



D.B.A. OF

HENSLER & ASSOCIATES WEALTH MANAGEMENT, LLC

**Wrap Fee Program Brochure**

*(Part 2A of Form ADV)*

**03-15-2020**

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This Brochure provides information about the qualifications and business practices of Hensler & Associates Wealth Management, LLC, d.b.a. Sapphire Blue Investment Partners ("Sapphire Blue"). If you have any questions about the contents of this Brochure, please contact Andy Armstrong, Chief Compliance Officer at 513-832-5385 or by email at [Andrew.Armstrong@dinsmorecomplianceservices.com](mailto:Andrew.Armstrong@dinsmorecomplianceservices.com).

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. Sapphire Blue is a registered investment adviser. Registration as an investment adviser does not imply any level of skill or training.

Additional information about Sapphire Blue is available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2. Material Changes**

As of the last update in 2019, Sapphire Blue has had no material changes.

**Important Information:** Throughout this document, Sapphire Blue will also be referred to as the “Firm,” “our,” “we” or “us.” These terms are utilized for the reader’s ease of use while reviewing the Brochure and are not meant to imply the Firm is larger than it may be at the time of publication. The client or prospective client may be also referred to as “you,” “your,” etc., and refers to a client engagement involving a single person as well as two or more persons or an organization. The term “advisor” and “adviser” are used interchangeably where accuracy in identification is necessary (URLs, etc.).

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#### **Item 4. Services, Fees and Compensation**

The Sapphire Blue Wrap Fee Program (the “Program”) is an investment advisory program sponsored by Sapphire Blue Investment Partners, LLC, a federally registered investment adviser that has been in business since March 2018.

This Wrap Fee Program Brochure describes the business of Sapphire Blue as it relates to clients receiving services through the Program. Certain sections also describe the activities of the Firm’s Supervised Persons, which refer to any officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees, or other persons who provide investment advice on Sapphire Blue’s behalf and are subject to the Firm’s supervision.

In addition to the Program, the Firm also provides financial planning, consulting, and investment management services under different arrangements than those described in this Wrap Fee Program Brochure. Information about these services is contained in Sapphire Blue’s Disclosure Brochure.

##### **Description of the Program**

The Program is offered as a wrap fee program. A wrap fee program is considered any arrangement under which clients receive investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of their transactions for a specified fee.

At the onset of the Program Sapphire Blue personnel conduct at least one, but sometimes more than one meeting (in person if possible, otherwise via telephone conference) with clients in order to understand their current financial situation, existing resources, financial goals, and tolerance for risk.

After an analysis of the relevant information, Sapphire Blue assists its clients in developing an appropriate strategy for managing their assets. Thereafter as part of the Program, Sapphire Blue will provide portfolio management services and/or will select from a range of portfolios managed by unaffiliated third party money managers (the “Independent Managers”). Sapphire Blue will allocate the client’s investment portfolio to Sapphire Blue and/or an Independent Manager. After the appropriate strategy or strategies have been determined and allocated amongst the Sapphire Blue and/or the Independent Investment Managers, Sapphire Blue will manage and continue to monitor the investments and, if determined necessary, rebalance the client’s portfolio based upon the client factors detailed above. In addition, depending on the engagement, Sapphire Blue may also provide clients with certain financial planning and/or consulting services.

Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. The Independent Managers may reject restrictions, at their discretion, which may

limited the options available for us to select from.

### **Fees for Participation in the Program**

Program clients are charged a quarterly fee based on the accounts assets under management in the Program as of the close of business on the last day of the preceding calendar quarter. The Program fees are calculated and paid quarterly in advance based. The Firm's annual fees for the Program are calculated at up a maximum of one-and-one-half percent (1.5%). This fee is prorated and billed quarterly in advance, based on the market value of the assets being managed by Sapphire Blue under Program on the last day of the previous quarter. For Program accounts opened or closed after the beginning of a new calendar quarter, our fees may be prorated.

### **Fee Comparison**

A portion of the fees paid to Sapphire Blue is used to cover the securities brokerage commissions and transactional costs attributed to the management of its clients' portfolios. The advisory fees of any utilized Independent Manager are not included within the Firm's fee. The fees charged by the Independent Managers range from .50% to .80% on an annualized basis and are in addition to the Program fee described above. When serving as a portfolio manager for any Program account Sapphire Blue does not receive any additional advisory fee, unlike an Independent Manager. See below for a description of additional fees and expenses that may be applicable to Program accounts.

Services provided through the Program may cost clients more or less than purchasing these services separately. The number of transactions made in clients' accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. In addition, fees paid for the Program may also be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

### **Fee Discretion**

Although Sapphire Blue believes that its fees are competitive, clients should understand that lower fees for comparable services may be available from other sources and firms. Generally, Sapphire Blue's fees are not negotiable. However, Sapphire Blue reserves the right to negotiate fees under certain circumstances and at the sole discretion of Sapphire Blue.

### **Fee Debit**

For operational efficiency, Sapphire Blue generally requires clients to have their advisory fees debited from their custodial account(s). In some situations, this may require setting up an account specifically for debiting fees. Both our client advisory agreement and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of our advisory fee and to directly remit that advisory fee to us in compliance with regulatory procedures.

## **Terminations and Refunds**

In the event that you wish to terminate our services, we will refund the unearned portion of our advisory fee to you. You need to contact us in writing and state that you wish to terminate our services. Upon receipt of your letter of termination, we will initiate the process to close out your account and issue a pro-rata refund of unearned advisory fees, if any. For fees charged in arrears, you will be invoiced for all services provided.

## **Other Charges**

In addition to the Independent Manager advisory fee described above, clients may pay charges imposed directly by a mutual fund, index fund, or exchange traded fund (see below for additional information), mark-ups and mark-downs, spreads paid to market makers, wire transfer fees and other fees and taxes on brokerage accounts and securities transactions. These fees are not included in, and are in addition to, the Program fees.

Client assets invested in mutual funds will be subject to certain fees and expenses imposed directly by mutual funds to their shareholders, which are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. Accordingly, the client should review the fees charged by any mutual funds in which the client's assets are invested, together with the fees charged by Sapphire Blue, to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Independent Managers and Sapphire Blue are permitted to execute trades with broker-dealers other than TD Ameritrade. As such, they may determine to direct trades away from TD Ameritrade (step-out trades) when they conclude, in their sole discretion, that they will get best execution for a particular transaction through another financial institution. The Independent Managers and Sapphire Blue are required to take into account and consider the execution costs that Program clients will incur in connection with any proposed step-out trades.

## **Additional Services**

In limited circumstances, Program clients may request that Sapphire Blue provide advice on certain of their accounts that are not being actively managed through the Program. Depending on the services requested, Sapphire Blue may charge a fee for these services, which will be negotiated with each client. Unlike the client's other accounts being managed through the Program, the client may incur separate securities brokerage commissions and transactional costs for these accommodation accounts.

## **Compensation for Recommending the Program**

Sapphire Blue has no internal arrangements in place whereby persons recommending the Program are entitled to receive additional compensation as a result of clients' participation.

## **Item 5. Account Requirements and Types of Clients**

### **Types of Clients**

The Program is generally made available to the following types of clients:

- Individuals and High Net Worth Individuals;
- Trusts, Estates or Charitable Organizations; and
- Corporations, limited liability companies and/or other business types.

### **No Minimum Account Requirements**

Currently Sapphire Blue does not have minimum account size requirements for the Program, however, Sapphire Blue reserves the right to accept or decline a potential client for any reason in its sole discretion. In addition, the client understands that asset withdrawals may impair the achievement of the client's investment objectives.

## **Item 6. Portfolio Manager Selection and Evaluation**

For the Program, clients' investment portfolios are managed by Sapphire Blue and/or through the use of certain Independent Managers, as referenced above.

### **Selection or Recommendation of Independent Managers**

Sapphire Blue evaluates various information about the Independent Managers in which it recommends or selects to manage client portfolios under the Program. The Firm generally reviews a variety of different resources, which may include the Independent Managers' public disclosure documents, materials supplied by the Independent Managers themselves, and other third-party analyses it believes are reputable. To the extent possible, the Firm seeks to assess the Independent Managers' investment strategies, past performance and risk results in relation to its clients' individual portfolio allocations and risk exposures. Sapphire Blue also takes into consideration each Independent Manager's management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other related factors.

Sapphire Blue generally monitors the performance of those accounts being managed by Independent Managers by reviewing the account statements and trade confirmations produced by the custodian(s), as well as other performance information furnished by the Independent Managers and/or other third-party providers. The Firm does not verify the accuracy of any such performance information and does not ensure its compliance with presentation standards. Clients are advised that any performance information they receive from the Independent Managers may not be calculated on a uniform and consistent basis. Clients should compare all supplemental materials with the account statements they receive from their respective custodians.

**Sapphire Blue as Portfolio Manager**

As referenced above, Sapphire Blue also serves as a portfolio manager for the Program. The investment performance of Sapphire Blue is reviewed and monitored by the management personnel of the Firm. In addition, the amount of fee earned by Sapphire Blue does not vary if Sapphire Blue serves as the portfolio manager for Program assets or selects an Independent Manager or Independent Managers to serve as the portfolio manager for Program assets. As described above in Item 4, the Program fees earned by Sapphire Blue do not include the advisory fees charged by the Independent Managers. Therefore, in determining whether or not to utilize an Independent Manager, Sapphire Blue is not presented with a financial conflict of interest.

**Advisory Business**

See Item 4 above for information regarding the Program, the services provided by Sapphire Blue as part of the Program and the fees and expenses associated with the Program. In addition to the Program, Sapphire Blue provides comprehensive portfolio management services for individuals, high net worth individuals, trusts, estates, charitable organizations, corporations, limited liability companies and/or other business types on a non-wrap fee program basis. Sapphire Blue additionally provides non-discretionary advisory services for retirement plans on a non-wrap fee program basis.

Sapphire Blue provides investment advisory services specific to the needs of each client. The selection of investment vehicles and/or Independent Managers may vary from one client to another. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, Sapphire Blue will allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). You may, at any time, impose reasonable restrictions, in writing, on our services.

**Performance-Based Fees and Side-By-Side Management**

Sapphire Blue does not charge performance-based fees (fees based on a share of capital appreciation / growth of the assets of a client, such as a hedge fund), nor do we offer side-by-side management (we do not manage any proprietary investment funds or limited partnerships). Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

**Methods of Analysis and Investment Strategies**

When providing investment advice, we base our analysis on creating a diversified portfolio that is compatible with a client's goals, objectives, risk tolerance and time horizon for investment. Sapphire Blue utilizes primarily equities, mutual funds and exchange traded funds ("ETFs"). For mutual funds and ETFs, Sapphire Blue focuses on allocating among three main asset classes: equities; fixed income; and alternative investments, such as commodities and real estate investment trusts ("REITs"). Sapphire Blue monitors clients' allocations and may reallocate investments in an effort to reduce risk and increase performance. Depending on its due diligence, Sapphire Blue may invest significant positions in cash and/or fixed income securities as a possible hedge against market movement, which we believe, may adversely affect a client's portfolio. As described above, Sapphire Blue also utilizes the Independent Managers for portfolio management services for the Program. Sapphire Blue may



sell certain investments for reasons that include, but are not limited to, overvaluation or overweighting of a position, change in the client's investment objectives and risk tolerance, and indications of severe and prolonged market downturns.

Client portfolios are generally diversified to increase the opportunity set to manage the risk associated with investing. Some portfolios may be constructed to suit a particular need and therefore may be less diversified. Sapphire Blue may utilize the following investment strategies when implementing investment advice given to clients:

Long Term Purchases (securities held at least a year): the intent of most of the securities Sapphire Blue purchases.

Short Term Purchases (securities sold within a year): sometimes result from our investment strategies. Securities sold within a year are caused by actions taken by Sapphire Blue (e.g. objectives met, tax loss harvesting, moving to another more attractively priced security, etc.), or actions taken by others (e.g. mergers and exchanges, instructions from the client, etc.).

Margin Transactions (use of borrowed assets to purchase securities): Margin is only used if so instructed by the client.

Options (contract for the purchase or sale of a security at a predetermined price for a specific period of time): Options and option strategies are rarely used, and only if so approved by the client.

Methods of analysis for securities include fundamental security analysis. Fundamental analysis examines a security's historical and forecasted data. For individual securities, fundamental security analysis involves analyzing financial statements, management, competitive advantages, competitors and markets.

### **Risk of Loss**

Investing in securities involves a significant risk of loss which clients should be prepared to bear. Sapphire Blue's investment recommendations are subject to various market, currency, economic, political and business risks and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made.

Generally, the market value of equity stocks will fluctuate with market conditions, and small- stock prices generally will fluctuate more than large-stock prices. The market value of fixed income securities will generally fluctuate inversely with interest rates and other market conditions prior to maturity. Fixed income securities are obligations of the issuer to make payments of principal and/or interest on future dates, and include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities, or by a non-U.S. government or one of its agencies or instrumentalities; municipal securities; and mortgage-backed and asset-backed securities. These securities may pay fixed, variable, or floating rates of interest, and may include zero coupon obligations and inflation-linked fixed income securities. The value of longer duration fixed income securities will generally fluctuate more than shorter duration fixed income securities.

Investments in overseas markets also pose special risks, including currency fluctuation and political risks, and it may be more volatile than that of a U.S. only investment. Such risks are generally intensified for investments in emerging markets. In addition, there is no assurance that a mutual fund or ETF will achieve its investment objective.

Past performance of investments is no guarantee of future results.

Additional risks involved in the securities recommended by Sapphire Blue may include, among others:

- **Stock market risk**, which is the chance that stock prices overall will decline. The market value of equity securities will generally fluctuate with market conditions. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Prices of equity securities tend to fluctuate over the short term as a result of factors affecting the individual companies, industries or the securities market as a whole. Equity securities generally have greater price volatility than fixed income securities.
- **Sector risk**, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.
- **Issuer risk**, which is the risk that the value of a security may decline for reasons directly related to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods or services.
- **Non-diversification risk**, which is the risk of focusing investments in a small number of issuers, industries or foreign currencies, including being more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio might be.
- **Value investing risk**, which is the risk that value stocks may not increase in price, may not issue the anticipated stock dividends, or may decline in price, either because the market fails to recognize the stock's intrinsic value, or because the expected value was mis-gauged. If the market does not recognize that the securities are undervalued, the prices of those securities might not appreciate as anticipated. They also may decline in price even though in theory they are already undervalued. Value stocks are typically less volatile than growth stocks, but may lag behind growth stocks in an up market.
- **Smaller company risk**, which is the risk that the value of securities issued by a smaller company may go up or down, sometimes rapidly and unpredictably as compared to more widely held securities. Investments in smaller companies are subject to greater levels of credit, market and issuer risk.
- **Foreign (non-U.S.) investment risk**, which is the risk that investing in foreign securities may result in the portfolio experiencing more rapid and extreme changes in value than a portfolio that invests exclusively in securities of U.S. companies. Risks associated with investing in foreign securities include fluctuations in the exchange rates of foreign currencies that may affect the U.S. dollar value of a security, the possibility of substantial price volatility as a result of political and economic instability in the foreign country, less public information about issuers of securities, different securities regulation, different accounting, auditing and financial reporting standards and less liquidity than in the U.S. markets.
- **Interest rate risk**, which is the chance that prices of fixed income securities will decline because of rising interest rates. Similarly, the income from fixed income securities may decline because of falling interest rates.

- **Credit risk**, which is the chance that an issuer of a fixed income security will fail 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 fixed income security to decline.
- **Exchange Traded Fund risk**, which is the risk of an investment in an ETF, including the possible loss of principal. ETFs typically trade on a securities exchange and the prices of their shares fluctuate throughout the day based on supply and demand, which may not correlate to their net asset values. Although ETF shares will be listed on an exchange, there can be no guarantee that an active trading market will develop or continue. Owning an ETF generally reflects the risks of owning the underlying securities it is designed to track. ETFs are also subject to secondary market trading risks. In addition, an ETF may not replicate exactly the performance of the index it seeks to track for a number of reasons, including transaction costs incurred by the ETF, the temporary unavailability of certain securities in the secondary market, or discrepancies between the ETF and the index with respect to weighting of securities or number of securities held.
- **Management risk**, which is the risk that the investment techniques and risk analyses applied by Sapphire Blue may not produce the desired results and that legislative, regulatory, or tax developments, may affect the investment techniques available to Sapphire Blue. There is no guarantee that a client's investment objectives will be achieved.
- **Real Estate risk**, which is the risk that an investor's investments in REITs or real estate-linked derivative instruments will subject the investor to risks similar to those associated with direct ownership of real estate, including losses from casualty or condemnation, and changes in local and general economic conditions, supply and demand, interest rates, zoning laws, regulatory limitations on rents, property taxes and operating expenses. An investment in REITs or real estate-linked derivative instruments subject the investor to management and tax risks.
- **Investment Companies ("Mutual Funds") risk**, when an investor invests in mutual funds, the investor will bear additional expenses based on his/her pro rata share of the mutual fund's operating expenses, including the management fees. The risk of owning a mutual fund generally reflects the risks of owning the underlying investments the mutual fund holds.
- **Commodity risk**, generally commodity prices fluctuate for many reasons, including changes in market and economic conditions or political circumstances (especially of key energy-producing and consuming countries), the impact of weather on demand, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation (agricultural, trade, fiscal, monetary and exchange control), international politics, policies of OPEC, taxation and the availability of local, intrastate and interstate transportation systems and the emotions of the marketplace. The risk of loss in trading commodities can be substantial.
- **Cybersecurity risk**, which is the risk related to unauthorized access to the systems and networks of Sapphire Blue and its service providers. The computer systems, networks and devices used by Sapphire Blue and service providers to us and our clients to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks or devices potentially can be breached. A client could be negatively impacted as a result of a cybersecurity breach. Cybersecurity breaches can include unauthorized access to systems, networks or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow or otherwise disrupt operations, business processes or website

access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a client; impediments to trading; the inability by us and other service providers to transact business; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or other compliance costs; as well as the inadvertent release of confidential information. Similar adverse consequences could result from cybersecurity breaches affecting issues of securities in which a client invests; governmental and other regulatory authorities; exchange and other financial market operators, banks, brokers, dealers and other financial institutions; and other parties. In addition, substantial costs may be incurred by those entities in order to prevent any cybersecurity breaches in the future.

Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk. Sapphire Blue does not guarantee the future performance of a client's portfolio, as investing in securities involves the risk of loss that clients should be prepared to bear.

#### **Voting Client Securities**

Sapphire Blue does not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to Sapphire Blue, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write or email us to discuss questions they may have about particular proxy votes or other solicitations. However, Sapphire Blue will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

In addition, clients maintain exclusive responsibility for all legal proceedings or other type events pertaining to their account assets, including, but not limited to, class action lawsuits.

#### **Item 7. Client Information Provided to Portfolio Managers**

Clients participating in the Program generally grant Sapphire Blue the authority to discuss certain non-public information with the Independent Managers engaged to manage their accounts. Depending upon the specific arrangement, the Firm may be authorized to disclose various personal information including, without limitation: names, phone numbers, addresses, social security numbers, tax identification numbers and account numbers. Sapphire Blue may also share certain information related to its clients' financial positions and investment objectives in an effort to ensure that the Independent Managers' investment decisions remain aligned with its clients' best interests. This information is communicated on an initial and ongoing basis, or as otherwise necessary to the management of its clients' portfolios. Please refer to any Independent Manager's privacy policy if you are concerned about the privacy of any non-public information an Independent Manager retains.

## **Item 8. Client Contact with Portfolio Managers**

There are no restrictions on clients' ability to contact and consult with Sapphire Blue. Clients are always free to directly contact the Independent Managers with any questions or concerns they have about their portfolios or other matters.

## **Item 9. Additional Information**

### **Disciplinary Information**

Sapphire Blue and its employees have not been involved in any legal or disciplinary events related to past or present activities.

### **Financial Industry Activities and Affiliations**

Certain personnel of Sapphire Blue also are investment adviser representatives of Summit Financial Group, Inc., a registered investment adviser, and/or are registered representatives of Summit Brokerage Services, Inc., a FINRA member broker-dealer. Summit Financial Group and Summit Brokerage Services are under separate ownership from Sapphire Blue. In the capacity of an investment adviser representative of Summit Financial Group and/or as a registered representative of Summit Brokerage Services, such personnel may offer advisory services, securities or alternative investments and receive normal and customary fees or commissions as a result of these transactions. In addition, these individuals will receive additional ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that the client maintains the mutual fund investment. As a result of certain personnel of Sapphire Blue being registered representatives of Summit Brokerage Services, Summit Brokerage Services may have access to certain confidential information (e.g., financial information, investment objectives, transactions and holdings) about clients, even if a client does not establish an account through Summit Brokerage Services. Summit Brokerage Services has this access to information so as to fulfill its regulatory obligations under the rules of the Financial Industry Regulatory Authority ("FINRA") that are applicable to Summit Brokerage Services. If you would like a copy of the Summit Brokerage Services privacy policy, please contact Summit Brokerage Services directly.

Clients should be aware that the receipt of additional compensation itself creates an inherent conflict of interest, and may affect the judgment of these individuals when making recommendations. Sapphire Blue and Summit are separate, nonaffiliated entities. Nevertheless, to the extent that a Sapphire Blue representative recommends the purchase of securities or other investment products where the representative receives commissions for doing so, a conflict of interest exists because the representative may be incentivized to make recommendations based on the compensation received rather than on a client's needs.

Certain personnel of Sapphire Blue also are licensed insurance agents appointed with various life, health and disability insurance companies. There are times when Sapphire Blue personnel recommend the purchase of certain insurance products to Sapphire Blue clients as part of their financial plan. Upon purchase, the Sapphire Blue personnel in his/her capacity as an insurance agent will receive normal and customary commissions.

Sapphire Blue has adopted certain procedures designed to mitigate the effects of these conflicts. As part of our fiduciary duty to clients, the Firm and our representatives endeavor at all times to put the interests of

the clients, first and recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Additionally, the conflicts presented by these practices are disclosed to clients through this Brochure, client agreement and/or verbally prior to or at the time of entering into a client agreement. Clients are not obligated to implement recommended transactions through any Sapphire Blue representative or any particular broker-dealer or insurance carrier. Clients have the option to purchase any recommended investment and insurance products or services through brokers, carriers, or agents other than Summit or any Sapphire Blue personnel.

Sapphire Blue clients should understand that lower fees and/or commissions for comparable services may be available from other broker-dealers, insurance carriers and investment advisers.

## **Code of Ethics**

### **Code of Ethics Summary**

Sapphire Blue has adopted a Code of Ethics ("Code") which establishes standards of conduct for our Supervised Persons and includes general requirements that such Supervised Persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It contains written policies reasonably designed to prevent the unlawful use of material non-public information by the Firm or any of our associated persons. The Code also requires that certain of Sapphire Blue 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.

The Code also requires Supervised Persons to report any violations of the Code promptly to the Firm's Chief Compliance Officer ("CCO"). Each Supervised Person receives a copy of the Code and any amendments to it and must acknowledge in writing having received the materials. Annually, each Supervised Person must certify that he or she complied with the Code during that year.

A complete copy of Sapphire Blue's Code of Ethics is available to any client or prospective client upon request to Andy Armstrong at the contact information provided at the beginning of this Brochure.

### **Participation or Interest in Client Transactions**

It is Sapphire Blue's policy not to enter into any principal transactions or agency cross transactions on behalf of client accounts. Principal transactions occur where an adviser, acting as principal for its own account, buys securities from or sells securities to any advisory client. Agency cross transactions occur where a person acts as an investment adviser in relation to a transaction in which the adviser, or an affiliate of the adviser, acts as broker for both the advisory client and for another person on the other side of the transaction.

Sapphire Blue or individuals associated with Sapphire Blue may buy or sell for their personal account(s) securities or investment products identical to those recommended to or already owned by clients. Alternatively, Sapphire Blue may cause clients to buy a security in which Sapphire Blue or such individuals have an ownership position. Such recommendations will only be made to the extent that they are reasonably believed to be in the best interests of the client. Nevertheless, such practices present potential conflicts of interest. To mitigate these conflicts, the Code outlines the procedures regarding personal trading that must be followed (see details below). Additionally, as part of the Firm's fiduciary duty to clients, the Firm and its Supervised Persons will endeavor at all times to put the interests of the clients first and at all times are required to adhere to the Code.

## **Personal Trading**

The Firm and its Access Persons may invest personally in securities of the same classes as are purchased for clients and may own securities of the issuers whose securities are subsequently purchased for clients. Sapphire Blue understands that this could create a conflict of interest, where the Access Person's interest may be at odds with the interest of our clients. To help mitigate these conflicts of interest, the Code sets forth certain standards of business and professional conduct regarding the personal trading activities of Access Persons. The following summarizes our procedures for the purchase and/or sales of securities held within personal accounts.

- Sapphire Blue requires quarterly reporting of all personal securities transactions with the exception of certain exempt transactions and securities (such as government securities, open end mutual funds and money market funds). Access Persons, or those persons with a beneficial interest such as immediate family members, may not buy or sell securities for their personal portfolio(s) where their decision is derived in whole, or in part, by material non-public information.
- Security holdings and financial circumstances of clients must be kept confidential.
- Sapphire Blue and its Access Persons may not participate in private placements and initial public offerings (IPOs) without pre-clearance from the CCO.
- Records will be maintained of reportable securities bought or sold by Access Persons and will be reviewed periodically by designated Firm personnel.
- Any individual not in observance of the above may be subject to termination.

## **Account Reviews**

Account reviews are conducted on a periodic, and no less than annual, basis by our representatives. All clients are advised that it remains their responsibility to advise Sapphire Blue of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with Sapphire Blue on at least an annual basis.

Sapphire Blue may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections, cash flows into and out of an account, and client request.

Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian. Sapphire Blue may also provide a written periodic report summarizing investment results.

## **Client Referrals and Other Compensation**

Sapphire Blue generally recommends that its investment management clients utilize the custody and brokerage services of an unaffiliated broker/dealer custodians (a "BD/Custodian") with which Sapphire Blue has an institutional relationship. Currently, this includes TD Ameritrade Institutional, a division of TD Ameritrade, Inc. ("TD Ameritrade"), which is a "qualified custodian" as that term is described in Rule 206(4)-2 of the Investment Advisers Act of 1940. TD Ameritrade provides custody of securities, trade execution, and clearance and settlement of transactions placed on behalf of clients by Sapphire Blue. If your accounts are custodied at TD Ameritrade, TD Ameritrade will hold your assets in a brokerage account

and buy and sell securities when we instruct them to.

In deciding to recommend TD Ameritrade, some of the factors that Sapphire Blue considers include:

- Trade order execution and the ability to provide accurate and timely execution of trades;
- The reasonableness and competitiveness of commissions and other transaction costs;
- Access to a broad range of investment products;
- Access to trading desks;
- Technology that integrates within Sapphire Blue's environment, including interfacing with Sapphire Blue's portfolio management system;
- A dedicated service or back office team and its ability to process requests from Sapphire Blue on behalf of its clients;
- Ability to provide Sapphire Blue with access to client account information through an institutional website; and
- Ability to provide clients with electronic access to account information and investment and research tools.

Sapphire Blue places portfolio transactions through TD Ameritrade. In exchange for using the services of TD Ameritrade, Sapphire Blue may receive, without cost, computer software and related systems support that allows Sapphire Blue to monitor and service its clients' accounts maintained with TD Ameritrade.

TD Ameritrade also makes available to the Firm products and services that benefit the Firm but may not directly benefit the client or the client's account. These products and services assist us in managing and administering client accounts. They include investment research, TD Ameritrade's own and that of third parties. Sapphire Blue may use this research to service all or some substantial number of client accounts, including accounts not maintained at TD Ameritrade. In addition to investment research, TD Ameritrade also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping, and client reporting.

TD Ameritrade also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants, and insurance providers.

TD Ameritrade may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to the Firm. TD Ameritrade may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. TD Ameritrade may also provide the Firm with



other benefits such as occasional business entertainment of Firm personnel. In addition, TD Ameritrade will cover up to \$45,000 for any product or service that directly benefits Sapphire Blue. Examples of such products are performance reporting systems, CRM, research, etc. TD Ameritrade may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Sapphire Blue.

Sapphire Blue may trade away from TD Ameritrade. In such instances, the account will incur a trade-away fee from a BD/Custodian for each transaction that is executed on a trade-away basis. The fee is separate from the commission/transaction fee or mark-up/mark-down imposed by the broker-dealer through which the trade was executed.

Trading away may be advantageous for the client because:

- the broker-dealer may have expertise in a particular security or market;
- the broker-dealer makes a market in a particular security;
- a particular security is thinly traded; or
- the broker-dealer can identify a counter-party for a trade.

Sapphire Blue will periodically review its arrangements with TD and other broker-dealers against other possible arrangements in the marketplace as it strives to achieve best execution on behalf of its clients. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including, but not limited to, the following:

- a broker-dealer's trading expertise, including its ability to complete trades, execute and settle difficult trades, obtain liquidity to minimize market impact and accommodate unusual market conditions, maintain anonymity, and account for its trade errors and correct them in a satisfactory manner;
- a broker-dealer's infrastructure, including order-entry systems, adequate lines of communication, timely order execution reports, an efficient and accurate clearance and settlement process, and capacity to accommodate unusual trading volume;
- a broker-dealer's ability to minimize total trading costs while maintaining its financial health, such as whether a broker-dealer can maintain and commit adequate capital when necessary to complete trades, respond during volatile market periods, and minimize the number of incomplete trades;
- a broker-dealer's ability to provide research and execution services, including advice as to the value or advisability of investing in or selling securities, analyses and reports concerning such matters as companies, industries, economic trends and political factors, or services incidental to executing securities trades, including clearance, settlement and custody; and
- a broker-dealer's ability to provide services to accommodate special transaction needs, such as the broker-dealer's ability to execute and account for client-directed arrangements and soft dollar arrangements, participate in underwriting syndicates, and obtain initial public offering shares.

As described above, TD Ameritrade provides to Sapphire Blue, without cost, research and trade execution services. TD Ameritrade makes these services available to similarly situated investment advisers whose clients custody their assets with TD Ameritrade. Access to research and trade execution services is not

predicated on the execution of client securities transactions (e.g., not “soft dollars.”) Sapphire Blue has not entered into any formal “soft dollar” arrangements with broker-dealers.

Sapphire Blue’s clients may utilize qualified custodians other than TD Ameritrade for certain accounts and assets, particularly where clients have a previous relationship with such qualified custodians.

#### Brokerage for Client Referrals

Sapphire Blue does not select or recommend broker-dealers based solely on whether or not it may receive client referrals from a broker-dealer or third party.

#### Client-Directed Brokerage

Generally, in the absence of specific instructions to the contrary, for brokerage accounts that clients engage Sapphire Blue to manage on a discretionary basis, Sapphire Blue has full discretion with respect to securities transactions placed in the accounts. This discretion includes the authority, without prior notice to the client, to buy and sell securities for the client’s account and establish and effect securities transactions through the BD/Custodian of the client’s account or other broker-dealers selected by Sapphire Blue. In selecting a broker-dealer to execute a client’s securities transactions, Sapphire Blue seeks prompt execution of orders at favorable prices.

A client, however, may instruct Sapphire Blue to custody his/her account at a specific broker-dealer and/or direct some or all of his/her brokerage transactions to a specific broker-dealer. In directing brokerage transactions, a client should consider whether the commission expenses, execution, clearance, settlement capabilities, and custodian fees, if any, are comparable to those that would result if Sapphire Blue exercised its discretion in selecting the broker-dealer to execute the transactions. Directing brokerage to a particular broker-dealer may involve the following disadvantages to a directed brokerage client:

- Sapphire Blue’s ability to negotiate commission rates and other terms on behalf of such clients could be impaired;
- such clients could be denied the benefit of Sapphire Blue’s experience in selecting broker-dealers that are able to efficiently execute difficult trades;
- opportunities to obtain lower transaction costs and better prices by aggregating (batching) the client’s orders with orders for other clients could be limited; and
- the client could receive less favorable prices on securities transactions because Sapphire Blue may place transaction orders for directed brokerage clients after placing batched transaction orders for other clients.

#### **Trade Errors**

Sapphire Blue’s goal is to execute trades seamlessly and in the best interests of the client. In the event a trade error occurs, Sapphire Blue endeavors to identify the error in a timely manner, correct the error so that the client’s account is in the position it would have been had the error not occurred, and, after evaluating the error, assess what action(s) might be necessary to prevent a recurrence of similar errors in the future.

#### **Trade Aggregation**

To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which the Firm’s supervised persons may invest, the Firm will generally do so in a fair

equitable manner in accordance with applicable rules promulgated under the Advisers Act and guidance provided by the staff of the SEC and consistent with policies and procedures established by the Firm. Sapphire Blue only combines multiple orders for share of the same securities purchased for discretionary accounts; the Firm does not combine orders for non-discretionary accounts. Non-discretionary accounts may pay different costs than discretionary accounts pay. Clients who enter into non-discretionary arrangements with the Firm may pay higher commissions, fees, and/or transaction costs than clients who enter into discretionary arrangements. Mutual Fund shares do not trade in blocks.

### **Referral Fees**

Currently Sapphire Blue does not utilize, nor pay referral fees to independent solicitors for referral of their clients to the Firm.

### **Other Compensation**

As noted above, certain personnel of Sapphire Blue engage in insurance agent activities, investment adviser representative and registered representative activities for the unaffiliated investment adviser Summit Financial Group, Inc. and the unaffiliated broker-dealer Summit Brokerage Services, Inc. See Item 9 for information regarding insurance agent, investment adviser representative and broker-dealer registered representative activities.

### **Financial Information**

Sapphire Blue is not required to disclose any financial information pursuant to this item due to the following:

- Sapphire Blue does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of rendering services;
- Sapphire Blue is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts; and
- Fred Hensler filed a Chapter 11 bankruptcy petition in the US Bankruptcy Court, Flint, Michigan, Eastern District of Michigan on November 13, 2008. The petition was filed pursuant to the advice of counsel related to the filing of a contested lawsuit by a former employer of Fred Hensler. Specifically, Fred Hensler was advised by his corporate legal counsel to file the petition to thwart any additional action by the former employer. The filing was discharged by the court effective January 21, 2014. All creditors had been made whole prior to the discharge date.