

# **Chapwood Capital Investment Management, LLC**

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**Date of Brochure: March 9, 2020**

Form ADV, Part 2A; our “Disclosure Brochure” or “Brochure” as required by the Investment Advisers Act of 1940 is a very important document between Clients (you, your) and Chapwood Capital Investment Management, LLC (us, we, our). This Brochure provides information about our qualifications and business practices.

***This brochure provides information about the qualifications and business practices of Chapwood Capital Investment Management, LLC (“Chapwood” or “Firm”). If you have any questions about the contents of this brochure, please contact us at (972) 865-2225. 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 Chapwood Capital Investment Management, LLC also is available at the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select “investment adviser firm” and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.***

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

## **Item 2 – Material Changes**

This section of the Brochure will address only those “material changes” that have been incorporated since our last annual amendment. As of our last annual amendment filed on March 6, 2019, we have made the following material changes:

1. Amy Suhr resigned from Chapwood and Ben Fujihara was named as the new CCO of the Adviser;
2. We have amended Items 4 and 5 to better describe the services and fees associated with the Crystal Funds.

We may, at any time, update this Brochure and either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form).

If you would like a full copy of this Brochure, please download it from the SEC Website as indicated above or you may contact our Chief Compliance Officer, Ben Fujihara, at (972) 865-2227 or [ben@chapwoodinvestments.com](mailto:ben@chapwoodinvestments.com).

## Item 3 -Table of Contents

Item 2 – Material Changes.....	i
Item 3 -Table of Contents .....	ii
Item 4 – Advisory Business .....	1
Description of Advisory Services:.....	1
Portfolio Management.....	1
SMArtX Advisory Solutions .....	1
Private Funds.....	1
Termination.....	2
Item 5 – Fees and Compensation .....	2
Fee Schedule .....	2
Separately Managed Accounts .....	2
SMArtX .....	2
Private Fund Accounts .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management .....	4
Item 7 – Types of Clients.....	5
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Item 9 – Disciplinary Information .....	7
Item 10 – Other Financial Industry Activities and Affiliations .....	8
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	8
Item 12 – Brokerage Practices .....	10
Item 13 – Review of Accounts.....	11
Item 14 – Client Referrals and Other Compensation.....	11
Item 15 – Custody .....	12
Item 16 – Investment Discretion .....	12
Item 17 – Voting Client Securities (i.e., Proxy Voting) .....	12
Item 18 – Financial Information.....	12

## **Item 4 – Advisory Business**

We have been in business since December 1, 2005. Our principal owners are Ed Butowsky and Kim Sams. Our total assets under management as of December 31, 2019 were \$204,522,154.

### **Description of Advisory Services:**

#### **Portfolio Management**

We are a boutique investment management firm offering advice on the various types of securities and investment management services to high net worth individuals and family offices, both in their individual capacities and through trusts and family limited partnerships. We tailor our advisory services to the individual needs of our clients based on information provided to us by our clients regarding their financial needs and objectives. Clients may impose restrictions on investing in certain securities or types of securities.

We make recommendations to clients regarding which securities to buy and sell, when to buy and sell and in what amounts. We will not implement any trade or portfolio reallocation without your consent, either written or verbal.

As a core part of our investment advice, we recommend investments in Exchange Traded Funds (ETFs). ETFs may assess a management fee as a shareholder expense in addition to the management fee that we charge. Money market funds also assess a management fee as a shareholder expense.

#### **SMArtX Advisory Solutions**

We have entered into a Co-Advisory Agreement with SMArtX Advisory Solutions (“SMArtX”) as a Third-Party Money Manager to manage certain client assets based on style, capitalization levels, or asset classes suitable for a client’s investment objectives. The client provides Chapwood with the information set forth on the client profile and represents that such information is a complete and accurate representation of the client’s financial position and investment needs, goals, and objectives, as well as any reasonable restrictions placed on investments made in the account at the time the client enters the advisory program offered through SMArtX. The client will also sign an Investment Advisory agreement with SMArtX and we will provide the client with a copy of their current disclosure brochure.

The client must promptly inform the Investment Advisor in writing if any financial information becomes incomplete or inaccurate during the term of the SMArtX relationship. SMArtX Investment Advisors manage portfolios based on a client’s investment objectives.

#### **Private Funds**

In some instances, we may determine that a customized portfolio through investment in a private fund is in the best interest of the client. For those clients we will recommend an investment in the Crystal Capital Fund Series, LLC and/or Crystal Capital International Fund SPC and/or Crystal Capital International Equity Fund SPC (the “Funds”). Chapwood will be

responsible for managing the client's assets invested in a Fund or portfolio of Funds. We will monitor all investments on a regular basis to ensure compliance with each investor's objectives and guidelines.

Please refer to each Fund's Offering documents for a complete description of the investment objectives, risks and fees associated with an investment in the Funds.

## **Termination**

You may close your account by giving us at least two days written notice. If you close your account, any management fees will be prorated to the termination date.

## **Item 5 – Fees and Compensation**

### **Fee Schedule**

#### **Separately Managed Accounts**

Our standard investment management fee for separately managed accounts is 1.00%. All fees are negotiable at the Adviser's discretion. Fees are payable quarterly in arrears based upon the average monthly value of your account for the preceding three months, excluding any cash held in the account.

#### **SMArtX**

Those clients on the SMArtX platform will pay a 0.25% annual fee in addition to CCIM's annual 1% asset management fee. SMArtX' fee will be billed quarterly in arrears and debited directly from the client's custodial account.

#### **Private Fund Accounts**

Clients who invest in the Funds will pay a 1% annual management fee. The management fee will be billed payable quarterly in arrears based upon the ending net asset value ("NAV") of the Fund. In addition to the 1.00% management fee, we may also charge a 10% performance allocation fee to qualified clients on the capital appreciation in the customized portfolio.

In addition to the fees charged by Chapwood, the manager to the funds will charge a management fee to each Fund for the services provided to the Funds. For a complete description of the investment objectives, risks and fees associated with an investment in the Funds.

### **Fee Payment Options**

As indicated in our advisory agreement with you, there are two options you may select to pay for our services:

- Direct debiting (preferred): at the inception of the relationship and each quarter thereafter, we will notify your custodian of the amount of the fee due and payable to us through our fee schedule and contract. The custodian does not validate or check

the calculation of our fee. They will “deduct” the fee from your Account(s) or, if you have more than one account from the account you have designated to pay our advisory fees.

- Each month, you will receive a statement directly from your custodian showing all transactions, positions and credits / debits into or from your account; the statements after the quarter end will reflect these transactions, including the advisory fee paid by you to us.
- Pay-by-check: At the inception of the Account and each quarter thereafter, we issue you an invoice for our services and you pay us by check or wire transfer within 15 days of the date of the invoice.

Advisors trade on margin for client’s accounts, when consistent with the client’s suitability profile and risk tolerance or at the client’s directive. This could result in a high portfolio turnover ratio and higher transaction charges in accounts with such charges. Additionally, the use of margin results in interest charges as well as all other fees and expenses associated with the security or account involved.

Fees are calculated using the total assets in the account as shown on the client custodial statement, including any assets purchased on margin. If there is a net debit cash balance in the account as a result of using margin, the cash balance will be excluded from the fee calculation. Net positive cash balances in type 1 (cash account) and type 2 (margin account) are included in the fee calculation.

### **Additional Fees and Expenses:**

Advisory fees payable to us do not include all the fees you will pay when we purchase or sell securities for your Account(s). The following list of fees or expenses are what you pay directly to third parties, whether a security is being purchased, sold or held in your Account(s) under our management. Fees charged are by the broker dealer / custodian.

We do not receive, directly or indirectly, any of these fees charged to you. They are paid to your broker, custodian or other investment you hold. The fees include:

- Brokerage commissions;
- Transaction fees;
- Exchange fees;
- SEC fees;
- Advisory fees and administrative fees charged by Exchange Traded Funds (ETFs)
- Advisory fees charged by sub-advisers (if any are used for your account);
- Custodial Fees;
- Deferred sales charges;
- Odd-Lot differentials;
- Transfer taxes;

- Wire transfer and electronic fund processing fees;
- Commissions or mark-ups / mark-downs on security transactions;
- Among others that may be incurred.

You have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with us.

If you have assets invested with SMArtX, in addition to our advisory fee, you will pay SMArtX a platform fee and advisory fee as well. Please see their disclosure brochure and your Investment Advisory agreement with SMArtX for the exact fees charged.

If you wish to open an account custodied at TD Ameritrade, in addition to the Chapwood Investment Management Agreement you will also sign an Investment Management Agreement with SMArtX Advisory Solutions (SMArtX). SMArtX is an asset management platform that allows access to TD Ameritrade. SMArtX charges a platform fee of up to .25% in addition to the fee you will be charged by Chapwood. The exact amount you will be billed will be noted in your actual Investment Management Agreement.

In addition, we do not have any person associated with us who receives (directly or indirectly) any compensation from the sale of securities or investments that are purchased or sold for your account. As a result, we are a “fee only” investment adviser. We do not have any potential conflicts of interest present that relate to any additional compensation from you or your assets that we manage.

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

Most clients pay an asset-based fee, as described in Item 5. However, clients who meet specified net worth or other criteria (“qualified client”) may elect to pay an individually negotiated fee that includes a performance fee based on net profits. In order to qualify for a performance-based fee a client must fit the description of “Qualified Client” pursuant to SEC Section 205-3:

- A natural person who or a company that immediately after entering into the contract has at least \$1,000,000 under the management of the investment adviser;
- A natural person who or a company that the investment adviser entering into the contract (and any person acting on his behalf) reasonably believes, immediately prior to entering into the contract, either:
  - Has a net worth (together, in the case of a natural person, with assets held jointly with a spouse) of more than \$2,000,000, at the time the contract is entered into; or
  - Is a qualified purchaser as defined in section 2(a)(51)(AA) of the Investment Company Act of 1940 (15U.S.C. 80a-2(51)(A)) at the time the contract is entered into; or
- A natural person who immediately prior to entering into the contract is:

- An executive officer, director, trustee, general partner or person serving in similar capacity, of the investment adviser; or
- An employee of the investment adviser (other than an employee performing solely clerical, secretarial or administrative functions with regard to the investment adviser) who, in connection with his or her regular functions or duties, participates in the investment activities of such investment adviser, provided that such employee has been performing such functions and duties for or on behalf of the investment adviser, or substantially similar functions or duties for or on behalf of another company for at least 12 months.

We will charge advisory fees on a share of the capital appreciation of the funds or securities in the accounts of clients who invest in customized portfolios through Crystal Capital Fund Series, LLC (so-called performance-based fees). For these clients, in addition to the 1.00% management fee, we may also charge a 10% performance allocation on the capital appreciation in the customized portfolio.

For those clients who invest through SMArtX, in addition to the 1.00% management fee charged by us, we will also charge up to a 10% performance fee on any capital gain above 2%.

Performance fees are also calculated on a high-water mark basis. Performance fees are negotiable, and any such accounts are managed on a discretionary basis. In such cases, a “high water mark” ensures that if there are losses since inception of the account, those losses will be recaptured before a performance fee may be charged for subsequent quarters.

Advisors managing performance-based accounts while at the same time managing accounts without performance fees may constitute a conflict of interest in that a performance fee might provide incentive to the Advisor to favor that account to the disadvantage of other non-performance based accounts. In addition, SMArtX may have an incentive to trade more aggressively in order to earn a performance fee. We seek to minimize potential conflicts of interest by monitoring trading activity on a weekly basis to ensure trading activity is consistent with a client’s stated investment objectives and risk tolerance.

## **Item 7 – Types of Clients**

We provide our services to a number of types of Clients:

- Individuals, including high net worth individuals
- Trusts and estates
- Family limited partnerships

We generally impose a minimum account size of \$1 million, although we may accept accounts with fewer assets at our discretion.



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

### **Analysis:**

When providing advisory services, we use Modern Portfolio Theory (MPT) management techniques. MPT techniques are concerned with investment analysis, portfolio design and performance evaluation. These methods quantify our views regarding risk and its relationship to investment returns. MPT focuses attention on the overall composition of the portfolio rather than the traditional method of analyzing and evaluating the individual components. It is our goal to design portfolios based on the specific risk-reward parameters defined by you and the portfolio objectives identified by you.

### **Investment Strategies:**

We use an asset allocation approach based on MPT as our core investment strategy. Using this approach, we select a mix of asset classes among which we efficiently allocate your capital by matching rates of return to your specified tolerance for risk. We consider the covariance of assets in each portfolio to measure the diversification between assets. Covariance measures the degree to which returns on two assets move in tandem. A positive covariance means that asset returns move together. A negative covariance means returns move inversely. We seek to structure portfolios using assets that have low covariance, or correlation, with each other to provide diversification. We believe that the number of assets in a portfolio is less important than the relationship of those assets.

We use both Strategic Asset Allocation and Tactical Asset Allocation to structure and monitor portfolios. Strategic Asset Allocation uses historical data (mean rates of return, standard deviations and covariance) in an attempt to understand how the asset has performed and is likely to perform over long periods of time. The goal is not to “beat” the market, but to establish a long-term investment strategy using a core mix of assets. Tactical Asset Allocation uses periodic assumptions regarding the performance and characteristics of the assets and/or the economy. This approach attempts to improve portfolio performance by making “mid-course” changes in the long-term strategy based on near-term expectations.

Our approach to money management ignores the narrow approach of attempting to beat the performance of individual markets. We apply a much broader method of devising strategies which we believe will achieve your long-term objectives within specified risk parameters.

### **Risk of Loss:**

All investments in securities include a risk of loss of your principal (invested amount) and any profits that have not been realized (the securities were not sold to “lock in” the profit).

As you know, stock markets, bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets we manage that may be out of our control. We will do our very best in the management of your assets; however, we cannot guarantee any level of performance or that you will not experience a loss of your account assets.

### **Alternative Investment (Private Funds) Risk**

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices
- Lack of liquidity in that there may be no secondary market for the fund, and none expected to develop
- Volatility of returns
- Absence of information regarding valuations and pricing
- Delays in tax reporting
- Less regulation and higher fees than mutual funds.

### **Exchange Traded Fund (“ETF”) Risk**

Most ETFs are passively managed investment companies whose shares are purchased and sold on a securities exchange. An ETF represents a portfolio of securities designed to track a particular market segment or index. ETFs are subject to the following risks that do not apply to conventional funds:

- The market price of the ETF’s shares may trade at a premium or a discount to their net asset value;
- An active trading market for an ETF’s shares may not develop or be maintained; and
- There is no assurance that the requirements of the exchange necessary to maintain the listing of an ETF will continue to be met or remain unchanged

## **Item 9 – Disciplinary Information**

We do not have any legal, financial or other “disciplinary” item to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating us to initiate a Client / Adviser relationship, or to continue a Client /Adviser relationship with us. This statement applies to our Firm, and every employee.

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

Chapwood Securities, Inc. (“Chapwood Securities”) is registered as a broker-dealer and is affiliated with us through common control. Some Chapwood investment adviser representatives are also registered representatives of Chapwood Securities. When applicable, these individuals recommend broker-dealer transactions for advisory clients, including private placement and other alternative investments. All related compensation is separate from advisory services. On average individual Investment Advisor Representatives and the principals of Chapwood spend 20% of their time on other such activities. This arrangement poses a conflict of interest to the extent that there is a financial incentive to recommend securities and other insurance products that result in commissions, brokerage fees or other payments. We are dedicated to acting in our clients’ best interests based on fiduciary principles. You are under no obligation to purchase any recommended brokerage products.

Kim Sams is a registered representative of Waterford Capital, Inc., a registered broker-dealer in Dallas, Texas. Waterford Capital is not affiliated with Chapwood Capital Investment Management.

Mr. Butowsky is a 30% passive owner of Bandon Woodchap LLC (“Bandon Woodchap”). Clients may, from time to time, be solicited to lend money to Pretant Financial LLC (“Pretant”) who, in turn, is engaged in providing a revolving line of credit to Bandon Woodchap. Mr. Butowsky is not involved in the management and/or operations of Bandon Woodchap; however, by virtue of his ownership interest in Bandon Woodchap, he is entitled to a portion of the income, profits or revenues payable to the same. This participation is in addition to any fees and/or commissions Mr. Butowsky may be entitled to for undertakings he may participate in with reference to fundraising activities related to Pretant and could be deemed to be a conflict of interest. A potential conflict of interest could occur if Mr. Butowsky recommends Pretant instead of other investments available through Chapwood; however, as a fiduciary any recommendation made must be in the best interest of the client.

Mr. Butowsky is also a registered representative of Chapwood Securities. This arrangement poses a conflict of interest to the extent that there is a financial incentive for him to recommend securities and other insurance products that result in commissions, brokerage fees or other payments. We are dedicated to acting in our clients’ best interests based on fiduciary principles. You are under no obligation to purchase any recommended brokerage products.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

As required by regulation, and because it’s good business, we have adopted a Code of Ethics that governs a number of potential conflicts of interest we have when providing our advisory services to you. This Code of Ethics is designed to ensure we meet our fiduciary

obligation to you, our Client (or Prospective Client) and to create culture of compliance within our firm.

An additional benefit of our Code is to detect and prevent violations of securities laws, including our obligations we owe to you.

Our Code is comprehensive, is distributed to each employee at the time of hire, and annually thereafter (if there are changes). We also supplement the Code with annual training and on-going monitoring of employee activity.

Our Code includes the following:

- Our fiduciary duty to you
- Requirements related to the confidentiality of your information;
- Prohibitions on:
  - Insider trading (if we are in possession of material, non-public information);
  - Engaging in certain transactions
  - The acceptance of gifts and entertainment that exceed our policy standards;
- Reporting of gifts and business entertainment;
- Pre-clearance of employee and firm transactions;
- Reporting (on an on-going and quarterly basis) all personal securities transactions (what we call “reportable securities” as mandated by regulation); and,
- On an annual basis, we require all employees to re-certify receipt of our Code, submit a complete report of securities holdings and on a monthly basis to submit copies of all statements reflecting personal securities transactions in reportable securities.

Our Code does not prohibit personal trading by employees (or our firm). As a professional investment adviser, we follow our own advice. As a result, we may purchase or sell the same or similar securities (or securities that are suitable for an employee or related account but not suitable for any client, including you) at the same time that we place transactions for your account and the accounts of our other Clients. We have a Personal Trading Policy in place which requires all employees to provide statements or other documents to our Chief Compliance Officer for review. Our Chief Compliance Officer will review all personal trading to make sure that clients are given first priority on all trades and that personal transactions do not conflict with our clients’ interests.

You may request a complete copy of our Code by contacting us at the address, telephone or email on the cover page of this Part 2; attn.: Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

### **General Considerations – selecting / recommending brokers for Client transactions and commission charges:**

When you accept our Investment Management Agreement, we may recommend use of our selected broker-dealer to execute and clear your trades. We currently use TD Ameritrade as our brokerage custodian. We have selected this broker based on its trading expertise, stature in the industry, net prices, execution ability, facilities, reliability, financial responsibility and managed account administrative services. Our agreement with the SMartX Advisory Solutions platform allows our clients to access TD Ameritrade whereby the brokerage custodian will provide, among other things, account administration, custody and brokerage services for our clients. While we believe that this firm provides our clients with competitive commission rates, you may pay commissions that are higher than those that you would pay at other broker-dealers.

### **Research and Other Soft Dollar Benefits:**

The custodians make products and services available to us that benefit the Firm but may not directly benefit its clients' accounts. Many of these products and services are used to service all or a substantial number of Firm accounts. Some of these products and services provided includes software and other technology that provides access to client account data (such as trade confirmations and account statements); provides research, pricing and other market data; facilitates payment of fees from clients' accounts; and assists with back-office functions, recordkeeping and client reporting. When client brokerage commissions are used to obtain research or other products or services, the Firm receives a benefit because we do not have to produce or pay for the research, products or services. As a result of these services provided, commissions may be higher than those charged by other broker-dealers. Soft dollar benefits are used to service all client accounts; they are not used exclusively for the accounts that generated the soft dollar benefits. There is no effort to allocate soft dollar benefits to clients in proportion to the amount of soft dollar benefits generated by each client. Within the last fiscal year, we used client brokerage commissions to acquire the products and services listed above under "Soft Dollar Benefits."

### **Brokerage for Client Referrals**

We do not receive client referrals from the broker-dealer that we work with in exchange for using their services.

### **Directed Brokerage**

The Firm allows clients to direct us to execute transactions through a specified broker-dealer if you choose not to use the custodians with which we have agreements. You will negotiate the terms and arrangements with your broker-dealer of choice, and we will not be in a position to seek better execution services or prices from other broker-dealers. Furthermore, we may not be able to aggregate your transactions with orders from other accounts managed by us. Consequently, you may pay higher commissions or transaction cost than otherwise would be the case.

### **Principal Trading**

We do not sell securities from or purchase securities in any account for which we have a beneficial interest.

### **Cross Transactions – Agency Cross Transactions**

We do not sell securities to a client that were obtained from the account of another client.

### **Order Aggregation**

We only aggregate orders belonging to related family accounts. Orders of two or more clients may be aggregated only if we determine, on an individual basis, that the securities order is in the best interests of each client participating in the order; consistent with our duty to obtain best execution; and consistent with the terms of the investment advisory agreement of each participating client.

### **Item 13 – Review of Accounts**

We review all accounts at least monthly. Reviews are conducted by either Ed Butowsky or Kim Sams. We also conduct quarterly account reviews with each client, either in person or by telephone. All accounts receive the same level of review. We focus our reviews of client accounts on performance in relation to the state of the markets and the economy.

We do not generally prepare separate written reports for our clients unless requested. Any such reports would merely summarize the information contained in the monthly statements sent by the brokerage firms.

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

We do not receive any compensation or other economic benefit from a third party for providing investment advice or products to you.

We in some instances, may compensate third-party solicitors for client referrals. The solicitor's agreements entered into by us comply with Rule 206(4)-3 under the Investment Advisers Act of 1940. Currently the Firm has agreements with Winfred Tubbs, Jason Lohe, Brandon Hancock, and David Strnad. Additional solicitor agreements may be initiated, or existing ones terminated at any time. Compensation will be based on a percent of referred clients' account value managed by us.

Such fees are paid pursuant to a written agreement between us and the solicitor. A client who is solicited will receive an additional disclosure document specifically describing the arrangement and the compensation paid to the solicitor. Solicitor's fees will be based on our normal fee schedule; clients will not be charged any additional fees or expenses as a result of the referral.

### **Item 15 – Custody**

We do not maintain custody of client funds. However, we do directly debit advisory fees from client accounts as discussed in Item 5 of this brochure.

You will receive account statements directly from the broker-dealer carrying your account. You should carefully review these statements and if you have any questions or concerns you should contact us immediately. If you are receiving separate statements from us, we urge you to compare our statements with the statements that you receive from your broker-dealer.

### **Item 16 – Investment Discretion**

We do not have investment discretion over any client account.

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

We do not have authority to vote client securities. You will receive proxy voting material directly from the brokerage firm carrying your account. You are responsible for voting all proxies. If you have any questions regarding a particular proxy solicitation, please call us at (972) 865-2225.

### **Item 18 – Financial Information**

We do not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance. We also do not have custody of client funds or securities.