



SHEETS SMITH
Investment Management

120 Club Oaks Court, Suite 200
Winston-Salem, NC 27104
p (336) 765-2020 • f (336) 765-6756
SheetsSmith.com

ADV Part 2A – Firm Brochure

Sheets Smith Investment Management, LLC
120 Club Oaks Court, Suite 200
Winston-Salem, North Carolina 27104

336-765-2020

www.sheetssmith.com

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This Form ADV, Part 2 (the “Brochure”) is a very important document that provides disclosures about the manner in which Sheets Smith Investment Management, LLC. (“Sheets Smith Investment Management” or the “Firm”) provides services to its clients.

This brochure provides information about the qualifications and business practices of Sheets Smith Investment Management. If you have any questions about the contents of this brochure, please contact Gregory Bowden, Chief Compliance Officer, at (336) 765-2020 or gbowden@sheetssmith.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.

Additional information about Sheets Smith Investment Management is also available at the SEC’s website www.adviserinfo.sec.gov (click on the link, select “investment adviser firm” and type in the Firm’s name).

Sheets Smith Investment Management is a registered investment advisor with the SEC. The Firm’s registration as an investment advisor does not imply any level of skill or training. However, all of the Firm’s advisors hold the MBA degrees and have passed the Uniform Investment Advisor Law Exam, which is required to be an investment advisory representative.

Item 2 – Material Changes

Gregory Bowden is the firm's Chief Compliance Officer.

The Firm may, at any time, update this Form ADV, Part 2. In such an event, the Firm will either send you a copy or offer to send you a copy (either by e-mail or by regular mail). If at any time you would like another copy of this Form ADV, Part 2, you may download it from the SEC's public disclosure website (www.adviserinfo.sec.gov) or you may request one from the Firm's Chief Compliance Officer, Gregory Bowden at 336-765-2020 or gbowden@sheetssmith.com.

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Item 4 – Advisory Business

Sheets Smith Investment Management, LLC (SSIM or Firm) is an affiliate of Sheets Smith Wealth Management Inc. (SSWM). Both firms are investment advisors registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The primary office is located in Winston-Salem, NC. The Firm was formed in December 2015 by SSWM and Z. Cornell Bowden. SSWM owns 35% of SSIM and the remainder is owned by employees of SSIM. The Firm specializes in multi-strategy equity and dynamic asset allocation balanced portfolio management. Accounts using these investment strategies are both institutional and retail clients, including those with a wrap fee arrangement with their custodian. SSIM was formed for the expressed purpose of segregating accounts using these strategies into an entity separate from SSWM to comply with the CFA Institute's Global Investment Performance Standards.

The Multi-Strategy Equity portfolios consist of stocks and, as appropriate, cash and cash equivalent investments. Balanced portfolios have the same holdings as the equity and cash accounts but also include income-producing securities. The Firm offers a suite of Balanced Portfolio strategies to accommodate various risk tolerances and time horizons of individual clients. Other portfolio strategies that are designed for specific clients are also managed by SSIM.

As mentioned above, the Firm manages accounts that participate in wrap programs sponsored by various brokerage firms. These accounts are managed under dual contracts and are billed separately from the wrap fees that are paid to the applicable brokerage firm. The Firm also manages accounts that are commission-based and not part of any wrap program. The management style is the same for both the wrap program and the commission-based accounts.

The Firm was accepted onto the Morgan Stanley Uniform Managed Account (UMA) platform in the spring of 2016, and all the dynamic asset allocation balanced strategies are available under dual contracts at Morgan Stanley. In the Fall of 2016, the Firm's Absolute Return Balanced product was allowed onto the Wells Fargo Private Advisor Network.

As of December 31, 2019, the Firm had \$111,642,748 in total assets under management (AUM), with \$109,757,357 in discretionary assets and \$1,885,391 in non-discretionary assets.

The AUM does not include any assets which are part of a Unified Managed Account (UMA) program.

Item 5 – Fees and Compensation

Sheets Smith Investment Management's fees are predominantly based on Assets Under Management (AUM). Also, advisors may charge hourly fees for professional services that are not investment advisory in nature. All of the Firm's fees are (1) agreed upon when the written advisory agreement is signed, and (2) billed in arrears.

Sheets Smith Investment Management's standard fee schedule in US dollars is as follows: 0.75% annually on the first \$5 million, 0.5% on the next \$5 million and 0.35% on amounts over \$10 million. Each advisor is responsible for the amount they charge on the assets they manage. Asset based fees are payable quarterly in arrears based on the account value at quarter-end. For the clients who participate in wrap programs, management fees vary from 0.25% to 0.75% of the assets managed, payable in arrears depending on custodian and service rendered. Various factors dictate whether higher or lower fees are appropriate. These factors include the size of the account, frequency of trading, the amount of client contact necessary, the nature of the account, and the ease of administration. The Firm attempts to tailor both its services and its fees to fit the needs and desires of clients. Depending on client preferences and where the account is custodied, Sheets Smith Investment Management may deduct its fees directly from client accounts or bill clients for its fees.

Clients not associated with a sponsored wrap program (i.e., commission accounts) typically incur custodial fees and/or broker fees for trades. If client assets are custodied at Schwab Institutional, they do not pay custodial fees, and as of October 1st, 2019, they do not pay brokerage fees for trades. Sheets Smith Investment Management reviews custodial fees charged by custodians for clients to determine whether such fees are competitive under the circumstances. For investments in mutual funds, the Firm generally utilizes no-load mutual funds in client accounts. For Schwab Institutional clients, the Firm also attempts to minimize transaction costs by utilizing Schwab OneSource no-load funds that do not carry a transaction fee.

Clients who invest in mutual funds are advised that they are paying the mutual fund management fees in addition to the fees charged by the Firm.

Clients often incur other minimal fees when securities are purchased or sold on their behalf. The Firm does not receive, directly or indirectly, any of these fees, which are typically paid directly to the client's broker-dealer, custodian, or mutual fund. These fees include, but are not limited to, exchange fees and SEC fees.

Finally, the Firm does not employ anyone who receives (directly or indirectly) any compensation from the sale of securities or investments that are purchased or sold for

client accounts or to which the Firm provides consulting expertise/services. As a result, the Firm is a “fee only” investment advisor. Accordingly, the Firm is not aware of potential conflicts of interest that could relate to any undisclosed compensation generated from client assets that the Firm manages.

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

The Firm does not charge advisory fees on a share of the capital appreciation of the funds or securities in client accounts (*i.e.*, performance-based fees). All of the Firm's advisory compensation arrangements are disclosed in Item 5.

Item 7 – Types of Clients

Sheets Smith Investment Management clients and prospective clients generally include individuals, trusts, foundations, endowments, and retirement plans.

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

Sheets Smith Investment Management offers a suite of Dynamic Asset Allocation products with risk characteristics ranging from relatively low volatility to those of an aggressive, all equity and cash account. For each of these products, the overriding concern is Preservation of Capital, particularly in volatile markets, and second is achieving competitive long term returns within those risk parameters of the client. The Dynamic Asset Allocation process measures the risk adjusted expected return (based on projected earnings) of the S&P 500 and compares it with the returns available in typically less volatile, longer-term corporate bonds and cash. (“Typically” is used carefully here because there have been periods in the past when the volatility of the return of bonds was actually higher than that of those of stocks. Should interest rates on the long end of the curve increase, this may be the case again in the future.) For each of our balanced products the system finds the optimal asset mix for each of our products at a given point in time. Changes in interest rates and the prices of stocks causes the relative value of the capital markets to change over time. These changes in relative value shift the asset mix over time, and the portfolio manager is then required to make adjustments in the portfolio from relatively overvalued assets to relatively undervalued ones in a measured and timely manner.

SSIM’s Portfolio Managers/Analysts do not follow specific issues/industries in the traditional sense of an analyst’s role. The investment process is highly quantitative, and is agnostic as to capitalization, industry or economic sector. Our investment universe is every stock traded on major exchanges in the United States, including ADRs, but excluding those listed on the “pink sheets”. The total number of stocks in our universe exceeds 5,000. For most portfolios, including wrap accounts, the fixed income portion of the portfolio and MLP’s, if used, are in the form of ETFs. For smaller accounts, individual bonds offer only marginal, if any, benefits especially when one needs to be sold. Diversification with individual bonds is also difficult as corporates are generally traded in \$5,000 lots. Therefore, fixed income ETFs are used for our wrap customers. For larger commission accounts, in addition to ETFs, individual municipals, treasury, agency or corporates may be used as appropriate. For real estate investing, the Firm’s advisors primarily use real-estate investment trusts (REITs).

Again, Preservation of Capital is of paramount concern. Performance is second, which SSIM attempts to achieve with reduced risk through nimble asset allocation adjustments and strategic equity selection. It is far more profitable not to lose money than to have wide variations in return. Portfolio risk is managed through the tactical asset allocation process and highly diversified holdings, which usually ranges between 75 and 125

names. In addition, volatile stock price declines, typically caused by negative changes in fundamentals or by severe bear market corrections, may result in selling a stock, or a number of holdings. In bear market conditions, a large portion of the portfolio may be allocated to cash giving clients some comfort in tumultuous markets. Some people may consider this process not “tax efficient” due to our active trading strategy. However, our belief is that it is far more profitable to pay a tax on the *gain* in a stock than to lose 30% to 50% of the *principal* of the holding.

The Firm may use street research from various brokerage houses but prefers more timely information provided by news sources such as CNBC and Bloomberg; internet sources such as Ed Yardeni, John Mauldin or Seeking Alpha; research services provided by TD Ameritrade or Charles Schwab; and periodicals such as the Wall Street Journal, Barron’s, and ValueLine Investment Survey. The Firm relies most heavily on the William O’Neil online institutional investment data research tool. More general investment information from reputable websites is also utilized.

Securities markets can and often do fluctuate substantially, even over short periods of time. Investing in equities, fixed-income, mutual funds, ETFs and real estate involves a risk of loss, and clients need to be prepared for the potential that their account may sustain substantial losses. The risk of loss includes the loss of principal (*i.e.*, the amount invested) and any unrealized profits (*i.e.*, any gain in the value of the securities before they are sold to “lock in” the profit).

The Firm cannot guarantee any level of performance, or that client accounts will not experience losses.

Item 9 – Disciplinary Information

Neither Sheets Smith Investment Management, nor any employee of the Firm, has had: (1) any civil or criminal actions brought against them; (2) any administrative proceedings before the SEC, any other federal regulator agency, any state regulatory agency, or any foreign financial regulatory authority; or (3) any proceedings before a self-regulatory organization.

Item 10 – Other Financial Industry Activities and Affiliations

Sheets Smith Investment Management is an affiliate of Sheets Smith Wealth Management, Inc.

Item 11 – Code of Ethics

Sheets Smith Investment Management's Code of Ethics (the "Code") was established in June 2019 separately from Sheets Smith Wealth Management, Inc.'s Code of Ethics. The Code is designed to ensure the Firm meets its fiduciary obligation to its clients and to instill a culture of compliance within the Firm. The Firm's Code includes the CFA Institute Code of Ethics and Standards of Professional Conduct. The Firm's Code and compliance manual includes policies and procedures covering the following areas:

- Portfolio Management Processes;
- Personal Securities Transactions;
- Trading Error Policy;
- Gift Policy;
- Whistle Blowing Procedures and Protections; and
- Code of Ethics Records.

The Firm's Code is distributed to, reviewed by, and acknowledged by each employee annually. Any amendments to the Code are distributed to all employees for their review. Gregory Bowden, the Chief Compliance Officer, is responsible for distributing the Code and any amendments and verifying the receipt of employee acknowledgements. A copy of the Firm's Code will be provided to any client or prospective client upon request by contacting Gregory Bowden at (336) 765-2020 or gbowden@sheetssmith.com.

The Firm's Code does not prohibit personal trading by employees. As professional investment advisors, the Firm's advisors often follow their own advice. As a result, Firm employees may purchase or sell the same or similar securities after or at the same time that the Firm places transactions for clients. (Advisors use block trades if they wish to trade securities for employee accounts at the same time as clients.) To ensure that personal trades are not executed before any client trades, the Sheets Smith administrator responsible for executing the employee trade sends out an e-mail to notify all of the Firm's advisors, including the Chief Compliance Officer, of an employee trade request. Only if an advisor(s) responds with a conflict will the trade not be executed; else the administrator will proceed with the trade. Once the trade is executed the administrator will post the trade to the "Employee Trades" folder so that firm personnel have access to all personal trades that have been made. These procedures help ensure that the Firm and its advisors do not put their interests before the interests of clients.

The Firm's advisors may affect fixed-income cross trades between client accounts, when they deem it appropriate for both client accounts involved. A cross trade is a trade in which an advisor sells a security for one client while at the same time buying it for another client. Cross trades generally occur when a client needs cash from their account which requires the sale of a fixed income security, yet the Firm's advisor still likes the valuation of the security and thus buys it for another client's account. The fixed-income broker-dealer used by the Firm charges discounted brokerage fees for effecting cross trades. All cross trades trade tickets are documented and filed for the retention period required under applicable SEC rules.

Item 12 – Brokerage Practices

Sheets Smith Investment Management takes its fiduciary responsibility to clients seriously. The Firm recognizes that achieving best execution on client trades is an important component of maximizing client account performance.

The Firm has accounts at multiple custodians. Except for a few large commission-based accounts with banks as custodians, all trades are placed with the clients' respective custodian as a block so that each client at that custodian should get the same average price. The Firm attempts to complete all trades with these custodians the same day. To be fair with every custodian, including those accounts in UMAs, the order of the trades to each custodian are rotated from day to day so that over time there is no preferential treatment. The trades for the large commission-based accounts are executed as a block as well and are part of the trade rotation with all other custodians.

If there is a partial fill of an order at a given custodian, the shares are either prorated by the custodian or allocated on a random basis depending on how many shares were completed and the price of the individual security.

For accounts held at large custodian banks, Sheets Smith Investment Management uses various broker-dealers to execute trades in order to achieve best execution. Broker-dealers are selected according to ease of execution, timeliness, quality of service, commission rates, and ability to achieve the best price. The Firm generally pays between \$0.01 and \$0.05 a share for equity trades. A list of approved broker-dealers that can be used by the Firm is contained in the Firm's compliance manual. These trades are placed over the phone or via email. Unlike electronic trading, phone or emailed orders are not necessarily executed instantly and therefore the Firm's advisors monitor the quality of trade execution received. As long as the execution price is near or better than the mean price for the security on the day the trade was called in, the Firm is generally comfortable that the broker-dealer selected provided a fair price on the trade. In the event that a broker-dealer is judged over time to have failed to provide quality service and fair execution on large trades, that broker-dealer will be removed from the Firm's approved broker-dealer list.

In certain circumstances a sizable block order may be placed with a broker-dealer, the broker-dealer may be instructed to "work" the order. In these instances, the price (or prices) at which the trade is executed is compared to the day's trading range and average price of the security in question in order to determine if the broker-dealer obtained best execution.

The Firm typically uses fixed income ETFs for its fixed income investments or will search for bonds with the client's custodial broker. In some cases involving fixed-income securities, particularly municipal bond investments, the Firm uses broker-dealers who specialize in fixed-income and, therefore, are more likely to offer the desired inventory and pricing. When the Firm trades with a specific fixed-income specialist, the Firm's advisors use bond market benchmarks to gauge the value of a specific security before executing a trade. For example, the Firm's advisors may reference data available from Bloomberg to assess whether a bond's price and yield is reasonable relative to similar fixed-income securities.

Research and Other Soft Dollar Benefits:

Sheets Smith Investment Management receives investment research from various broker-dealers, mostly via e-mail or through company portals, but is not obligated to trade a required amount with any broker-dealers, except for William O'Neil and Company which requires the Firm to direct a specific amount of commissions to them in order for the Firm to continue to receive investment research products from William O'Neil and Company. The separation from Sheets Smith Wealth Management resulted a significant reduction in commission trades directed to William O'Neil & Company. As a result, Sheets Smith Investment Management is paying the cost of the research directly. The final cost of the product will be determined by the commissions directed to O'Neil. The Firm believes its brokerage requirements and subsequent commissions paid to broker-dealers is in-line with most other investment counseling firms. Commissions are directed to various broker-dealers in order to keep research materials and services available to the Firm. The research received in return for such commissions may not directly benefit the client accounts that pay the commissions. The Firm believes that its use of research qualifies under the safe harbor for the use of soft dollars under Section 28(e) of the Securities Exchange Act of 1934.

Schwab Institutional also makes available to Sheets Smith Investment Management other products and services that benefit the Firm, but that do not benefit client accounts. Some of these other products and services assist the Firm in managing and administering client accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information, and other market data; facilitate payment of the Firm's fees from client accounts; and assist with back-office functions, recordkeeping and client reporting. Schwab Institutional also makes available to the Firm other services intended to help the Firm manage its business. These services may include consulting, webcasts, publications and conferences on items such as practice management, regulatory compliance, information technology, and marketing. Schwab Institutional

may use independent third parties to help disseminate the information from the above-mentioned topics. Schwab Institutional provides these services to the Firm free of charge.

Block Trading:

Sheets Smith Investment Management uses block trading when buying or selling the same equity for more than one client account at a given custodian. Clients participating in an aggregated (block) order will receive an average share price, and all transaction costs are shared on a pro-rata basis. Partially block orders are allocated on a pro-rata basis.

Cross Trades:

Sheets Smith Investment Management has a written compliance policy that prohibits advisors from executing equity cross trades. The Firm permits fixed-income cross trades if the cross trade makes sense for both clients. The last paragraph of Item 11 contains further disclosure regarding the Firm's fixed-income cross trade policy.

Item 13 – Review of Accounts

Sheets Smith Investment Management advisors periodically review client accounts. The Firm's advisors use Portfolio Center, the Firm's portfolio management software package, to review client accounts. Data in Portfolio Center is shown based on the close of the prior business day. With access to client accounts at all custodians, advisors are also able to review client accounts through the custodians' websites. An electronic or paper custodian monthly statement is accessible by the Firm for all clients. Material deposits to or withdrawals from an account, as well as a corporate transaction such as a merger or acquisition involving a security held in a client account, will trigger a review of that client account. If these events call for contacting the client, the advisor will contact the client. The Firm's advisors also will review client accounts after executing block trades to verify that the allocations are correct.

The Firm's clients receive statements from their custodians on a monthly basis. Custodian banks send paper statements, while most clients whose assets are custodied at Schwab Institutional have signed up for eDelivery and receive notification via e-mail that statements are available online. If clients are not signed up for eDelivery, they receive paper statements. The Firm's advisors provide performance and holdings reports to clients upon request or when meetings with the clients are held. During client meetings, the Firm's advisors discuss portfolio performance, present and future investment strategy, and any events that may have led to a change in risk tolerance or time horizon for the client.

Item 14 – Client Referrals and Other Compensation

Sheets Smith Investment Management receives no economic benefits from third parties for providing investment advice, including sales awards or other prizes, to any of its clients.

Item 15 – Custody

Sheets Smith Investment Management has the authority to debit fees directly for its accounts that reside at Schwab Institutional. Because of this authority, the Firm is deemed, under applicable SEC rules, to have custody of client funds. However, the Firm does not hold or custody any securities or funds. Clients are notified of fees deducted through mailed invoices. For accounts that are custodied by other custodians, the Firm notifies the custodian of the fees to be charged. The custodian then debits the client accounts and sends the Firm a check or electronic funds transfer for the client fees.

All clients receive monthly statements from their respective custodians. Sheets Smith Investment Management receives a courtesy copy of these statements or has access to them electronically.

Item 16 – Investment Discretion

Sheets Smith Investment Management accepts discretionary authority to manage securities accounts on behalf of all Firm clients. Prior to assuming discretionary authority, clients are provided with a written Sheets Smith Advisory Agreement to sign that provides the Firm with this discretion. Clients are also provided a current Form ADV, Part 2A and Part 2B. In some cases, transactions, purchases, and sales of securities and their amounts may be subject to client approval depending on the preferences of the particular client and the type of relationship.

Item 17 – Voting Client Securities (*i.e.*, Proxy Voting)

Sheets Smith Investment Management proxies are voted under the guidelines set forth by Sheets Smith Wealth Management, Inc. and are also voted by Sheets Smith Wealth Management, Inc. personnel. When completing the account application for the applicable custodian, the client has the ability to grant proxy voting privileges to his or her advisor. Clients can, if they wish, direct the vote of a specific proxy or proxies by notifying us of their desire to do so. Where the Firm has proxy voting authority, the Firm has a fiduciary responsibility for voting the proxies in a manner that is in the best interests of clients.

Proxy Voting Policies

Sheets Smith Wealth Management votes proxies related to securities held by any client in a manner solely in the interests of the client. In general, the Firm considers factors that relate to the client's investment, including how the vote will economically impact the value of the client's investment. Proxy votes generally will be cast in favor of proposals that the Firm believes maintain or strengthen the shared interests of shareholders and management, increase shareholder value, maintain or increase shareholder influence over the issuer's board of directors and management, and maintain or increase the rights of shareholders. Proxy votes generally will be cast against proposals having the opposite effect.

Specific guidelines for voting proxies reside in the Voting Guidelines that are part of the Firm's Proxy Voting Policies and Procedures.

Conflicts

While the nature of Sheets Smith Wealth Management's business is unlikely to result in a conflict of interest with regard to proxy voting (*e.g.*, the Firm is not engaged in brokerage, underwriting, or investment banking activities), if the Firm is aware of a conflict between the interests of a client and the interests of the Firm or an affiliated person of the Firm (*e.g.*, a portfolio company is a client or an affiliate of a client of the Firm), the Firm will take the following steps:

- A. With respect to clients that are registered investment companies, the Firm will notify the client of the conflict and will vote the client's shares in accordance with the client's instructions; and
- B. With respect to other clients, the Firm will vote the proxy in accordance with the specifics of the Voting Guidelines (if addressed in the Voting Guidelines) or may abstain (if not addressed in the Voting Guidelines).

Clients can obtain information as to how their proxies were voted and the Firm's policies and procedures on voting proxies by submitting a written request.

Item 18 – Financial Information

Sheets Smith Investment Management bills its clients in arrears and does not require prepayment of fees. The Firm has an independent public accountant who is responsible for tracking finances and producing financial statements. There are no financial conditions that are likely to impair the Firm's ability to meet its contractual commitments to clients.

Item 19 – Requirements for State-Registered Advisors

This section is not applicable to Sheets Smith Investment Management.