities in which it may be unable to acquire substantial positions.

SACM may also consider cash flow changes (including available cash, redemptions, exchanges, capital additions, and capital withdrawals), which may provide a basis to deviate from a pre-established allocation as long as it does not result in an unfair advantage to specific accounts or types of accounts over time.

### Trading in Initial Public Offerings

SACM may invest in and allocate IPOs to eligible accounts. A minimum of 100 shares will be allocated whenever possible. Under certain circumstances (such as small share allocations), SACM may allocate IPOs to smaller groups of specific individual accounts within each strategy on a rotational basis.

## **ITEM 13. REVIEW OF ACCOUNTS**

### **A. Frequency and Nature of Review**

Accounts generally are reviewed by a SACM portfolio manager in the context of each client's stated investment objectives and investment guidelines on an annual basis. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political, or economic environment. Reviews also may be triggered for compliance purposes, such as in connection with monitoring and testing for compliance with investment guidelines and investment restrictions. More specific information is provided below.

The underlying securities within the separately managed accounts are monitored by the account's portfolio

manager to determine whether securities positions should be maintained in view of current market conditions.

All accounts are periodically assessed (no less than quarterly) by SACM.

**B. Content and Frequency of Regular Account Reports**

SACM has arranged with Black Diamond Performance Reporting to provide reporting services whereby clients will receive quarterly reports summarizing account performance, balances, and holdings. Information contained in Black Diamond's reports is sourced directly from the custodian of the client's account. In addition, clients will receive monthly statements and confirmations of transactions from their broker-dealer and/or custodian. SACM can provide more frequent reporting if requested by a client. In addition, clients may also provide valuations for real estate, personal assets, aircraft, art and other "illiquid assets" for SACM to manually input into their Black Diamond report.

Clients are free to contact SACM to receive information regarding the investment tactics and strategies being followed.

**ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

**A. Economic Benefits Received from Non-Clients for Providing Services to Clients**

SACM receives compensation from third-party advisers to which it directs clients.

SACM receives certain research and other services from broker-dealers through "soft-dollar" arrangements as permitted under the Section 28(e) safe harbor (as discussed above in ITEM 12 of this Brochure). These "soft-dollar" arrangements create an incentive for SACM to select or recommend broker-dealers based on the Firm's interest in receiving the research or other services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by SACM on behalf of its clients. Please see ITEM 12 of this Brochure above for further information on SACM's "soft-dollar" practices, including the Firm's procedures for addressing conflicts of interest that arise from such practices.

As disclosed under Item 12 above, Advisor participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the program and the investment advice it gives to its Clients, although Advisor receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and



services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

Advisor also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include Thinkpipes and Advent (Black Diamond). TD Ameritrade provides the Additional Services to Advisor in its sole discretion and at its own expense, and Advisor does not pay any fees to TD Ameritrade for the Additional Services. Advisor and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

Advisor's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Advisor, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Advisor's Client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with Advisor, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, Advisor may have an incentive to recommend to its Clients that the assets under management by Advisor be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. Advisor's receipt of Additional Services does not diminish its duty to act in the best interests of its Clients, including to seek best execution of trades for Client accounts.

## **B. Compensation to Non-Supervised Persons for Client Referrals**

Currently, SACM does not pay referral fees to independent persons or firms ("**Solicitors**") for introducing clients to us. Should we elect to do this in the future, as a matter of Firm practice, advisory fees paid to SACM by clients referred by Solicitors are not increased as a result of any referral. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of State Laws and other applicable state laws and regulations.

## **ITEM 15. CUSTODY**

Client assets are held in custody by unaffiliated, nationally recognized broker-dealers or banks. However, SACM is considered to have custody of client assets under Rule 206(4)-2 under the Advisers Act by virtue of having access to certain clients' funds through our ability to debit advisory fees.

Prior to engaging SACM to provide investment advisory services, a client will be required to enter into an IMA with SACM setting forth the terms and conditions under which SACM shall manage the client's assets, and a separate custodial/clearing agreement with its selected custodian. Both SACM's IMA and the custodian's custodial/clearing agreement will authorize the custodian to debit the account for the amount of SACM's fees and to directly remit that amount to SACM in accordance with required State Laws and any

other applicable state authority procedures.

In these cases, account custodians send statements directly to the account owners. Clients should carefully review these statements, and should compare these statements to any account information provided by the Firm.

#### **ITEM 16. INVESTMENT DISCRETION**

SACM will generally have limited power of attorney to act on a fully discretionary basis on the client's behalf. Unless otherwise instructed or directed by a discretionary client, our discretionary authority includes the ability to do the following without contacting the client (subject to restrictions set forth in the applicable IMA and any written investment guidelines):

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

Clients may limit this discretionary authority by giving us written instructions covering reasonable restrictions. Clients may also change or amend such limitations by once again providing us with written instructions. Because of the differences in client investment objectives and strategies, risk tolerances, tax status, and other criteria, there may be differences among clients in invested positions and securities held.

Two examples of restrictions that clients may place on our discretionary authority include:

- Restrictions on specific holdings (*e.g.*, no investments in the client company's stocks or bonds, or those of subsidiaries and affiliates); and
- Tax considerations (*e.g.*, no exposure to unrelated business taxable income (known as "**UBTI**"); no investments generating an Internal Revenue Service Form K-1).

#### **ITEM 17. VOTING CLIENT SECURITIES**

SACM has no obligation or authority to vote any client's proxy, or render any advice with respect to the voting of proxies, or make elections solicited by or with respect to issuers of securities held by any client. Accordingly, clients will receive their proxies or other solicitations directly from their custodian. Clients are responsible for instructing each custodian of their assets to forward to such clients copies of all proxies and shareholder communications relating to such clients' investment assets.

SACM will neither advise nor act on behalf of a client in legal proceedings involving companies whose securities are held in such client's account(s), including, but not limited to, the filing of "**Proofs of Claim**" in class action settlements.

#### **ITEM 18. FINANCIAL INFORMATION**

##### **A. Balance Sheet**

SACM is not required to provide a balance sheet as it does not require prepayment of fees six months or

more in advance.

**B. Financial Conditions and Impairment of Contractual Commitments to Clients**

As an advisory firm that maintains discretionary authority and custody for client accounts, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. SACM does not have any financial condition that meets this criterion.

**C. Bankruptcy Filings**

SACM has never been the subject of a bankruptcy petition.

**D. No Custody of Client Assets or Pre-Payments**

SACM does not have discretionary authority or custody of client funds or securities or require or solicit prepayment of more than \$500 in fees per client six (6) months in advance.

**BRIAN STEPHEN SEARS**  
**CRD# 2647229**

ADV PART 2B

SERVICE ACADEMY CAPITAL MANAGEMENT LLC  
3838 Oak Lawn Ave., Suite 1000  
Dallas, TX 75219

This brochure supplement provides information about the above named professional and supplements the Service Academy Capital Management LLC (“**SACM**”) brochure. You should have received a copy of that brochure. Please contact Brian Sears, Founder & CEO at (424) 835-4147 or [brian@sacmgt.com](mailto:brian@sacmgt.com). If you did not receive SACM’s brochure or if you have any questions about the content of this supplement. The information in this brochure supplement has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about the above named professional also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2      EDUCATION BACKGROUND AND BUSINESS EXPERIENCE**

Mr. Sears, born in 06/1967, joined the Navy 09/1985 and graduated with a Bachelor of Science in economics from the USNA in 06/1989. While at the USNA, he was the elected President of his class for his second through fourth year, was a voting member of the Honor Committee for his second through fourth year, and spoke at Commencement. In addition to typical midshipmen summer duties, Mr. Sears voluntarily spent part of the summer of 1988 working for Op 134 at the Navy Annex of the Pentagon where he did regression work surrounding the attack on the USS Stark.

After graduation, Mr. Sears ran the USNA summer sailing program for the incoming class of Plebes and then reported to Flight School at NAS Pensacola. Mr. Sears began flight training as a Naval Aviator, but was later dismissed for medical reasons surrounding the vision in his right eye. Brian then attended Surface Warfare Officers School and joined the USS Leahy in San Diego. He served during Operation Desert Shield and Operation Desert Storm. He served with distinction throughout his time in Navy and left voluntarily and honorably in 1993.

In 1993, Mr. Sears began studying for his MBA at Columbia University in New York. He spent the summer of 1994 as an intern at Goldman Sachs and the fall of 1994 as a full time intern for Goldman Sachs Equity Capital Markets in Hong Kong. In Hong Kong, Mr. Sears attended the business school at the Chinese University of Hong Kong in the evening while working for Goldman Sachs during the day. Mr. Sears returned to New York in 1995 where he completed his MBA in International Business and joined Goldman Sachs full time in 08/1995.

Mr. Sears joined Goldman Sachs Private Client Services group in 12/1995 in Los Angeles. While at Goldman, he built an advisory practice with approximately \$1.1 BB under management for 30 individuals or family groups. Mr. Sears also was very involved in starting a program that focused on hiring veterans into Goldman Sachs that remains in place to this day.

Mr. Sears joined Merrill Lynch in 03/2000 and worked as an advisor at Merrill Lynch until early 2007. While at Merrill Lynch, he continued to advise clients and grow his team. When he left Merrill Lynch in 04/2007, Mr. Sears worked with approximately 45 family groups with managed assets custodied at Merrill Lynch of over \$5BB. He also worked with a number of Forbes 400 members.

In 04/2007, Mr. Sears was recruited by Lehman Brothers to co-head their Private Wealth Group in New York. Just prior to moving to New York to take that position, he was asked to run Alternatives Distribution and Product Development for the firm. Mr. Sears took on that role meeting with some of the largest institutions and family groups around the globe. He also co-headed the placement business at Lehman. Upon the Lehman Brothers bankruptcy, he was offered a partnership interest in Neuberger Berman, which spun out of the bankrupt Lehman estate. Mr. Sears continued to serve in his alternatives role until his group was dissolved in 2010.

In 09/2010, Mr. Sears was recruited to join Barclays Wealth Management, who had purchased the wealth management business from Lehman during the bankruptcy. He relocated to Los Angeles and built up Barclay's wealth in the Southwest. He later was put in charge of the both the Southwestern and

Northwestern US for Barclays and later co-headed the business covering from Chicago down through Dallas to the West Coast.

Mr. Sears resigned from Barclays in 07/2014 to start SACM.

### **ITEM 3      DISCIPLINARY INFORMATION**

There are no legal or disciplinary actions to report on the aforementioned professional at this time.

### **ITEM 4      OTHER BUSINESS ACTIVITIES**

Mr. Sears other business activities are listed in ITEM 10 of Form ADV Part 2A.

### **ITEM 5      ADDITIONAL COMPENSATION**

Other than salary, annual bonuses, or regular bonuses, Mr. Sears does not receive any economic benefit from any person, company, or organization, in exchange for providing clients advisory services through Service Academy Capital Management LLC.

### **ITEM 6      SUPERVISION**

As the manager, designated principal and/or supervisor of SACM, Mr. Sears does not report to anyone. Mr. Sears may be reached at (424) 835-4147 or *via* email at [brian@sacmgt.com](mailto:brian@sacmgt.com).

**SCOTT WILLIAM PHILLIPS**  
**CRD # 1156373**

ADV PART 2B  
SERVICE ACADEMY CAPITAL MANAGEMENT LLC  
3838 Oak Lawn Ave., Suite 1000  
Dallas, TX 75219

This brochure supplement provides information about the above named professional and supplements the Service Academy Capital Management LLC (“**SACM**”) brochure. You should have received a copy of that brochure. Please contact Brian Sears, Founder & CEO at (424) 835-4147 or [brian@sacmgt.com](mailto:brian@sacmgt.com). If you did not receive SACM’s brochure or if you have any questions about the content of this supplement. The information in this brochure supplement has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about the above named professional also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**ITEM 2            EDUCATION BACKGROUND AND BUSINESS EXPERIENCE**

Born and raised in Wichita, Kansas, Mr. Phillips attended University of Kansas(KU) before moving to Texas in 1979. While attending KU, Mr. Phillips was recruited to work for Southwestern Life Insurance Company. Mr. Phillips then went to work for Conti Commodities as a commodities resource broker in Houston.

Mr. Phillips then joined Rauscher, Pierce, and Refsnes in Dallas, his career progressed and he was soon promoted to the senior position in risk management for the firm's bond department where he evaluated bond positions in the firm's inventory for clients and ultimately ran the matched book and repo desk for Rauscher. In June of 1982 Mr. Phillips was hired at Garvin Independent Municipal Brokers and was instrumental in opening and running branch offices for RW Smith and associates of Seattle, WA. and ACS

Muni Brokers in Dallas, TX.

In 1988, Mr. Phillips founded Associated Bond Brokers, Inc. As founder & CEO, Mr. Phillips was responsible for overseeing all operations of the firm. Mr. Phillips ran the firm until 2007 when he was presented with the opportunity to join Hayman Capital, a Dallas based hedge fund founded by Kyle Bass. Until 2010, Mr. Phillips was the senior portfolio manager for Hayman Municipal Strategies, a subsidiary of Hayman Capital. Mr. Phillips' responsibilities included establishing and maintaining client relationships and providing support for daily trading activities in the fund.

Mr. Phillips Joined Service Academy Capital Management, LLC in the autumn of 2018. Mr. Phillips and his beautiful wife Cathy have been married 17 years. They are actively involved in philanthropy and their church. In their spare time they love to travel and play golf.

### **ITEM 3      DISCIPLINARY INFORMATION**

There are no legal or disciplinary actions to report on the aforementioned professional at this time.

### **ITEM 4      OTHER BUSINESS ACTIVITIES**

Mr. Phillips other business activities are listed in ITEM 10 of Form ADV Part 2A.

### **ITEM 5      ADDITIONAL COMPENSATION**

Other than salary, annual bonuses, or regular bonuses, Mr. Phillips does not receive any economic benefit from any person, company, or organization, in exchange for providing clients advisory services through Service Academy Capital Management LLC.

### **ITEM 6      SUPERVISION**

Mr. Phillips is supervised by and reports to Mr. Sears. Mr. Phillips may be reached at (424) 835-4147 or *via* email at [scott@sacmgt.com](mailto:scott@sacmgt.com).