

Part 2A of Form ADV, Part 2



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This brochure provides information about the qualifications and business practices of Spence Asset Management ("SAM"). If you have any questions about the contents of this brochure, please contact us at 575.556.8500 or at info@spenceassetmanagement.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about SAM also is available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 16 INVESTMENT DISCRETION

SAM accepts discretionary authority to manage securities accounts on behalf of clients. Client assets are managed under a discretionary account agreement in which the client grants the firm discretion to implement investment strategies and authorizes SAM to execute transactions without specific approval from the client. This includes the securities and amounts of securities to be bought or sold. Clients may impose reasonable restrictions on their investments including but not limited to: specific securities, types of securities, tax considerations, religious restrictions, and liquidity considerations. Discretionary authority is assumed once the discretionary account agreement (or FOCUS agreement) is executed and assets are deposited into the account. If a client engages SAM, the client will be provided SAM's Form ADV Part 2 disclosure document 48 hours prior to or at execution of an agreement. Clients should read carefully this disclosure document and address any concerns with a SAM Representative.

ITEM 17 VOTING CLIENT SECURITIES

SAM does not have or accept authority to vote client securities. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent. Clients can contact SAM with questions regarding a particular solicitation by calling 575.556.8500 or emailing info@spenceassetmanagement.com.

ITEM 18 FINANCIAL INFORMATION

SAM has no financial condition that would likely impair its ability to meet contractual commitments to clients.

SAM has never been the subject of a bankruptcy petition.

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ITEM 13 REVIEW OF ACCOUNTS

- A. Client Account Reviews: Accounts under SAM’s management are monitored on an ongoing basis by the investment personnel and the Chief Compliance Officer. The employees responsible review each account in detail on at least an annual basis, as well as in connection with each client meeting. SAM’s compliance officer reviews transactions in client accounts daily. Client accounts are reconciled weekly using data from the custodian and SAM’s accounting software. All accounts are reviewed quarterly for suitability with no special factors triggering this review. A change in the client’s financial condition or objectives would also trigger a review.
- B. Client Reporting: The client is provided with written quarterly portfolio summaries and performance analysis. No less than quarterly, statements are provided by the custodian.

ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION

- A. Sub-Advisory Arrangement and Solicitor Agreement: SAM has entered into a sub-advisory arrangement on a discretionary basis with Cambridge Investment Research, Inc. (CIR). The agreement with CIR requires, among other things, that a copy of SAM’s disclosure under ADV Part II, along with other disclosure requirements, is provided to each entity or individual who elects to participate in a SAM investment management program. CIR will impose and advise SAM of applicable investment objectives and restrictions as necessary from time to time. SAM’s management fee for advisory services will be based on SAM’s fee schedule. SAM’s management fee schedule is the same for sub-advisory referred clients as it is for non-referred clients.
- SAM has entered into a solicitor agreement which includes the related solicitor disclosure statement with Cambridge Investment Research, Inc. acting through Wagner Financial Services LLC, (as investment advisor representatives “IARs”), under which the IARs can recommend SAM’s investment advisory services to potential clients. Compensation paid by SAM to CIR is derived from management fee revenue received from referred accounts.
- Conflicts of interest inherent in this arrangement include: Charles J. Wagner of Wagner Financial Services LLC previously served as an investment adviser representative of SAM. Charles Wagner rents office space from James Spence who is an owner of SAM.

ITEM 15 CUSTODY

All client assets are held in custody by unaffiliated broker/dealers or banks; but SAM can access many client funds through its ability to debit advisory fees. For this reason SAM is considered to have custody of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements and should compare these statements to account information provided by SAM.

invalidate the services of a broker/dealer or a custodian; rather, all criteria taken together will be used in evaluating the service provider.

1.

Research and Other Soft Dollar Benefits: The recommendation of Charles Schwab or any other broker/dealer is not influenced by any research, soft dollar services or benefits provided to the advisor. SAM does not receive soft dollars.
2.

Brokerage for Client Referrals: SAM does not consider, in selecting or recommending broker/dealers, whether SAM or a related person receives client referrals from a broker/dealer or third party. SAM does have a solicitor’s agreement with Wagner Financial Services LLC (a non-broker/dealer entities). No brokerage is directed to these firms. Specific details of these relationships can be found in Item 14, Page 14.
3.

Directed Brokerage: SAM does not recommend, request or require that a client direct transactions to be executed through a specified broker/dealer. However, clients are permitted to direct brokerage. Clients should be aware that this practice may not result in the most favorable execution of client transactions. Also, a client who elects to direct brokerage may incur higher transactions costs and achieve less favorable pricing if orders cannot be aggregated.

- B.

Aggregating Trades: SAM aggregates the purchase or sale of securities when transacting for multiple accounts. Although SAM initiates and aggregates trades through licensed broker/dealers in order to receive an average price for all accounts, this practice does not lower the cost of the trade per share. Regardless of the number of shares, clients will pay the previously disclosed transaction fee per trade and may pay a higher transaction cost per share than could be received elsewhere. This arrangement is disclosed to each client in writing by providing the ADV Part II to all investment advisory clients. A conflict of interest may arise in that different fee structures for different strategies could give SAM incentive to allocate trades to certain accounts over others.
- C.

Cross Trades: As is consistent with its duty to seek to obtain best execution, occasionally SAM may cross trades for client accounts. A cross trade occurs when SAM purchases and sells a particular security between two or more accounts under SAM's management by instructing brokers to cross the trade. SAM generally utilizes “cross” trades to address account funding issues and when it specifically deems the practice to be advantageous for each participant. In no instance does SAM receive additional compensation when crossing trades for client accounts. SAM will seek to ensure that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable, and the transactions is done for the sole benefit of the clients involved.

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ITEM 3 MATERIAL CHANGES

We may update this Brochure at any time but are required to promptly send clients a copy of any material changes to our disclosures upon doing so. In addition, we will also deliver an annual summary of all material changes that occur to this Brochure along with a copy of the current version of the Brochure. This brochure replaces Form ADV, Part 2 and Schedule F which Spence Asset Management (“SAM”) last updated February 6, 2019.

THERE ARE NO MATERIAL CHANGES TO THIS BROCHURE HOWEVER WE RECOMMEND YOU READ THE DOCUMENT IN FULL.

You may request copies of this Brochure by contacting us at 575.556.8500, emailing us at info@spenceassetmanagement.com, or downloading it from the SEC’s website at www.adviserinfo.sec.gov

ITEM 4 ADVISORY BUSINESS

- A. Business Description: Spence Asset Management (“SAM”) is a registered investment advisor. Originally incorporated in 1992 as Lord, Spence & Associates, the business was formerly a partnership between Roger Lord and James Spence. In 2000, James Spence and Kristi Spence became sole owners and changed the business’ name to SAM. Eric Walton and Sheila Walton, both long-time employees, became co-owners and managing partners in 2005. In 2015, Eric Walton became majority owner of the firm and in 2018, Scott Kozney and Patrick Grooms became minority owners. The firm’s website is www.spenceassetmanagement.com.
- B. Advisory Services Offered: SAM offers asset management services to individuals and institutions through SAM’s FOCUS Program. The Focus Program offers four primary disciplines described in detail in Item 8, Page 7. SAM implements a disciplined approach with a long-term orientation based on the clients’ unique circumstances. SAM believes in paying fair prices for extraordinary investments and staying focused on investment principles regardless of short-term market fluctuations.

SAM also offers financial planning services to clients. These services are intended to assist clients seeking (i) generalized investment “education” and assistance in guiding investment decisions, (ii) specific investment “advice” and recommendations regarding investments and (iii) preparation of a financial plan designed to assist clients in identifying specific long-term financial objectives and needs. The services are not exclusive and may involve the provision of asset management in conjunction with preparation of a financial plan depending upon the arrangement discussed between the client and the advisor. SAM may also provide these services to retirement plans and plan participants.

SAM’s financial planning services present a possible conflict of interest in that Patrick Grooms, CFP® is compensated based on assets managed in the firm’s FOCUS programs and he may recommend the firm’s FOCUS programs if he feels they fit a client’s investment objectives. Financial planning clients are not required to use SAM’s FOCUS programs to pursue their

- B. Interest in Client Transactions: SAM, nor any of its employees, has a material financial interest in any securities bought or sold for client accounts.
- C. Personal Trading: SAM and its employees often invest in the firm’s FOCUS Disciplines and are thus investing in the same securities that we recommend to clients. Securities for SAM and its employees are bought or sold at the same time they are bought or sold for clients. When stocks are purchased or sold, an average price is calculated for the transaction and shares are allocated to the client accounts as well as employee accounts so ALL accounts receive the same price per share. Employee accounts are never permitted to buy or sell ahead of clients. However, no employees are allowed to participate in partially filled orders until all clients’ orders have been filled. We feel this is an important aspect of our strategies as well as affirmation of the conviction we have in our strategies. However, this potential co-investment presents a conflict of interest; clients who are new to the program often pay a higher price for shares than existing accounts, including employee accounts due to investment timing. Depending on liquidity, purchases can push the share price higher benefiting existing clients and employee accounts. The Chief Compliance Officer monitors employee trading, relative to client trading, to ensure that employees do not engage in improper transactions.

Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but the Chief Compliance Officer might not allow the security to be purchased for client accounts in order to avoid even the appearance of employees trading ahead of clients. In SAM’s experience, it is rare for an employee’s personal trading to limit clients’ investment opportunities, but such a situation may arise from time to time.

ITEM 12 BROKERAGE PRACTICES

- A. Selecting or Recommending Broker-dealers for Client Transactions: SAM issues instructions to broker/dealers with respect to securities to be bought and sold. SAM has the ability to select the broker/dealer to be used as well as the commission rates paid. While SAM routinely recommends Charles Schwab for custodial services and broker/dealer trading, at least annually, SAM will review alternative broker/dealers and custodians to ensure Charles Schwab is meeting SAM’s duty to provide best execution for client accounts. The factors considered during annual reviews to select broker/dealers and custodians is a comparison of Charles Schwab or currently used custodians to their competitors based on criteria such as overall expertise, cost competitiveness and financial condition. The quality of execution by Charles Schwab or other broker/dealers will be reviewed through trade journal evaluations. However, best execution does not simply mean the lowest transaction cost. Therefore, no single criteria will validate or

withdrawals from the firm. While SAM has established a business continuity plan in the event of, and risk management strategies, systems, policies and procedures to seek to prevent, cybersecurity breaches, there are inherent limitations in such plans, strategies, systems, policies and procedures including the possibility that certain risks have not been identified. Furthermore, SAM cannot control the cybersecurity plans, strategies, systems, policies and procedures put in place by other service providers to the accounts it manages and/or the issuers in which the Managed Accounts invest.

The investment risks described above represent some but not all of the risks associated with various types of investments and investment strategies. Clients should carefully evaluate all applicable risks with any investment or investment strategy and realize that investing in securities involves risk of loss that Clients should be prepared to bear.

ITEM 9 DISCIPLINARY INFORMATION

SAM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client’s evaluation of the company or its personnel.

ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

SAM has no other financial industry activities or affiliations that pose material conflicts of interest.

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

A. Code of Ethics: SAM has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires SAM and its employees to act in clients’ best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. The Code of Ethics states employees of SAM shall: 1) Act with integrity, competence, dignity and in an ethical manner when dealing with the public, clients, prospects, employers and fellow employees. 2) Practice and encourage others to practice in a professional and ethical manner that will reflect credit on SAM and its employees. 3) Strive to maintain and improve their competence and that of other SAM employees. 4) Use reasonable care and exercise independent professional judgement. Also under the Code, all employees are required to report all personal securities transactions as well as those made by family members living in the same household to the firm’s compliance officer no less than quarterly. Some transactions, including initial public offerings and limited offerings, require preapproval. Violations could result in dismissal.

A copy of SAM’s code of ethics is available upon request.

investment objectives as there are other firms and organizations likely capable of providing similar services which they are free to select.

C. Client Tailored Services: Investment advisory services encompass developing active investment strategies for clients, taking into consideration their financial capacity, investment experience, investment objectives, and risk tolerance. Clients may impose reasonable restrictions on their investments including but not limited to: specific securities, types of securities, tax considerations, religious restrictions, and liquidity considerations.

D. Wrap Fee Programs: We do not participate in WRAP fee programs or manage WRAP fee accounts.

E. Assets Under Management:

As of December 31, 2019:

Total Discretionary Assets Managed	\$304,553,362
Total Non-Discretionary Assets Managed	\$5,415,819
Total Assets Under Management	\$309,969,181

ITEM 5 FEES AND COMPENSATION

A. Management Fees: SAM is compensated for money management services through quarterly management fees. Fees may be negotiated at SAM’s discretion. Fees are subject to applicable New Mexico gross receipts tax.

Fee Schedule for Investment Management Programs

<u>Equity</u>	<u>Quarterly</u>	<u>Annual</u>
First \$200,000	.375%	1.50%
\$200,000 - \$500,000	.3375%	1.35%
\$500,000 - \$750,000	.3125%	1.25%
\$750,000 - \$1,000,000	.2875%	1.15%
Over \$1,000,000	.25%	1.00%
<u>Fixed Income</u>	<u>Quarterly</u>	<u>Annual</u>
First \$500,000	.1625%	0.65%
\$500,000 - \$1,000,000	.125%	0.50%
Over \$1,000,000	.0875%	0.35%

- B. Payment of Fees: Discounts to this schedule may be negotiated based on size, circumstances or limited investment mix such as fixed income only accounts. Fees are paid quarterly in arrears based upon the ending market value of the account on the last day of the quarter. Clients may choose to have fees automatically deducted from their account or to be billed separately. Management fees are based on total account value, inclusive of both realized and unrealized gains and losses. A full description of fees and services is provided in the FOCUS Account Management Agreement which is required to open an account. The fee arrangement may create an incentive for the adviser to make riskier or more speculative investments than would be made under a different fee arrangement. In order to mitigate this incentive, clients complete a risk assessment upon initiation of the account.
- C. Other Fees and Expenses: All programs may be subject to fees charged by fund administrators, custodians or brokerage firms. These charges are separate from management fees paid to SAM. SAM frequently uses investment products (mutual funds and exchange traded funds “ETFs”), custodians or brokerage firms to implement investment advisory programs. Most of these products and entities assess charges to recover their management fees, administrative fees, and sales charges. If the strategy is executed using mutual funds or ETFs, these charges are generally deducted from the performance of the product. Clients need to be aware that they will pay their proportionate share of these assessments as well as SAM’s advisory fee. Please review the prospectus carefully to determine the expenses for each specific investment product. SAM does not receive any compensation from mutual funds, ETFs, custodians or brokerage firms and SAM does not receive any compensation from transaction fees.
- D. Refunds and Contract Terminations: Fees are payable when services are performed or following the applicable billing period. Fees are based on assets under management at the end of the period adjusted for cash flows. Any client that enters into an agreement for services with SAM has five days after the date of the agreement to terminate the agreement without payment of fees. The client is still liable for any investment losses that exist at the time the client chooses to terminate the agreement. After this five-day period has expired, the client or SAM may terminate any agreements by notifying the other party in writing. Fees based on percentage of assets will be pro-rated to the date of termination. Since fees are billed in arrears, clients are charged only for the period that the agreement is in effect. Accordingly, there are no advance fees subject to refund.
- E. Financial Planning Fees: The fees for financial planning services are negotiated between the Advisor and the client and will vary depending on the scope of the particular services desired. Fees may be charged on an hourly basis or as a fixed fee for the services. All fee arrangements are negotiable, and SAM and its advisors may agree to waive or reduce certain fees either on an ongoing or on a one-time basis. The client’s specific fees will be detailed in your Financial Planning Services Agreement and any pre-paid fees will be reimbursed on a pro-rata basis upon its termination.

factors in the assessment of financial risk to the investor. Foreign securities markets are often less liquid than U.S. securities markets, which may make the disposition of non-U.S. securities more difficult. Emerging markets can be subject to greater social, economic, regulatory, and political uncertainties and can be extremely volatile.

Fixed Income Securities - Investments in fixed income securities are subject to credit, liquidity, prepayment, and interest rate risks, any of which may adversely impact the price of the security and result in a loss. The municipal market can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities.

Exchange-Traded Funds (ETFs) - ETFs are typically investment companies that are legally classified as open end mutual funds or Unit Investment Trusts. However, they differ from traditional mutual funds, in particular, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies. ETF shares may trade at a discount or premium to their net asset value. The difference between the bid price and the ask price is often referred to as the “spread.” The spread varies over time based on the ETF’s trading volume and market liquidity, and is generally lower if the ETF has a lot of trading volume and market liquidity and higher if the ETF has little trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940 like traditional mutual funds, some ETFs, in particular those that invest in commodities, are not registered as an investment company.

Risks from Economic Conditions- Investments in emerging markets will be impacted by economic conditions in the countries in which those companies operate. Many developing countries have a history of economic instability, and an investment’s success may depend on the overall level of economic activity and political and social stability in these emerging markets. Investments in foreign companies may be adversely affected by declining economic conditions in the host country. **Cybersecurity** - SAM and its service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. A cybersecurity breach could expose both SAM and its Managed Accounts to substantial costs (including, without limitation, those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage), civil liability as well as regulatory inquiry and/or action. In addition, any such breach could cause substantial

3. The Balanced FOCUS Discipline is subject to the concentration and volatility risks of the Stock Management Discipline with the credit and interest rate risks of the Income Management Discipline. The risks referenced above for the respective programs should be carefully considered before investing in the Balanced FOCUS Discipline. In addition, investors may realize lower overall returns when compared to more aggressive strategies due to the portion of their investments allocated to income-oriented investments.
4. Clients should be aware that mutual funds in the No-load Fund Discipline may have higher internal expenses than mutual funds that are not in the “NTF” Program. Clients should also be aware of the internal expenses and fees inherent in Exchange Traded Funds. Investors in this discipline should also be prepared to bear the risk of loss inherent in investing in securities. Mutual funds and Exchange Traded Funds that invest in individual stocks can be very volatile. Mutual funds and Exchange Traded Funds that invest in income-oriented investments can also experience high volatility. In addition, all fund investors face redemption risk which is the risk that a large percentage of investors in the fund redeem their shares forcing fund managers to liquidate at unfavorable prices. Clients participating in the No-load Fund Discipline may also buy fixed income securities or other securities allowed under the FOCUS Account management agreement and should understand the risks mentioned above in Item 8B, numbers one through three.

C. Risk of Loss:

The description below is an overview of the risks entailed in SAM’s investment strategies and is not intended to be complete. All investing involves the risk of loss and the investment strategy offered by SAM could lose money over short or long periods. Performance could be hurt by a number of different market risks including but not limited to:

Market Risk - The success of Client portfolio activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barrier, currency fluctuations and controls, and national and international political circumstances. These factors may affect the level of volatility of securities prices and the liquidity of investments in Client portfolios. Such volatility or illiquidity could impair profitability or result in losses.

Equity Securities - Equity investments are volatile and will increase or decrease in value based upon issuer, economic, market and other factors. Small capitalization stocks generally involve higher risks in some respects than do investments in stocks of larger companies and may be more volatile. The securities of non-U.S. issuers also involve a high degree of risk because of, among other factors, the lack of public information with respect to such issuers, less governmental regulation of stock exchanges and issuers of securities traded on such exchanges and the absence of uniform accounting, auditing and financial reporting standards. The non-U.S. domicile of such issuers and currency fluctuations may also be

- F. Other Compensation: SAM and its supervised persons do not accept compensation for the sale of securities or other investment products. SAM does not receive commissions, markups or trails from the products recommended in the FOCUS programs. Clients may purchase investment products that SAM recommends through other brokers or agents that are not affiliated with SAM.

ITEM 6 **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

SAM does not charge any performance-based fees. SAM does not accept accounts that are charged an hourly fee or a flat fee. Some investment advisers experience conflicts of interest in connection with side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to SAM.

ITEM 7 **TYPES OF CLIENTS**

SAM primarily provides investment advice and money management services to individuals, trusts, retirement plans and pension plans. Generally, the firm has a minimum account policy of \$50,000, but this amount is negotiable.

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

A. Investment Strategies:

1. The Stock Management Discipline – (For aggressive growth strategies)
The SAM FOCUS Equity Strategy seeks to maximize long-term capital appreciation and minimize turnover. The strategy is concentrated in predominately common stocks traded on U.S. based exchanges. The strategy seeks investments across all sectors and market capitalizations. However, we will not compromise our investment philosophy to diversify holdings. In pursuit of the investment objective, the strategy utilizes the expertise of our investment team to apply twelve quantitative and qualitative principles (“Principles”) that help identify value opportunities, which we categorize as great businesses that can be purchased at reasonable prices.

The Principles can be separated into four major categories: business aspects, management tendencies, financial characteristics and relative valuation. A more detailed description of these tenets is available upon request:

Business Aspects

- 1. Capital Intensity
- 2. Business Model
- 3. Consistent Operating History
- 4. Durable Competitive Advantage

Management Tendencies

- 5. Rationality of Management
- 6. Does Management Resist the Institutional Imperative?

Financial Characteristics

- 7. Return on Capital
- 8. Owner Earnings
- 9. High Profit Margins

Relative Valuation

- 10. Market Value
- 11. Intrinsic Value of a Company
- 12. Can the shares be bought at a significant discount to their intrinsic value?

SAM uses various sources of information covering a broad array of financially related matters. The original data is publicly available but is subject to interpretation, revision and compilation by third parties. In addition, SAM considers the general overall economic climate and its potential effects on the portfolio’s holdings. Information sources used to compile SAM’s proprietary database include but are not limited to U.S. Securities and Exchange Commission filings, prospectuses, press releases, financial newsletters, newspapers, magazines, conference calls, commercially available databases, etc.

2. The Income Management Discipline – (For equity income, fixed income or investment grade income strategies) SAM seeks to invest in various income producing securities including short, intermediate and long-term bonds, municipal bonds, closed-end funds and open-end funds. This discipline attempts to mitigate both interest rate risk and credit risks present when managing income-oriented accounts. Depending on a client’s individual income needs SAM will work with the client to determine whether to purchase individual bonds or bond funds to pursue the client’s investment objectives. Such investment objectives should be defined as equity income, fixed income, investment grade income or tax-free income as defined in the FOCUS management agreement.

Within closed-end and open-end funds SAM attempts to identify experienced, well-managed funds that have demonstrated the superior capabilities of its managers. We seek a diverse portfolio of income producing assets. SAM may enter into sub-advisory agreements in connection with such investments. Also included in this discipline are investments in inverse mutual funds. Such a fund is designed to move inversely to the price performance of fixed income securities and is utilized to attempt to reduce sensitivity to interest rate changes in the

account. SAM will then monitor the accounts for our own subjective determinations or imbalances in the income positions relative to the inverse fund positions.

The client can designate a tax-exempt strategy or a taxable strategy based on the type of account and current personal income tax situation. The majority of the investments made in the tax-exempt program will feature investments in municipal bonds that pay income that is exempt from federal income tax and, in most cases, state income taxes. Depending on the income needs of the client, the investments made in the taxable program will be in individual bonds or open and closed-end funds. Open and closed-end funds invest primarily in securities that pay interest or dividends which are subject to federal income tax.

3. The Balanced FOCUS Discipline- (For moderate growth or conservative growth strategies) Based on allocations designated by the client according to their own assessment of risk tolerance, the Balanced FOCUS account combines the Equity strategy with the Income strategy. Clients whose investment objective can best be described as moderate growth or conservative growth (as defined in the FOCUS management agreement) may choose to participate in the Balanced Discipline.

4. No-load Fund Discipline SAM may execute a client’s investment objective using No Transaction Fee funds, ETFs (Electronic Traded Funds) or No-load funds. No Transaction Fee Funds (“NTF”) are standard mutual funds that may be purchased for investment advisory accounts at no transaction cost to SAM nor the Client. SAM may offer active management strategies using these funds or the client may direct their investment among the funds. Clients may request exposure to certain funds, industries or market capitalizations depending on their preference.

B. Strategy Specific Risks:

- 1. The Stock Management Discipline tends to be VOLATILE and, due to HEAVY CONCENTRATIONS IN FEWER STOCKS, may be inappropriate for certain investors with a more conservative risk appetite. The program also involves some trading which can result in increased brokerage and transaction costs as well as taxes. The Stock Management Discipline is appropriate for investors seeking aggressive growth.
- 2. The Income Management Discipline tends to be quite volatile as well. SOME OF THE SECURITIES USED IN THIS PROGRAM ARE CONSIDERED ILLIQUID AND THUS PRESENT PRICE RISK TO THE INVESTOR. No assumptions can be made that any of the objectives can be achieved by using the investment strategies mentioned in this program description. A number of complex factors are involved in successfully investing for income such as managing credit risks and interest rate risk. Interest rate risk, which is the risk that interest rates rise causing values of fixed income instruments to fall, is the most significant of these risks. While SAM believes this approach is reasonable, only risk-oriented investors should consider investing in the FOCUS Income Programs.