

**Item 1: Cover Page**

**Appendix 1 of Part 2A  
Wrap Fee Program Brochure**

March 20, 2020

**Waterloo Capital, L.P.  
dba Waterloo Capital Management**

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This wrap fee program brochure provides information about the qualifications and business practices of Waterloo Capital Management. If you have any questions about the contents of this brochure, please contact us at 512-777-5901. 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. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

Additional information about Waterloo Capital Management also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary. At this time there are no material changes.

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## Item 4: Services, Fees and Compensation

### A. Waterloo Capital, L.P.

Waterloo Capital, L.P. (dba "Waterloo Capital Management" and/or the "firm") is a partnership organized under the laws of the State of Texas. Effective December 31, 2012, Waterloo Capital Management LLC acquired a controlling interest in Waterloo Capital, L.P. Waterloo Capital Management LLC is a single member limited liability company owned by John Chatmas. Waterloo Capital, L.P., is an SEC-registered investment advisory firm and provides investment advisory services to accomplished entrepreneurs.

Please note there is a group of professionals within Waterloo Capital who for branding purposes utilize a business name commonly referred to as d/b/a (i.e., doing business as). This group operates under the d/b/a AMG Wealth Advisors. The name is disclosed in Waterloo Capital Management's ADV Part 1A, Schedule D, Section 1.B. When dealing with the public, they identify the d/b/a they operate under as well indicate that investment advisory services are provided through Waterloo Capital, L.P. d/b/a Waterloo Capital Management.

#### A.1. Investment Management Services

Waterloo Capital Management acts as portfolio managers for the program. The firm works with the client to identify his or her investment goals and objectives as well as risk tolerance in order to create an initial portfolio allocation designed to complement the client's financial situation and personal circumstances. The portfolio may consist of a variety of investments including but not limited to equities, fixed income securities, mutual funds, and alternative investments. The investment strategies utilized depend on the client's investment objectives and goals as provided to the firm. Portfolios are constructed along basic investment objective categories and focus primarily on a long-term buy and hold approach as opposed to short-term trading.

Accounts are managed on a discretionary or non-discretionary basis, at the client's discretion. The advisory representative may periodically rebalance the client's account to maintain the initially agreed upon strategic and tactical asset allocation. However, no changes are made to the agreed-upon asset allocation nor are assets rebalanced in nondiscretionary accounts without prior client review and consent.

Clients are obligated to provide the firm with any reasonable investment restrictions in writing that should be imposed on the management of their portfolio, and to promptly notify the firm of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. Waterloo Capital Management will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. Waterloo Capital Management will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

## **A.2. Fees and Compensation**

### **A.2.a. Fee Schedule**

Waterloo Capital Management offers investment management services on a fee-only basis. The fee is calculated based upon the market value of the assets in the client's account on the last day of the previous quarter. The maximum annual fee for this service is 2.5%. Broker-dealers and other financial institutions that hold client accounts are referred to as custodians ("custodian/ broker-dealer"). The client's custodian/broker-dealer determines the values of the assets in the client's portfolio.

Fees for the initial quarter are based on the value of the client's cash and securities on the date the custodian/broker-dealer receives them and are prorated based upon the number of calendar days in the calendar quarter that the investment advisory agreement is in effect.

These fees include charges for all transaction costs such as commissions on purchase and sales of stocks, bonds, exchange-traded funds and options. The trading cost component of the above-mentioned wrap fees are estimated to range from 15-25 basis points per account per year. Except as otherwise provided below, client will incur no charges other than the adviser's fee pursuant to the above fee schedule in connection with the maintenance of and activity in client's account. The wrap fee does not include annual account fees or other administrative fees, such as wire fees, charged by Manager or brokerage firm; certain odd-lot differentials, transfer taxes, transaction fees mandated by the Securities Act of 1934, postage and handling fees, and charges imposed by law with regard to transactions in the Client's account; and advisory fees, expenses or sales charges (loads) of mutual funds (including money market funds), closed-end investment companies or other managed investments, if any, held in Client's account. The wrap fee also does not cover certain costs associated with securities transactions in the over-the-counter market, such as fixed income securities where Manager must approach a dealer or market maker to purchase or sell a security. Such costs include the dealer's mark-up, mark-down or spread and odd-lot differentials or transfer taxes imposed by law. In addition, trades that are executed away from the client's custodian will incur additional charges. Such trade-away cost component is expected to be nominal, as the firm intends to do all of its trading through the client's custodian; however, in the event there are trade-away fees, they are expected to be less than \$250 per year.

Under certain circumstances, clients may be charged \$250 per hour for additional services, which may include but are not limited to financial plan implementation, mortgage analysis and refinancing, due diligence of client-introduced investments, and/or working with the client's other advisors. At the discretion of the individual investment adviser representative, for clients with assets under management of \$2,000,000 or more, the firm will, on a quarterly basis, reduce its next quarterly fee in an amount equal to the transaction-based fees incurred by the client during the preceding quarter. Please be advised that the rebate of fees creates an economic disincentive to trade, because every transaction fee that needs to be rebated reduces the firm's profitability. Please also be advised that for clients with less than \$2,000,000 in assets, clients may be able to find comparable services at a lower cost elsewhere.

Asset-based fees are always subject to the investment advisory agreement between the client and Waterloo Capital Management. Such fees are payable quarterly in advance. The client and the client's custodian or broker-dealer will be invoiced at the beginning of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the previous quarter, as mutually agreed upon by the client and Waterloo Capital Management. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio, defined as \$250,000 or greater, are prorated for the quarter in which the change occurs.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. Waterloo Capital may modify the fee at any time upon 30 days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

#### **A.2.b. Wrap vs. Non-Wrap Program Fees**

Please be advised that non-wrap program fees (those where the client pays trading costs in addition to the advisory fee) should, all things being equal, have the same overall net cost to the client as a comparable investment account in a wrap fee program. For example, if a client has a \$100,000 investment account and utilizes a non-wrap program for an advisory fee of 1% and pays \$250 in additional trading costs, a comparable arrangement on a wrap fee program basis (where the advisory fees include both the trading costs and advisory fee) would be 1.25%. In this way, the client understands the concept of fee parity when comparing wrap vs. non-wrap fee programs. In other words, if you're comparing a non-wrap program at 2% to a wrap fee program at 2%, it would always be in your best interest to use the wrap fee in this example. This is not to suggest that actual trading may be more or less active, which could influence the use of a non-wrap program versus a wrap fee program. As a result, it is important to understand that the firm has an economic incentive to trade infrequently within a wrap fee program because frequent trading lowers the firm's profitability. Of course, it is your decision to utilize the specific fee arrangement and this disclosure is to help you understand the relationship between the cost components of non-wrap fee programs versus wrap fee programs and the related conflicts of interest.

### **B. Disclosure of Cost Difference if Services Purchased Separately**

Depending on a number of factors, such as the number, size and nature of the securities transactions in an advisory account, the overall fees and charges borne by the client over time could be more or less than what these fees and charges would be if the same services were provided on a separate basis. Bundled fees generally provide an economic incentive for the advisory firm to select investments and strategies that minimize trading costs. Frequent trading in an account where transaction fees are included as part of the overall advisory fee to the client

drive trading costs higher and reduce the overall fee revenue to the advisor. As a result, higher trading costs in a bundled fee account have a negative impact on the advisory firm's profitability.

## **C. Additional Client Fees and Terms of Payment**

### **C.1. Client Payment of Fees**

Waterloo Capital Management will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account. At our discretion, you may be billed for fees in lieu of having them debited from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **C.2. Prepayment of Client Fees**

Waterloo Capital Management requires the prepayment of its advisory fees. The firm's fees will either be paid directly by the client or disbursed to Waterloo Capital Management by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client, or by Waterloo Capital Management with 30 days' prior written notice to the client. An agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any unearned, prepaid fees will be promptly refunded and any earned, unpaid fees will be immediately due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

### **C.3. Additional Fees**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds, separate account managers, broker-dealers and custodians retained by clients. Such fees and expenses are described in each mutual fund's prospectus, each separate account manager's Form ADV or similar disclosure statement, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using Waterloo Capital Management may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Items 9.B.2 and 9.B.3) for additional information regarding the firm's brokerage practices.

## **D. Compensation for Recommending the Waterloo Capital Management Wrap Fee Program**

The Waterloo Capital Management Wrap Fee Program is a proprietary product offered exclusively through Waterloo Capital Management. As such, there are no conflicts of interest in that there are no commissions paid for selling the Waterloo Capital Management Wrap Fee Program.

## **E. External Compensation for the Sale of Securities to Clients**

Waterloo Capital Management's advisory professionals are paid a percentage of the asset-based advisory fees pursuant to their payout arrangement with Waterloo Capital Management. Waterloo Capital Management's advisory professionals may be paid sales, service or administrative fees for the sale of mutual funds or other investment products. Waterloo Capital Management's advisory professionals may receive commission-based compensation for the sale of securities and insurance products. Investment adviser representatives, in their capacity as a Calton & Associates registered representative, are prohibited from earning an advisory fee on the securities value transferred from an advisory client's Calton & Associates brokerage account unless commissions earned on such securities transactions occurred at least a 12–18 months prior to the transfer. Please see Item 10.C. for detailed information and conflicts of interest.

## **F. Important Disclosure – Custodian Investment Programs**

Please be advised that certain of the firm's investment adviser representatives are registered with a broker-dealer and/or the firm is a broker-dealer or affiliated with a broker-dealer. Under these arrangements, we can access certain investment programs offered through the broker-dealer that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. As such, the investment adviser representative and/or the firm may have an economic incentive to recommend the purchase of 12b-1 or revenue share class mutual funds offered through the broker-dealer platform rather than from the investment adviser platform.

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. There are certain programs in which we participate where a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client.

***Conflict Between Revenue Share Class (12b-1) and Non-Revenue Share Class Mutual Funds:*** Revenue share class/12b-1 fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a



comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances (i) where our adviser representative is also licensed as a registered representative of a broker-dealer and receives a portion of 12b-1 and or revenue sharing fees as compensation – such compensation creates an incentive for the investment adviser representative to use programs which utilize funds that pay such additional compensation; and (ii) where the custodian receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

***Additional Disclosure Concerning Wrap Programs:*** To the extent that we either sponsor or recommend wrap fee programs, please be advised that certain wrap fee programs may (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I-Shares," depending on the mutual fund sponsor). Wrap fee programs offer investment services and related transaction services for one all-inclusive fee (except as may be described in the applicable wrap fee program brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively, the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser representative to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

## **G. Client Assets Under Management**

As of December 31, 2019, Waterloo Capital Management has \$629.2 million of discretionary client assets and \$100.3 million of non-discretionary client assets under management.

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

Waterloo Capital Management provides advisory services primarily to individuals and high-net-worth individuals, trusts, estates, retirement accounts, pension and profit sharing plans, charitable organizations, corporations, and other business entities. As a condition for starting and maintaining an advisory relationship, the firm generally require a minimum portfolio size of \$1,000,000. The firm, at its sole discretion, may accept clients with smaller portfolios based upon certain factors including anticipated future earning capacity, anticipated future additional assets, account composition, related accounts, and pre-existing client relationships. The firm may consider the portfolios of the client's family members to determine if the portfolio meets the minimum size requirement.

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

### **A. Portfolio Manager Selection and Review**

The firm is the sole sponsor and sole portfolio manager for the Waterloo Capital Management Wrap Fee Program.

### **B. Participation in Wrap Fee Programs**

Other than offering its Waterloo Capital Management Wrap Fee Program, the firm does not participate in wrap fee programs.

### **C. The Firm Acts as Both a Wrap Fee Sponsor and Portfolio Manager**

The Waterloo Capital Management Wrap Fee Program is a proprietary product offered exclusively through the firm. Other than offering its Waterloo Capital Management Wrap Fee Program, the firm does not participate in wrap fee programs.

#### **C.1. Waterloo Capital Management Wrap Fee Program**

Waterloo Capital Management acts as portfolio managers for the program. The firm works with the client to identify his or her investment goals and objectives as well as risk tolerance in order to create an initial portfolio allocation designed to complement the client's financial situation and personal circumstances. The portfolio may consist of a variety of investments including but not limited to equities, fixed income securities, mutual funds, and alternative investments. The investment strategies utilized depend on the client's investment objectives and goals as provided to the firm. Portfolios are constructed along basic investment objective categories and focus primarily on a long-term buy and hold approach as opposed to short-term trading.

Accounts are managed on a discretionary or non-discretionary basis, at the client's discretion. The advisory representative may periodically rebalance the client's account to maintain the initially agreed upon strategic and tactical asset allocation. However, no changes are made to the agreed-upon asset allocation nor are assets rebalanced in nondiscretionary accounts without prior client review and consent.

Clients are required to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio, and to promptly notify the firm of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. Waterloo Capital Management will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. Waterloo Capital Management will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

## **C.2. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives, and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

## **C.3. Management of Wrap Fee Program**

The Waterloo Capital Management Wrap Fee Program is the only asset management program offered by the firm.

## **C.4. Performance-Based Fees and Side-by-Side Management**

The firm does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in the clients' best interests.

## **C.5. Methods of Analysis, Investment Strategies and Risk of Loss**

### **C.5.a. Methods of Analysis**

Waterloo Capital Management selects specific investments for client portfolios through the use of fundamental analysis. Fundamental analysis is a method of evaluating a company that has issued a security by attempting to measure the value of its underlying assets. It entails studying overall economic and industry conditions as well as the financial condition and the quality of the company's management. Earnings, expenses, assets, and liabilities are all important in determining the value of a company. The value is then compared to the current price of the issuing company's security to determine whether to purchase, sell, or hold the security.

### **C.5.b. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please see Item 5.A. of this Brochure for detailed information.

### **C.5.c. Mutual Funds and Third-Party Separate Account Managers, Individual Equity and Fixed Income Securities, and Pooled Investment Vehicles**

Waterloo Capital Management may recommend (i) separate account managers to manage client assets; (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments); and (iii) pooled investment vehicles. Such management styles will include, among others, large-cap, mid-cap and small-cap value, growth and core; international and emerging markets; and alternative investments. The firm may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that the firm will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs, individual securities (including fixed-income securities), managers, and pooled investment vehicles is set forth below.

The firm has formed relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of mutual funds, managers and pooled investment vehicles
- perform billing and certain other administrative tasks

The firm may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, managers and pooled investment vehicles to clients as appropriate under the circumstances.

The firm reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-advisor or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in selecting/recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual fund or manager's consistency of investment style; and employee turnover and efficiency and capacity. The firm will discuss relevant quantitative and qualitative factors pertaining to its recommendations with clients prior to a client's determination to retain a mutual fund or manager.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by the firm on a quarterly basis or such other interval as appropriate under the circumstances. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by the firm (both of which are negative factors in implementing an asset allocation structure). Based on its review, the firm will make recommendations to clients regarding the retention or discharge of a mutual fund or manager.

The firm may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive

any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. The firm will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment.

The firm will regularly review the activities of mutual funds and managers utilized for the client. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in pooled investment vehicles should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

### **C.6. Investment Strategy, Method of Analysis, Material Risks**

Waterloo Capital Management's investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

#### **C.6.a. Margin Leverage**

Although the firm, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, the firm will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

#### **C.6.b. Short-Term Trading**

Although the firm, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

#### **C.6.c. Short Selling**

The firm generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

#### **C.6.d. Technical Trading Models**

Technical trading models are mathematically driven based upon historical data and trends of domestic and foreign market trading activity, including various industry and sector trading statistics within such markets. Technical trading models, through mathematical algorithms, attempt to identify when markets are likely to increase or decrease and identify appropriate entry and exit points. The primary risk of technical trading models is that historical trends and past performance cannot predict future trends, and there is no assurance that the mathematical algorithms employed are designed properly, updated with new data, and can accurately predict future market, industry, and sector performance.

#### **C.6.e. Concentration Risk**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

### **C.7. Material Risks of Investment Instruments**

The investment vehicles most commonly purchased for the firm's clients are shares of registered open-end mutual funds and exchange traded funds. Many of these investments can be purchased directly by clients without utilizing the services of an advisor. Registered investment

companies charge their own management fees and expenses. These fees and expenses are detailed in each respective mutual fund's prospectus and are in addition to any fees charged by Waterloo Capital Management.

Waterloo Capital Management typically invests in open-end mutual funds and exchange-traded funds for the vast majority of its clients. However, for certain clients, the firm may effect transactions in the following types of securities:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Asset-backed securities
- Collateralized obligations

#### **A.4.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.4.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.



Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.4.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.4.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>") iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market.

The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.4.e. Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The

shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.

#### **A.4.f. Corporate Debt, Commercial Paper and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be pre-payment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.4.g. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.4.h. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.4.i. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

**A.4.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, PDIV will be unable to monitor or verify the accuracy of such performance information.

**A.4.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high investment grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

**A.4.l. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing

Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHMLC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.4.m. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, the firm may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.4.n. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, PDIV may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments

to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.4.o. Asset-Backed Securities**

Like mortgages-backed securities, the collateral underlying asset-backed securities are subject to prepayment, which may reduce the overall return to holders of asset-backed securities. Asset-backed securities present certain additional and unique risks. Primarily, these securities do not always have the benefit of a security interest in collateral comparable to the security interests associated with mortgage-backed securities. Credit card receivables are in general unsecured. Debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give such debtors the right to set-off certain amounts owed on the credit cards, thereby reducing the balance due.

Generally, automobile receivables are secured by automobiles. Most issuers of automobile receivables permit the loan servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the asset-backed securities. In addition, because of the large number of vehicles involved in a typical issuance and the technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in the underlying automobiles. As a result, the risk that recovery on repossessed collateral might be unavailable or inadequate to support payments on asset-backed securities is greater for asset-backed securities than for mortgage-backed securities. In addition, because asset-backed securities are relatively new, the market experience in these securities is limited and the market's ability to sustain liquidity through all phases of an interest rate or economic cycle has not been tested.

#### **A.4.p. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and

CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

### **C.8. Proxy Voting**

The firm does not take discretion with respect to voting proxies on behalf of its clients. The firm will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of the firm supervised and/or managed assets. In no event will the firm take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, the firm will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. The firm has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. The firm also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, the firm has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where the firm receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

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

The firm is the sole portfolio manager in the Waterloo Capital Management Wrap Fee Program and does not share any personal information it collects from its clients other than as required by law or regulatory mandate. The firm may collect the following information in order to formulate its investment recommendations to clients:

- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals, and risk tolerance
- Sources of wealth and/or deposits
- Risk assessment
- Investment time horizon
- Income and liquidity needs
- Asset allocation
- Restrictions on management of accounts
- Client interview(s)
- Review of client's current portfolio
- Analysis of historical risk/return characteristics of various asset classes
- Analysis of the long-term outlook for global financial markets
- Analysis of the long-term global economic and political environments

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

The firm encourages communication with its clients and does not limit or condition the amount of time clients can spend with the firm's advisory professionals.



## Item 9: Additional Information

### A. Disciplinary and Other Financial Activities and Affiliations

#### A.1. Disciplinary Information

There are no current or pending disclosure items to report on behalf of the firm's advisors.

##### A.1.a. Criminal or Civil Actions

There is nothing to report for this item.

##### A.1.b. Administrative Enforcement Proceedings

There is nothing to report for this item.

##### A.1.c. Self-Regulatory Organization Enforcement Proceedings

There is nothing to report for this item.

#### A.2. Other Financial Activities and Affiliations

##### A.2.a. Broker-Dealer or Representative Registration

Certain registered advisory personnel of Waterloo Capital Management may be registered representatives of Calton & Associates, Inc., a FINRA-registered broker-dealer and member of SIPC. Calton & Associates is a financial services company engaged in the sale of investment products.

##### A.2.b. Futures or Commodity Registration

Neither Waterloo Capital Management nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

##### A.2.c. Material Relationships Maintained by this Advisory Business and Conflicts of Interest

###### A.2.c.1. Calton & Associates, Inc.

Certain registered advisory personnel of Waterloo Capital Management may be associated persons of Calton & Associates, Inc., a FINRA and member of SIPC. As a result, such professionals, in their capacity as registered representatives of Calton & Associates are subject to the oversight of Calton & Associates and the Financial Industry Regulatory Authority, Inc. ("FINRA"). As such, clients of Waterloo Capital Management should understand that their personal and account information is available to FINRA and Calton & Associates personnel in the fulfillment of their oversight obligations and duties.

Waterloo Capital Management professionals who effect transactions for advisory clients may receive transaction or commission compensation from Calton & Associates. The recommendation of securities transactions for commission creates a conflict of interest in that

Waterloo Capital Management is economically incented to effect securities transactions for clients. Although Waterloo Capital Management strives to put its clients' interests first, such recommendations may be viewed as being in the best interests of Waterloo Capital Management rather than in the client's best interest. Waterloo Capital Management advisory clients are not compelled to effect securities transactions through Calton & Associates.

#### ***A.2.c.2. Insurance Activities***

Certain managers, members, and registered employees of Waterloo Capital Management are licensed insurance agents. With respect to the provision of financial planning services, such professionals may recommend insurance products offered by various carriers. Please be advised that there is a potential conflict of interest in that there is an economic incentive to recommend insurance carriers and other investment products offered through such insurance carriers. The conflict exists because recommendations of such products may provide leverage for the firm to secure more advantageous compensation arrangements as well as allow the firm to manage the mutual fund sub-accounts of certain variable products for an additional advisory fee. Please be advised that the firm strives to put its clients' interests first and foremost.

#### ***A.2.c.3. Intelligent Wealth Solutions LLC***

Intelligent Wealth Solutions LLC ("IWS") is an affiliate of Waterloo Capital Management and a registered investment adviser. IWS manages individual separate accounts for its advisory clients. Prospective clients are advised that Waterloo Capital Management has an economic interest in recommending its affiliate, IWS, for separate account management. Conversely, IWS has an economic interest in recommending Waterloo Capital Management to clients.

#### ***A.2.d. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest***

Waterloo Capital Management does not recommend separate account managers or other investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

## **B. Code of Ethics, Brokerage Trading Practices, Account Reviews, and Financial and Related Matters**

### **B.1. Code of Ethics Description**

Waterloo Capital Management has adopted a Code of Ethics ("Code") to address the securities-related conduct of its advisory representatives and employees. The Code includes the firm's policies and procedures developed to protect clients' interests in relation to the following:

- The duty at all times to place clients' interests ahead of the firm's
- That all personal securities transactions of Waterloo Capital advisory representatives and employees be conducted in a manner consistent with the Code and avoid any actual or potential conflict of interest, or any abuse of an advisory representative's or employee's position of trust and responsibility

- That advisory representatives may not take inappropriate advantage of their positions
- That information concerning the identity of clients' security holdings and financial circumstances are confidential
- That independence in the investment decision-making process is paramount

The firm will provide a copy of the Code to clients or any prospective client upon request.

**B.1.a. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

The firm does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, the firm does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

**B.1.b. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

The firm, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which the firm specifically prohibits. The firm has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow the firm's procedures when purchasing or selling the same securities purchased or sold for the client.

**B.1.c. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

The firm, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other the firm clients. The firm will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of the firm to place the clients' interests above those of the firm and its employees.

**B.2. Factors Used to Select Broker-Dealers for Client Transactions****B.2.a. Custodian Recommendations**

Waterloo Capital Management recommends that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc., or TD Ameritrade Institutional, a division of TD Ameritrade, Inc. (collectively hereinafter "custodian"), FINRA-registered broker-dealers and SIPC members, to maintain custody of clients' assets and to effect trades for their accounts. Although Waterloo Capital Management may recommend that clients establish accounts at the custodian, it is the client's decision to custody assets with the custodian. Waterloo Capital Management is independently owned and operated and not affiliated with custodian. For Waterloo Capital Management client accounts maintained in its custody, the custodian generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodian accounts.

In certain instances and subject to approval by Waterloo Capital Management, Waterloo Capital Management will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by Waterloo Capital Management will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

**B.2.a.1. Soft Dollar Arrangements**

The firm does not utilize soft dollar arrangements. The firm does not direct brokerage transactions to executing brokers for research and brokerage services.

**B.2.a.2. Institutional Trading and Custody Services**

The custodians provides the firm with access to their institutional trading and custody services, which are typically not available to the custodian's retail investors. These services generally are

available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at a particular custodian. The custodian's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

#### ***B.2.a.3. Other Products and Services***

Custodian also makes available to the firm other products and services that benefit the firm but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of the firm's accounts, including accounts not maintained at custodian. The custodian may also make available to the firm software and other technology that

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

The custodian may also offer other services intended to help the firm manage and further develop its business enterprise. These services may include

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

The custodian may also provide other benefits such as educational events or occasional business entertainment of the firm personnel. In evaluating whether to recommend that clients custody their assets at the custodian, the firm may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

#### ***B.2.a.4. Independent Third Parties***

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to the firm. The custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to the firm.

***B.2.a.5. Additional Compensation Received from Custodians***

The firm may participate in institutional customer programs sponsored by broker-dealers or custodians. The firm may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between the firm's participation in such programs and the investment advice it gives to its clients, although the firm receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving the firm participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to the firm by third-party vendors

The custodian may also pay for business consulting and professional services received by the firm's related persons, and may pay or reimburse expenses (including travel, lodging, meals and entertainment expenses for the firm's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit the firm but may not benefit its client accounts. These products or services may assist the firm in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help the firm manage and further develop its business enterprise. The benefits received by the firm or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

The firm also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require the firm to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, the firm will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by the firm's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for the firm's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, the firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by the firm or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the firm's recommendation of broker-dealers for custody and brokerage services.

#### **B.2.b. Brokerage for Client Referrals**

The firm does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

#### **B.2.c. Directed Brokerage**

##### ***B.2.c.1. Firm Recommendations***

The firm typically recommends Schwab or TD Ameritrade as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

##### ***B.2.c.2. Client-Directed Brokerage***

Occasionally, clients may direct the firm to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage the firm derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. The firm loses the ability to aggregate trades with other the firm advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

### **B.3. Aggregating Securities Transactions for Client Accounts**

#### **B.3.a. Best Execution**

The firm, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, and the amount of such securities. The firm recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. The firm will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement

- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, the firm seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of the firm's knowledge, these custodians provide high-quality execution, and the firm's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, the firm believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

#### **B.3.b. Security Allocation**

Since the firm may be managing accounts with similar investment objectives, the firm may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by the firm in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

The firm's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. The firm will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

The firm's advice to certain clients and entities and the action of the firm for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of the firm with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of the firm to or on behalf of other clients.

#### **B.3.c. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may



also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if the firm believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.3.d. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

The firm acts in accordance with its duty to seek best price and execution and will not continue any arrangements if the firm determines that such arrangements are no longer in the best interest of its clients.

### **B.4. Review of Accounts**

#### **B.4.a. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

All client accounts are monitored on an ongoing basis, with a formal review conducted at least annually or as agreed upon with individual clients. The reviews focus on the consistency of portfolio investments with each client's stated objectives and risk tolerances. Reviews also consider investment restrictions requested by individual clients, investment time horizons, liquidity needs, tax considerations, and other circumstances unique to each client.

On a quarterly basis, the performance of each client account is reviewed to monitor consistency with market benchmarks that we deem applicable. Account reviews may also be triggered by other factors such as changes in general economic and market conditions, analyst reports, issuer news, and interest rate movement.

Cash levels are reviewed at least quarterly. After consideration of the above factors, allocation and investment determinations are made. Thereafter, accounts are reviewed on a transaction, monthly, quarterly, or annual basis as needed. At least annually, accounts are rebalanced to their strategic and tactical allocations. Account reviews may be triggered by potential change (beyond client's needs) including analyst reports, company news, fund management change, and interest rate movement.

Waterloo Capital's CEO is responsible for all reviews.

**B.4.b. Review of Client Accounts on Non-Periodic Basis**

The firm may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how the firm formulates investment advice.

**B.4.c. Content of Client-Provided Reports and Frequency**

Clients will receive statements from their custodian/broker-dealer at least quarterly. These statements identify the current investment holdings, the cost of each of those investments, and their current market values. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by Waterloo Capital Management. Clients will also receive performance analysis reports prepared by Waterloo Capital Management which describe the returns realized on the investments in their accounts

**B.5. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest****B.5.a. TD Ameritrade AdvisorDirect Program**

Waterloo Capital Management may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, Waterloo Capital Management may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with Waterloo Capital Management and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise Waterloo Capital Management and has no responsibility for Waterloo Capital Management's management of client portfolios or Waterloo Capital Management's other advice or services. Waterloo Capital Management pays TD Ameritrade an ongoing fee for each successful client referral. For referrals that occurred through AdvisorDirect before April 10, 2017, this fee is a percentage (not to exceed 25%) of the advisory fee that the client pays to Waterloo Capital Management ("Solicitation Fee"). For referrals that occurred through AdvisorDirect on or after June 9, 2017 the Solicitation Fee is an annualized fee based on the amount of referred client assets that does not exceed 25% of 1%, unless such client assets are subject to a Special Services Addendum. In the case of a Special Services Addendum, the Solicitation Fee is an annualized fee based on the amount of referred client assets that does not exceed 10% of 1%. Waterloo Capital Management will also pay TD Ameritrade the Solicitation Fee on any assets received by Waterloo Capital Management from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired Waterloo Capital Management on the recommendation of such referred client. Waterloo Capital Management will not charge clients

referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

Waterloo Capital Management's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, Waterloo Capital Management may have an incentive to recommend to clients that the assets under management by Waterloo Capital Management be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, Waterloo Capital Management has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. Waterloo Capital Management's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

#### **B.5.b. TD Ameritrade Additional Services**

Waterloo Capital Management also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment Advisors participating in the program. Specifically, the Additional Services include the receipt of up to \$40,000 in products and services from Bloomberg, Thinkpipes, Money Guide Pro, Dorsey Wright, Advisys, and Morningstar. TD Ameritrade provides the Additional Services to Waterloo Capital Management in its sole discretion and at its own expense, and Waterloo Capital Management does not pay any fees to TD Ameritrade for the Additional Services. Waterloo Capital Management and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

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

**B.5.c. TD Ameritrade Institutional Advisor**

Waterloo Capital Management serves on the TD Ameritrade Institutional Advisor ("Panel"). The Panel consists of a number of independent investment advisors that inform and provide feedback to TD Ameritrade Institutional ("TDAI") on issues relevant to the independent advisor community. Waterloo Capital Management has been appointed to serve on the Panel for a three-year term by TDAI. TD Ameritrade, Inc. ("TD Ameritrade") does not compensate Waterloo Capital Management for serving on the Panel, but TDAI pays or reimburses Waterloo Capital Management for the travel, lodging, and meal expenses incurred in attending in-person Panel meetings. The potential benefits received by Waterloo Capital Management or its personnel by serving on the Panel do not depend on the amount of brokerage transactions directed to TDAI.

**B.5.d. Advisory Firm Payments for Client Referrals**

Waterloo Capital Management does not pay for client referrals.

**B.6. Financial Information****B.6.a. Balance Sheet**

Waterloo Capital Management does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

**B.6.b. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

The firm does not have any financial issues that would impair its ability to provide services to clients.

**B.6.c. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report for this item.