

**ITEM 1: COVER PAGE**

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# Disclosure Brochure

*Part 2A of Form ADV*

**September 17, 2020**

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## **ITEM 2: MATERIAL CHANGES**

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This is Semita Asset Management's second 2020 amended filing of this Form ADV – Part 2A as of September 17, 2020.

The Material Changes made to the June 30, 2020 filing of our Form ADV include:

**Item 10:** Other Financial Industry Activities and Affiliations. . . . . Page 25

Updated / modified disclosure regarding nature of certain relationships with non-affiliated financial service firms.

**Item 13:** Review of Accounts. . . . . Page 31

Updated specific individuals responsible for periodic client account review process

**Item 14:** Client Referrals and Other Compensation . . . . . Page 34

Included disclosure regarding Semita's participation in Ramsey Solutions' SmartVestor™ advertising program for investment advisory firms.

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## **ITEM 4: ADVISORY BUSINESS**

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### **Firm Description**

Semita Asset Management LLC, a Texas limited liability company, (“we” or “us” or “our firm” or “our company”) is an investment advisory firm pending registration with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the requirements under the Investment Advisors Act of 1940, as amended. In addition, we have filed notice filings with the states of Texas, Georgia, and Louisiana. Registration with the SEC does not imply a certain level of skill or training.

Semita Asset Management LLC was founded in 2015 by Michael A. Meagher, CFA®, CKA® its majority owner and Chief Executive Officer.

We offer the following types of services:

- Investment Strategy & Management Services
- Portfolio Management of Separately Managed Accounts
  - Model Portfolios
- Selection and Monitoring of Sub-advisory relationships
  - Separately Managed Accounts
  - Alternative Investments / Private Fund Investments
- Financial Planning
- Philanthropic Consulting
- Personal Financial Consulting

As of December 31, 2019, manage approximately \$99,559,000 in assets under management on a discretionary basis.

### **Financial Goal Planning Services**

We provide financial goal planning services to our clients whereby we assess their current and estimated future financial situation by using currently known information about the client and certain mutually acceptable assumptions about the future. A planning engagement normally includes gathering information from the client to project items such as future cash flows, taxes, and asset values, among other items. Clients receive a written financial plan analysis report that includes a proposed financial plan designed to provide financial guidance and implementation action items for them as they pursue their financial goals and objectives.

A financial plan will generally address some or all the following issues:

- Financial Goals
- Cash Flow Planning
- Insurance Needs
- Retirement Planning
- Education Planning
- Employee Benefits
- Personal Net Worth
- Tax Planning
- Estate Analysis
- Portfolio Review
- Charitable Giving
- Nonqualified & Deferred Compensation

The scope of our financial planning services will be based upon a mutually agreed upon, written financial planning agreement with each client. We have two financial planning offerings for clients of Semita Asset Management. For clients who accept our Wealth Management Agreement, our financial planning and investment management services are included under the wealth management fees set forth in the mutually

agreed upon Wealth Management Agreement. Typically, clients must have \$400,000 under our management to qualify for our Wealth Management Service. Semita Asset Management clients who do not meet the minimums for our Wealth Management Service, but do meet the minimums to engage us for our Investment Management Service may elect to engage us on an fixed fee basis for our financial planning services. This is a separate charge from the investment management fees such clients could agree to pay Semita for investment strategy implementation and supervision. Non-investment advisory clients may also elect to engage us on an fixed fee basis for financial planning services only and may implement and manage our proposed strategies as they desire.

To better serve our clients, we will strongly encourage all of our investment advisory clients to complete our financial planning process. With clearly defined goals in mind, clients will have a better understanding as to how their resources might be invested, better aligning them with their goals. To complete the financial planning process with the client, we will complete the following steps, specifically outlining the responsibilities of each party throughout the financial planning process:

- Define the scope of the engagement, thereafter, defining goals, needs and objectives with the client
- Gather and provide appropriate data
- Examine and analyze the results of the current course of action without changes
- Formulate any recommended strategies to improve the client's financial planning situation
- Presentation of implementation techniques and responsibilities
- Ongoing monitoring responsibilities for investment advisory clients

Our firm does not provide any tax advice or legal services that may result from the financial planning report and recommendations. Likewise, we do not implement insurance planning recommendations on our clients' behalf. We may, in certain instances, recommend that the client implement such strategies with certain third parties. The client is free to accept or decline our recommendations regarding third-party service providers.

### **Investment Strategy & Management Services**

Our firm provides active, on-going management in the implementation of an investment plan for each wealth management or investment advisory client. For wealth management clients, the process begins with identifying a client's overall financial goals and objectives through our financial planning process and establishing a time horizon for the use of the investment assets. We then assess the level of risk / market value volatility a client would be willing to accept, subsequently recommending an asset allocation intended to meet the client's objective(s) balanced with the client's risk / market volatility tolerance. For investment management-only clients, we complete a risk assessment but not a financial planning engagement unless the client pays a fixed fee based upon Assets Under Advisement.

In implementing our client's investment strategy, we manage our client's investment portfolio(s) on a discretionary basis. As a discretionary investment adviser, we will have the authority to supervise and manage the portfolio without prior consultation with our client.

The client may impose certain limited restrictions on investing in certain securities, types of asset classes, types of securities, or sectors and industries. The imposition of restrictions or limitations on a portfolio we manage may result in investment performance results and account volatility that could be materially different than that experienced by client accounts without such restrictions or limitations. Such material differences for restricted portfolios may be to the advantage or to the disadvantage of such restricted accounts relative to fully discretionary or unrestricted accounts

Generally, we develop investment portfolios for our clients utilizing both direct ownership in marketable investment securities and indirect ownership (i.e., ownership through various pooled investment vehicles such as open-end mutual funds, closed-end mutual funds, exchange traded funds [ETFs], etc.) of marketable investment securities. Our client's investment strategy may include one or a combination of the following types of investment categories:

- Money Market Funds
- Government Securities
- Municipal Bonds
- Corporate Bonds
- Preferred Stocks
- Foreign Issued Bonds
- Separately Managed Accounts Managed by Third Party Manager(s)
- Common Stocks
- Master Limited Partnerships (MLPs)
- Real Estate Investment Trusts (REITs)
- Foreign Issued Securities
- Commodity Related Securities
- Option Contracts on Securities
- Private Investment Partnerships Issued by Third-Party Sponsor(s) / Manager(s)

Our clients may own a wide variety of investment products before engaging us as their investment adviser. Clients may request that we hold their legacy positions for a period or even indefinitely. The continued holding of legacy positions in a portfolio we manage may result in investment performance results and account volatility that could be materially different than that experienced by client accounts without such legacy positions or holdings. Such material difference for such portfolios may be to the advantage or to the disadvantage of such accounts relative to fully discretionary or unrestricted accounts. Normally, we can accommodate such a request to maintain legacy positions. However, we reserve the right to not accept the management responsibility for legacy positions and / or excess restrictions on the accounts we manage.

The specific investment opportunities available for client investments may differ due to the client's investment platform or custodian (e.g., Fidelity Investments, Schwab Institutional, Wells Fargo, etc.). Investments that may be available under one platform or custodian may not necessarily be available utilizing another platform or custodian. Furthermore, clients who elect to engage us only as investment managers under an Investment Advisory Agreement will have a more limited selection of investment opportunities inasmuch as we will not offer our individual security portfolios to those clients. For clients operating under an Investment Advisory Agreement, we will use pooled vehicles, including ETFs and Mutual Funds.

## **Portfolio Management**

Through personal financial planning and / or risk tolerance discussions with the client in which the client's goals and objectives are established, we determine a strategy for the use of one or more of our Model Portfolios that is suitable based upon the client's individual circumstances. Specific portfolio recommendations are made to meet the needs of the client consistent with their investment objectives, time horizon, cash withdrawal needs / desires, and tolerance for risk / volatility in account value, among other considerations. Once the client and his or her Financial Advisor agree upon the asset allocation and which

Model Portfolios are suitable for the client's account, we manage the client's portfolio on a discretionary basis within those guidelines.

We offer advisory services utilizing three primary vehicles: 1) the management of accounts held by a singular investor, whether an individual or an investment entity, which we refer to as a separately managed account ("SMA") 2) the management of sub-advisory accounts on behalf of our clients ("SAA"), and 3) the recommendation to use private investment funds or Alternative Investments sponsored by and / or managed by third party advisers.

### **Separately-Managed Accounts ("SMA")**

To meet the investment needs and objectives of our clients, we manage individually owned accounts custodied at third-party brokerage firms or trust companies in several ways.

For most clients, we provide more comprehensive and extensive services by managing the entirety of an investment portfolio. In recommending specific Model Portfolios designed to meet their desired balance between goal attainment / potential returns and volatility, clients may be exposed to a variety of asset categories; such as government bonds, corporate bonds, high yield bonds, municipal bonds, preferred stocks, master limited partnerships and real estate investment trusts, emerging markets, commodity funds or exchange traded funds ("ETFs") meant to achieve a targeted return and volatility over market cycles.

However, for some clients, we may be engaged to manage only one type of asset class within their overall investment portfolio. For example, a client may have a diversified account over which we may only exercise discretionary authority over large-cap equities or common stocks.

Our firm provides investment management services to clients primarily utilizing our proprietary Model Portfolios constructed to target specific risk / market value volatility with their corresponding potential investment rate of returns. To guide us in recommending specific Model Portfolios to our clients, client goals and objectives are assessed individually and are defined by expected time horizon, potential rate of return expectations, tolerance for expected volatility, and asset diversification goals subject to clients' reasonable limitations or restrictions.

Our Model Portfolios are described in detail in *Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss*.

### **Sub-Advisory Accounts ("SAA")**

When appropriate, we may from time-to-time enter sub-advisory agreements for separately managed account(s) with another registered investment adviser. Such SAAs are normally established to fulfill specific asset class mandates required in our efforts to meet our clients' goals and objectives. The utilization of SAAs occurs most often with high net worth clients who have portfolios in excess of five million dollars and who also engage the custodian services of a firm that offers such third party sub-advisory services to its clients. We will periodically either perform due diligence reviews or review due diligence reports provided on the sub-advisory firm by the custodian firm. We will maintain executed agreements for these arrangements on file for review by and presentation to our SAA clients upon request.

With SAAs, we select and recommend one or more managers that we believe are appropriate for the client's needs and objectives. We do not make individual security selection decisions in the sub-advised account. The SAA manager buys and sells securities over time as they manage the account directly on the client's behalf. We monitor the investment account, but not to the degree that we would monitor investments in

accounts that we directly manage. We review the SAA manager's reports and investment returns and perform periodic due diligence on the SAA manager

The fee schedules and account minimums vary by sub-advisor. Such sub-advisory fees may be negotiated with the sub-adviser from time-to-time by us. Sub-advised accounts may have one of three different advisory fee arrangements:

- **Additional Fees Paid to Sub-Adviser** - Normally, when clients are advised by our firm to utilize the advisory services of a third-party sub-adviser, clients may be charged fees directly by the sub-adviser as mutually agreed in their respective investment advisory agreements. Any fee paid to us is usually separate from and in addition to the fees paid to the SAA manager.
- **Wrap Fees** - Under other arrangements with SAA managers, a Wrap Fee arrangement is utilized. A Wrap Program is one that charges one fee (the "wrap fee") for both the SAA manager's fee and the transaction expenses by the SAA account. Any fee paid to us is usually separate from and in addition to the Wrap Fee paid to the SAA manager.
- **Inclusive Fee Arrangement** - Under these agreements with some SAA managers, a portion of the advisory fees paid to us may be shared with the sub-advisor(s). Any fee paid to the SAA manager is deducted from the fees paid to us by the client.

When such sub-advisory arrangements are made, the sub-advisory arrangement will be disclosed by us to clients by delivery of the Form ADV Part 2A for us, the Form ADV Part 2A for the sub-advisory firm, and the investment advisory agreement for the client's SAA account.

Any such recommendation by us may constitute a conflict of interest. To address this conflict, we provide full disclosure to such client of our relationship with and compensation from such third-party sub-advisory firm and / or investment manager. For a full description of the services offered by a sub-advisory manager we select and recommend, clients should refer to that sub-advisor's Firm Brochure, advisory contract, and other disclosure documents. We are available to meet with clients, as determined by the client, to review the sub-advised accounts and our most recent due diligence findings.

### **Alternative Investments (Private Fund Investments)**

We may from time-to-time recommend that our client invest in the private funds (i.e., "Alternative Investments") sponsored and / or managed by a third-party adviser. These Alternative Investments may include investments in oil & gas ventures, real estate ventures, specific sector or industry related investments, commodities, structured securities, litigation or bankruptcy dispute resolution, medical royalties, various private equity investments, and "fund of funds" of such alternative investments, among other private investments. Any such recommendation by us may constitute a conflict of interest. To address this conflict, we provide full disclosure to such client of our relationship with and compensation from such third-party sponsor and / or investment manager. Additionally, when clients are advised by our firm to make investments in private investment funds, clients are charged fees directly by the private investment fund as mutually agreed in their respective partnership or investment advisory agreements. We do not assess additional investment advisory fees beyond those allowed by and charged by the private fund's partnership agreement.

Alternative Investments have different investment characteristics than publicly traded investments. Such different characteristics include, but are not limited to, larger minimum investment requirements, more narrow investor suitability issues, restricted or no liquidity offered to investors, and less-than-full transparency into the Alternative Investment's holdings on a timely basis. Alternative investments do not have the same regulatory reporting requirements, valuation standards, marketability, and regulatory



oversight as publicly traded investments and, as a result, are generally considered to have an elevated degree of risk as compared to publicly-traded investments.

We are available to meet with clients, as determined by the client, to review their Alternative Investments and our most recent due diligence findings.

### **Philanthropic Consulting**

Our clients may wish to develop personal charitable giving plans. We will advise on different giving strategies for our Wealth Management Clients, which may include the use of:

- Donation of Appreciated Investments
- Tax Strategies for Selling Private Businesses
- Non-cash Gifting of Assets
- Education Funding Strategies
- Estate Bequests
- Donor Advised Charitable Funds
- Charitable Gift Annuities
- Charitable Lead Trusts
- Charitable Remainder Trusts

### **Personal Financial Consulting**

To meet the unique needs of our clients, our firm may offer personal finance-related consulting services and recommendations not described in this brochure on an hourly basis.

### **Publications of Periodicals, Blogs and Educational Seminars**

Our firm may publish from time to time newsletters, position papers, blogs or articles and may host educational seminars providing general information on various financial topics including, but not limited to, financial planning, estate and retirement planning, market conditions and trends, our market forecast or outlook, etc. These publications and seminars and the information provided therein are not intended to meet the objectives or needs of any specific individual or client. Our publications are distributed and attendance at our seminars are free of charge.

### **Other Advisory Business-Related Comments**

- **Broad Financial Planning Advice** - Some clients may engage us to give advice on broader financial issues (e.g., investments “held away” or outside the account(s) we manage on client’s behalf, employer-sponsored retirement plans, real estate, alternative investments, personal financial matters, etc., etc.). If we provide advice about these assets or issues, clients should realize that the information available to us and your financial advisor may be limited; and, therefore, our or his / her recommendations may not be formed on the basis of all information that should be considered.
- **Individualized Service** - The investment and financial planning services received by one client may vary from the services received by another client. Factors such as client’s time horizon, investment objectives, tolerance for volatility or risk, account size, other client assets owned, and tax issues, among other factors, will affect the services and recommendations received and fees charged.

## ITEM 5: FEES AND COMPENSATION

### Compensation / Advisory Fees

Our primary source of revenue is derived from wealth management advisory fees based upon the amount of assets under management for wealth management and investment management clients or assets under advisement for financial planning clients. We generally charge fees on accounts based on the service offerings desired and the respective fee schedules indicated below:

	Financial Life & Wealth Management	Financial Planning & Guidance	Discretionary Investment Management	Portfolio Reporting
<b><u>Target Client</u></b>	High Net Worth Client desiring comprehensive financial life and wealth management services	Client desiring customized financial planning and guidance only	Client with \$250,000 or more of investable assets ~ or ~ at least \$100,000 in investable assets on an asset accumulation growth track	Family Offices, Registered Investment Advisers, and Corporate Executive Benefit Programs
<b><u>Product Offering</u></b>	Comprehensive wealth management services utilizing investment portfolios consisting of <u>individual securities</u> and constructed to target Client's chosen risk and return profile and preferences regarding generation of capital gains and income	Assistance in defining / articulating Client's plans, goals and dreams regarding their future; projecting or estimating the Client's financial probability of achieving their goals; guiding Client through a broad list of financial issues that they will encounter	Discretionary management services utilizing <u>Exchange Traded Funds and / or Mutual Funds</u> in portfolios constructed to target Client's chosen risk and return profile	Client / Advisor / Corporate sponsors only desiring professional portfolio accounting services beyond custodian's / brokerage firm's reporting offering
<b><u>Servicing Model</u></b>	Periodic meetings based upon Client's personal preferences	After initial planning process and review meeting, Client will have access to financial planning system via Client Portal	Meet annually with financial advisor; and telecommunication access to advisors, as needed	Start up and ongoing Technical Support
<b><u>Fees</u></b>	<b>Annual Rate</b>	<b>Per Assignment</b>	<b>Annual Rate</b>	<b>Annual Rate</b>
Basis for Billing:	Asset under <u>Management</u>	Asset under <u>Advisement</u>	Asset under <u>Management</u>	Reported <u>Assets</u>

<b>Assets Under Management</b>	<b>Financial Life &amp; Wealth Management</b>	<b>Financial Planning &amp; Guidance</b>	<b>Discretionary Investment Management</b>	<b>Portfolio Reporting</b>
Up to \$ 500,000	1.25%	0.50%	1.00%	0.20%
Next \$ 1,500,000	1.00%	0.30%	0.80%	0.10%
Next \$ 3,000,000	0.60%	0.15%	0.50%	0.05%
Next \$ 5,000,000	0.45%	0.10%	0.40%	-
Greater than \$10,000,000	0.20%	0.05%	0.20%	-
<b>Minimum Fee</b>	<b>\$5,000</b>	<b>\$2,500</b>	<b>\$2,500</b>	<b>\$1,000</b>
<b>Annual Retainer Fee for Financial Planning Software</b>	-	<b>\$ 400</b>	-	-

<b>Consulting Advice &amp; Management Services Provided:</b>	<b>Financial Life &amp; Wealth Management</b>	<b>Financial Planning &amp; Guidance</b>	<b>Discretionary Investment Management</b>	<b>Portfolio Reporting Services</b>
<b><u>Desired Outcomes / Results:</u></b>				
Accomplishing Your Life's Purpose	✓			
Taking Care of Loved Ones	✓			
Leave a Family & Community Legacy	✓			
Developing an Actionable Plan	✓	✓		
Accumulating Wealth	✓	✓	✓	
Being Better Organized	✓	✓	✓	✓
Being in Better Control	✓	✓	✓	
More Freedom with Your Time	✓		✓	
Reduced Anxiety / Worry	✓	✓	✓	✓
<b><u>Concierge Services &amp; Advice:</u></b>				
Insurance Coverage Advice	✓	✓		
Residential Real Estate Strategies	✓	✓		
Charitable / Philanthropic Consulting	✓	✓		
Legacy & Generosity Journey	✓	✓		
Estate Planning Strategies	✓	✓		
Coordination with Estate Attorneys	✓			
Tax Planning Strategies	✓			
Coordination with Tax Advisers	✓			
Proxy Voting	✓		✓	
Settlement Claims Processing	✓		✓	
Client Portal / Electronic Vault	✓	✓	✓	✓
<b><u>Goals-Based Financial Planning &amp; Consulting:</u></b>				
Defining Life & Financial Goals	✓	✓		
Cash Flow Budgeting	✓	✓		
Home Purchases / Real Estate	✓	✓		
Retirement Planning	✓	✓		
Retirement Account Strategy	✓	✓		
Social Security Guidance	✓	✓		
Education Funding	✓	✓		

*Semita Asset Management LLC. – Disclosure Brochure*

New Business Funding	✓	✓		
Long Term / Eldercare Expenses	✓	✓		
<b>Investment Management Services:</b>				
Personal Financial Advisor	✓		✓	
Personal Financial Planner	✓	✓		
Risk Assessment	✓	✓	✓	
Asset Diversification	✓	✓	✓	
Security Selection	✓		✓	
Investment Management	✓		✓	
Account Drawdown Advice	✓		✓	
Tax Loss Harvesting	✓		✓	
Portfolio Accounting	✓		✓	✓
Performance Reporting	✓		✓	✓

*Services not included (✓) in a specific offering package outlined above are available to all clients on an hourly consulting fee basis.*

**Advisory Fee Calculations:**

- **Frequency** – Investment Management and Wealth Management fees are typically calculated, billed, and paid quarterly, in advance. Financial planning fees are billed per assignment with a portion of the estimated fee billed in advance and the balance billed upon completion of the engagement. Fees for annual retainer with ongoing financial planning portal access for planning clients and for Portfolio Reporting Only are billed quarterly in advance.
- **Basis** – Advisory fees are calculated at the respective percentage for each tier of value as of the quarter-end valuation of the client's portfolio, as determined by the account's custodian / plan report / reported accounts' value, for the quarterly period ending immediately prior to the calculation of the account's upcoming fee. **Example:** Utilizing the indicated fee structure for a **Financial Life & Wealth Management** client with a **\$1,500,000 account**, the fee calculation would be:

Asset Values	Annual Fee Basis	Annual Advisory Fee
First \$ 500,000	1.25%	\$ 6,250
<u>Next \$ 1,000,000</u>	1.00%	<u>\$ 10,000</u>
<b>Total \$ 1,500,000</b>	<b>Total Annual Fee</b>	<b>\$ 16,250</b>

- **Aggregation** - We normally aggregate clients' assets under management when clients retain us to manage multiple portfolios. The aggregation of account values will be completed for the determination of investment advisory fee breakpoints as outlined in the Fee Schedules listed above. Then, the aggregate investment advisory fee will be prorated to the respective accounts on an asset under management basis.
- **Deductions from Client's Account** – We deduct our Advisory Fees directly from our client's account with their custodian / brokerage firm. Financial planning and Portfolio Reporting Only fees are payable via ACH (Automated Clearly House) electronic transfers or checks.
- **Termination of Account** - In the event an Investment Management client terminates during the middle of a billing period, we will reimburse any unearned fees to which the client is entitled based upon a daily prorated fee for the period the account was under our supervision. This unearned fee reimbursement will be processed and deposited into the client's account within two (2) weeks of our receipt of client's written termination notice. In cases where a

client received a written financial plan created by us in the most recent calendar year, we may adjust the reimbursement of fees at termination as applicable for the full amount of time spent in developing the client's financial plan before reimbursing any unearned Investment Management fees. Annual retainer and financial planning portal access and Portfolio Reporting engagements must be terminated with ninety (90) days prior notice before we will reimburse any such fees that would be unearned by us.

The fees charged to clients and fee payment arrangements may vary from the above due to negotiated fee arrangements and due to the timing and circumstances under which the client initially engaged the firm's services inasmuch as our firm has clients that have engaged our services over time under various forms of investment advisory arrangements and agreements. Additionally, our firm has accepted the assignment of investment advisory agreements from other investment advisory firms which had different fee arrangements, fee schedules and agreements. Similarly, the fees charged associated persons or their family members, and employees and their family members, may be lower than fees offered to other clients; or no fee may be charged at all.

Our investment advisory fees and our fee payment arrangements are negotiable based upon various facts involving the account(s) and the management of the account(s) [e.g., size of account, efficiency of the investment strategy, operating efficiency with the custodian, among other factors.]

## **Compensation – Hourly Consulting Fees**

For clients that engage us in services not included in their selected service offering, we generally charge financial consulting fees based on the following hourly fee schedule:

### ***For Hourly Planning Services Only:***

	<u><b>Associate Adviser's Time</b></u>	<u><b>Lead Adviser's Time</b></u>
<b>Hourly Rate</b>	\$ 150. <sup>00</sup>	\$ 250. <sup>00</sup>

## **Additional Fees**

In addition to our advisory fees noted above, clients may incur the following fees or expenses relating to their investment activities:

- **Brokerage Commission and Custodian Charges:** Our advisory fee does not include transaction costs (e.g., brokerage commissions and custodian fees and charges) incurred by the client's account or other direct out-of-pocket costs incurred by us as a result of providing the investment services. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, administrative settlement fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund transfer fees, and taxes on brokerage and securities transactions. Brokerage commissions and fees are charged by and paid to the client's brokerage/custodian firm. These charges and fees are usually deducted from the client's account in association with certain investment transactions or on a recurring time basis. Such fees and charges are disclosed on the brokerage/custodian firm's statements delivered to the client.
- **Investment Interest Expenses:** Clients that have margin or line of credit agreements for their accounts with their brokerage/custodian firm may incur investment interest expense charges. Such expenses and charges will be incurred if or when the client account is temporarily out of balance

or overdrawn due to the timing of trade settlements. Furthermore, when pre-approved by the client, a client will incur investment interest expense charges when leveraging or borrowing additional funds against their investment assets. Investment interest expenses and fees, if or when incurred, are charged by and paid to the client's brokerage/custodian firm. These charges and fees are usually deducted from the client's account on a recurring time basis. Such investment interest expense fees and charges are disclosed on the brokerage/custodian firm's statement delivered to the client.

- **Investment Companies' or Pooled Investment Securities' Fees:** Investment companies (e.g. open-end mutual funds, closed-end mutual funds, exchange traded funds, money market funds, etc.) and other pooled investment vehicles typically charge investment management fees and other expenses to their investors. These charges and fees are usually deducted on a recurring time basis from the investor's asset base invested with the respective fund. The fees and expenses generally are disclosed in the applicable fund's prospectus and in their periodic financial reports to shareholders of the fund. When these funds are selected for client accounts, the client will bear a proportionate share of those fees and expenses as a shareholder of those funds. Investment management fees and other such expenses are charged by and paid to the investment company or pooled investment fund. Such fees are exclusive of and in addition to our advisory fee. We do not receive any portion of these fund commissions, fees or costs.
- **Fees associated with Sub-Advised SMAs:** In some client-specific circumstances, we may enter into sub-advisory agreements for SMAs with other registered investment advisers for the benefit of that specific client. Such sub-advisory agreements are normally established to fulfill specific asset class objectives required by the respective client in their statement of goals and objectives. Under these agreements, a portion of the advisory fees paid to us will be shared with the sub-advisors. Under other arrangements with SAA managers, a Wrap Fee arrangement is utilized. A Wrap Program is one that charges one fee (the "wrap fee") for both the SSA manager's fee and the transaction expenses by the SAA account. Any fee paid to us is usually separate from and in addition to the Wrap Fee paid to the SAA manager.

The fee schedules and account minimums vary by sub-advisor. Such sub-advisory fees may be negotiated with the sub-advisor from time-to-time by us. When such sub-advisory arrangements are made, the sub-advisory arrangement will be disclosed by us to clients by delivery of our and the applicable sub-advisory firm's Form ADV Part 2.

- **Financial Consulting Fees:** On a pre-approved, negotiated basis, clients below our applicable account minimums may incur additional fees for broader-based financial advice, which may include but is not limited to: cash flow planning to meet future needs/goals; retirement planning; investment planning; college planning; and risk management planning. These services for clients who do not meet our applicable minimum account balances may be based on fixed fees or hourly fees, and the final fee structure will be documented in any contract for such services.
  - Fixed Fee: Depending upon the complexity of the situation and the needs of the client, our rate for creating longer-term financial and cash flow plans for a client begins at \$2,500, with a fixed fee assessed based upon Assets Under Advisement for the financial plan. One half of the applicable fee is due within ten days of the initiation of the engagement, with the remainder due within ten days of the termination of the engagement. The fees are negotiable, and the final fee schedule will be documented in any contract for such services. Clients may terminate their contracts without penalty, for full refund, within five (5) business days of signing the service contract.
  - Hourly Fee: Depending upon the complexity of the situation and the needs of the client, the hourly fee for certain planning services is \$150 - \$250. The minimum and maximum total fee amounts for an engagement of services are negotiable, and the final fee arrangements will be

documented in a written agreement for such services. Clients may terminate their agreement without penalty, for full refund of any advance deposits, within five (5) business days of signing the service contract. Thereafter, adviser's fees earned and due from client will be defined in the written agreement for such service.

- **Expense Reimbursement:** Clients may also incur charges for any and all costs and expenses (including taxes) incurred by us as a result of providing investment management services to our clients.

## **ITEM 6: PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT**

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### **Performance-Based Fees**

We do not charge performance-based advisory fees inasmuch as performance-based fees may result in conflicts of interest that we and our investment decision-making personnel might face by managing performance-based fee accounts at the same time we manage non-performance-based fee accounts. Such fee arrangements could provide us and our investment decision making personnel an incentive to favor accounts with performance-based fees.

## **ITEM 7: TYPES OF CLIENTS**

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As previously identified, our client base is comprised of SMAs and SAAs. We accept management agreements from any of the following types of clients:

- individuals,
- high net worth individuals,
- trusts,
- retirement accounts such as IRAs, 401(k)s, pension and profit-sharing plans,
- charitable organizations,
- foundations,
- endowments,
- partnerships, and
- corporations.

Depending upon the type of account or investments we manage for the benefit of a client, relationship minimum fees for wealth management services begin at \$5,000 annually. We may, in our sole discretion, choose to waive such minimum relationship annual fees requirements.

Client relationships with annual fees of less than \$5,000 will not qualify for our inclusive wealth management advisory fee solution. However, they may engage us on a fixed fee basis for planning services. For clients who elect to utilize our Financial Goal Planning Services on a fixed fee or hourly basis, financial planning minimum fees begin at \$2,500. We may, in our sole discretion, choose to waive such minimum annual fees requirements for our financial planning services.

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

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### **Understanding Goals and Objectives**

For our prototypical client, we invest their accounts in accordance with our understanding of their goals and objectives. We attempt to find investment solutions that contribute to the progress toward meeting or achieving those goals and objectives, with consideration given to the client's tolerance for risk or market value volatility and to their desire or need for a potential level of investment return. By using client existing and forecasted future asset values, their agreed upon risk tolerance, and hypothetical investment return estimates, we provide clients with a hypothetical projection of their assets' ability to or hypothetical potential for meeting their future needs and uses for those assets.

However, other clients may engage us on much less than the comprehensive advisory basis outlined above. Instead, some clients engage us to merely complete the financial planning process, or merely to invest their account following one of our investment models as they see fit with their overall investment and financial objectives.

### **Forecasting Economic and Financial Markets**

Our review of economic and financial history leads us to conclude that it is difficult to predict or forecast the financial market movements and actual future investment results. Recognizing that the future is uncertain for our firm and for our clients, we have adopted an investment philosophy that:

- utilizes historical economic and financial factors and principles in an attempt to assist our clients as they seek to meet their own designated future financial goals over time, and
- incorporates biblical principles and wisdom in developing and recommending our broader investment strategies and advice to clients.

### **Investment Philosophy**

Our investment philosophy is founded upon and incorporates the beliefs and principles that our leadership team has adopted based upon years of investment experience and, specifically, their certification training from Kingdom Advisors® and communications within its network of financial advisors. Our core beliefs include the following:

- **Uncertainty** - The world, our country, and the financial markets are not chaotic, but indeed are uncertain. This reasonable belief can lead us to reduce our exposure to high-risk environments and portfolios. Embracing this belief does not eliminate risk or volatility, but it can improve the chances for successful outcomes for our clients.
- **Limited Forecasting Ability** - Our belief in uncertainty and instability leads us to accept our limited ability to know the future and to predict the moods of the economy and / or the financial markets. This limited ability to know the future leads us to strongly advise our clients to depend upon conservative personal financial planning and steadfast investing behavior and to rely on effective portfolio diversification, incorporating multiple asset classes with relatively low correlation to other asset classes used in the investment portfolio.



- **Value Creation** - We believe that the source of wealth creation rests with our and our leaders' stewardship. Stewardship includes our individual abilities to be productive as well as our leadership's [e.g., governmental leaders' and corporate leaders'] ability to be protective of and productive with the assets with which we (they) have been entrusted. The manner in which leaders, governmental, corporate, etc., govern significantly impacts the productivity of the people they lead within the economy or within the company. We believe economies with greater civil and economic freedom and fair and enforced legal systems tend to provide more fertile ground for economic growth and investments due to their increased human productivity. Likewise, we believe that companies that are managed in an environment where proper stewardship of the company's assets [e.g. human capital, invested capital, community, etc.] is emphasized eventually result in higher levels of capital productivity and, therefore, of wealth creation.
- **Valuations** – We believe that the foundation of an investment selection decision should be based upon valuation to improve the prospect of future financial gains. Current and future prices should be tested to understand potential future valuation risks versus current valuation levels. In doing so, we believe we improve our prospects of achieving our objectives for such investments and for our clients' accounts. We believe that the financial markets are not always rational. We believe that investors' eagerness for gain, or fear of loss, can motivate investors during market bubbles or market crashes. We strive to exercise disciplined valuation processes in order to recognize and take advantage of opportunities created by such over-eagerness or excess fear, whether the irrationality be created in the overall financial market, in certain sectors or assets classes, or in individual investment securities.

As a result of implementing our investment philosophy, our mission statement incorporates the following values:

- **Stewardship** – We intend to demonstrate and model good stewardship in investing the assets we been entrusted to protect and manage for our clients. In so doing, we also coach and advise our clients as how to be good stewards of the assets and blessings that they have and continue to receive;
- **Contentment** – We intend to educate our clients and assist them in determining “how much is enough” regarding their financial assets and needs. Importantly, by implementing a disciplined, diversified approach with their investment portfolios, we intend to target a range of account value volatility that will allow our clients to be content. Specifically, we desire that clients become content with their ability to attain their objective goals, achieving their ultimate targets through a long-term investment strategy. With a disciplined, diversified approach in place, targeting a range of volatility will hopefully serve as a stabilizing factor throughout the up and down economic and market cycles that come and go.
- **Generosity** – Once our clients have learned to steward the assets with which they have been entrusted, we intend to assist our clients in exercising generosity with the assets and blessings they have accumulated. We coach and advise our clients on various approaches to philanthropic giving that should continue to pay intangible dividends to the beneficiaries, to the like-minded community, and to them for generations to come.

We have incorporated these three tenets into our statement of values:

*Stewardship. Contentment. Generosity.*

## **Methods of Analysis**

- **Resources and Analytical Tools** - In addition to incorporating our Investment Philosophy into our decision-making process, we also use investment industry tools to evaluate specific investments and sub-advisory managers that we recommend to clients. We utilize investment databases, analytical tools and research services to assist us in executing our disciplined investment approach. We consider the economic and investment views of other financial professionals, such as economists, market strategists, Wall Street analysts, separate account managers, mutual fund managers, and other such sources to gain additional insight for our investment decision-making process. We may utilize the investment services and advice of other investment professionals, such as the research departments of brokerage / custodian firms with which our clients are doing business or independent research services, to assist in our research process and / or the constructing / rebalancing / optimizing of client portfolios, when appropriate. We also rely on financial newspapers, professional journals, and other publications to assist us in developing our investment strategies and individual security selection decisions.

In selecting securities for our Model Portfolios and for our clients' accounts, we favor those that we believe most closely adhere to our Investment Philosophy as outlined above. In formulating our investment advice and / or managing our client portfolios, our security analysis includes various combinations of fundamental analysis, technical analysis, cyclical analysis, quantitative analysis, qualitative analysis, mutual fund and / or ETF analysis, and third party sub-advisory firm analysis.

The type of analysis used for specific investments will vary. For example, the analysis of a recommended mutual fund, exchange traded fund, or sub-advisory account would entail different research and analytics than would the evaluation of a general asset class such as large capitalization common stock.

In analyzing and managing our common stock or equity portfolios, we generally incorporate some or all of the following methods of analysis and portfolio construction:

- **Fundamental Research** – Our fundamental financial analysis and review process includes:
  - Evaluating the integrity of the targeted company's accounting statements;
  - Converting generally accepted accounting principles ("GAAP") financial statements into economic accounting statements;
  - Evaluating various financial metrics and ratios that contribute to cash flow return on invested capital to identify companies that have high returns and / or significantly improving returns on their invested capital;
  - Identifying "great businesses to own" for client portfolios based upon the results of the fundamental review; and,
  - Utilizing a broad spectrum of information, including financial publications, third-party research materials and systems, regulatory filings, company press releases, industry reports and periodicals, and corporate rating services.
- **Valuation** – Our valuation process seeks to evaluate the fair or intrinsic valuation of companies' common shares by:
  - Evaluating the value of the entire company based upon:
    - Cash flow forecasts for the company;

- Identifying companies that are currently trading at significant discounted prices relative to their perceived fair or intrinsic value; and,
- Evaluating this discounted cash flow valuation methodology's accuracy in estimating the actual market prices paid for the company's common shares in the past.

## **Investment Discipline**

Our objective is to maintain a consistent process regardless of market conditions. We have found that the biggest impediment to long-term, above-average performance is the tendency of investors, even professional money managers, to change their approach based upon changing market conditions. This is not the way we operate. We utilize a style that, we believe, works over the long-term. We seek to implement this disciplined approach regardless of the short-term market circumstances and nuances. We are committed to maintaining our focus as we strive for consistency.

Our investment selection process for common stock investing is to identify excellent businesses that demonstrate competitive positions. Once identified, we identify stock prices that reflect reasonable valuations compared to their expected cash flows, growth of cash flow, and use of invested capital. Our belief is that long-term success in the equity markets is achieved by investing in well-managed businesses that dominate their markets, as long as those investments are purchased at prices that are appropriate given the company's business fundamentals and prospects.

We assist clients in defining and articulating their goals, objectives, and restrictions or limitations for their investment portfolio. As a result of defining the goals and objectives, we assist clients in establishing an investment strategy. Investment strategy includes plans regarding:

- Asset Classes – The types of securities (e.g., common stocks, bonds, tax exempt bonds, real estate investment trusts, master limited partnerships, emerging markets investments, commodity-oriented funds and ETFs, sub-advised accounts, private funds, etc.) that will be utilized in the investment portfolio;
- Asset Allocation – The planned asset class mix or targeted range for each asset class expressed as a percentage of the client's portfolio (e.g., 60% - 75% common stocks);
- Common Stock Investment Strategy – Determining which of our model portfolios (see portfolio descriptions in the Advisory Services section) to incorporate into the client's portfolio, if appropriate; and,
- To assist clients in finalizing an investment strategy or policy statement, we review and consider various factors, such as:
  - The client's investment time horizon for the investment assets,
  - The client's financial ability and emotional willingness to incur financial losses,
  - The client's need to generate cash flow to meet objectives,
  - The client's longer-term goals and objectives such as longer-term withdrawal needs or targeted financial goals, and
  - Historical results and prospective outlook for the rate of return and volatility of the asset classes selected for use in the client's portfolio.

In some cases, clients independently develop investment strategies, goals and objectives for the investment assets entrusted to us. In such cases, we will confer with our client to confirm that the client's planned investment strategy is consistent with their own stated goals and objectives and with our historical review and prospective view of investment markets.

## **Risk of Loss**

Investment markets do fluctuate, at times substantially. Importantly, historical global and domestic economic events have confirmed that the investment 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 best in the management of client assets. However, we cannot guarantee any level of performance or that the client will not experience a loss of account assets. Investing in securities involves risk of loss that clients should be prepared to bear.

## **Common Stocks**

Common stocks are securities that represent ownership in a corporation. Holders of common stocks exercise control by electing a board of directors and voting on corporate policy. Material risks associated with common stock ownership include:

- **Loss of Money** – Loss of money is a risk of investing in common stocks. An investment in common stock is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental agency.
- **Volatility** – Common stock and related equity values fluctuate, sometimes widely, in response to various factors, including:
  - Activities specific to the company that issued the common shares,
  - General stock market, economic or political uncertainty, or
  - Adverse individual company developments.
- **Interest Rate Risk** – The most well-known risk in investing in financial assets is interest rate risk, which is the risk that security prices will fall as interest rates rise. As with buying most financial assets, including common stocks, the investor has committed to receiving forecasted or expected payback in the future, and perhaps, periodic dividend payments in the future. Should the market interest rates rise from the date of the purchase, the asset's value is likely to fall accordingly. The financial asset will then be trading at a discount or lower price to reflect the higher prevailing interest rates. Further, interest rate risks may impact the amount of cash available to distribute to shareholders as dividends or other distributions. Market interest rates are a function of several factors such as:
  - The demand for money in the economy,
  - The supply of money in the economy,
  - The inflation rate,
  - The stage of the business cycle, and
  - The government's monetary and fiscal policies.
- **Lower Priority Claim on Corporate Assets** – Common shareholders are generally at the bottom of the priority ladder in any ownership structure. In the event of liquidation or bankruptcy, common

shareholders have rights to a company's assets only after bondholders, preferred shareholders, and other debt holders and creditors have been paid in full.

## **Income Securities**

Income securities are investments that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. Generally, payments relating to a fixed income security are known in advance. Examples of fixed income securities include the following:

- **Government Bonds** – A debt security issued by a government to support government spending, most often issued in the country's domestic currency. Government debt is money owed by any level of government and is backed by the full faith of the government. Federal government bonds in the United States include: the savings bond, Treasury bond, Treasury inflation-protected securities (“TIPS”), and others.
- **Tax Exempt Bonds** – A security in which the income produced is free from federal, state and/or local taxes. Most tax-exempt securities come in the form of municipal bonds, which represent obligations of a state, territory or municipality. For some investors, U.S. savings bond interest may also be free from local and state income taxes.
- **Corporate Bonds** – A debt security issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Corporate bonds are considered higher risk than government bonds. As a result, interest rates paid by corporate bonds are usually higher than rates paid by government bonds, even for top-flight credit quality companies.
- **Preferred Stocks** – A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock is a financial instrument that has characteristics of both debt (e.g., fixed dividends) and equity (e.g., later-stage claims on corporate assets in the event of liquidation or bankruptcy). Preferred stock generally has a dividend that must be paid out before dividends to common stockholders. The shares usually do not have voting rights. The precise structure of preferred stock is specific to each corporation.
- **Variable Rate Securities** – An income security where payments change based on some underlying measure such as short-term interest rates, or the rate of inflation. An example would be Treasury Inflation Protected Securities (“TIPS”).

Income securities generally are less risky than common stocks. However, there are some material risks to consider relating to these investments, including the following:

- **Loss of Money** – Loss of money is a risk of investing in income securities. An investment in income securities is not a deposit in a bank and is not insured or guaranteed by the FDIC or any other governmental agency.
- **Interest Rate Risk** – As with common stocks, income securities are subject to interest rate risk. By buying an income security, such as a bond, the bondholder has committed to receiving a fixed rate of return for a fixed period. Should the market interest rate rise from the date of the bond's purchase, the bond's price will fall accordingly. The bond will then be trading at a discount or lower price to reflect the higher prevailing interest rates.

- **Reinvestment Risk** – The risk that the proceeds from a bond might be reinvested at a lower rate than the bond originally provided. For example, imagine that an investor bought a \$1,000 bond that had an annual coupon or interest payment of 12%. Each year the investor receives an interest payment of \$120 (12% X \$1,000), which can be reinvested back into another bond. However, imagine that, over time, the market rate falls to 1%. Suddenly, the interest payment of \$120 received from the bond can only be reinvested at 1%, instead of the 12% rate of the original bond.
- **Call Risk** – The risk that a security will be called by its issuer. Callable securities have call provisions, which allow the security issuer to repurchase the security from the investor and retire the issue. This is usually done when interest rates have fallen substantially since the issue date. Call provisions allow the issuer to retire the old, high-rate security and sell low-rate securities in an effort to lower their cost of borrowing money.
- **Default Risk** – The risk that the security's issuer, whether it be a government or a corporation, will be unable to pay the contractual interest or principal on the bond in a timely manner, or at all. Credit rating services such as Moody's, Standard & Poor's and Fitch give credit ratings to bond issues, which helps to give investors an idea of how likely it is that a payment default will occur. For example, most federal government issues have very high credit ratings (AAA) inasmuch as governments can raise taxes or print money to pay debts, making default unlikely. However, small, emerging companies have some of the worst credit ratings (BB and lower). They are much more likely to default on their bond payments, in which case bondholders would likely lose all or most of their investment.
- **Inflation Risk** – The risk that the rate of price increases in the economy deteriorates the returns associated with the bond. This has the greatest effect on fixed bonds, which have a set interest rate from inception. For example, if an investor purchases a 5% fixed bond and then inflation rises to 10% a year, the bondholder will lose money on the investment because the purchasing power of the proceeds has been greatly diminished. The interest rates of variable rate or floating-rate bonds (i.e., "floaters") are adjusted periodically to match inflation rates or a specific interest rate index, limiting investors' exposure to inflation risk.

## **Master Limited Partnerships**

Master Limited Partnerships ("MLPs") are a type of limited partnership that is publicly traded and trades like a common stock on the major stock exchanges. There are two types of partners in this type of partnership. The limited partner is the person or group that provides the capital to the MLP and receives periodic income distributions from the MLP's cash flow, whereas the general partner is the party responsible for managing the MLP's affairs and receives compensation that is linked to the performance of the venture. MLP investors face several kinds of risk that are inherent in these types of investments and in the market, including the following:

- **Loss of Money** – Loss of money is a risk of investing in MLPs. An investment in MLPs is not a deposit in a bank and is not insured or guaranteed by the FDIC or any other governmental agency.
- **Volatility** – MLPs fluctuate, and at times widely, in response to various conditions, including:
  - Potentially less geographic and industry diversification among underlying operating assets,
  - Potentially lower trading volume than other securities,
  - Activities specific to the MLP that issued the partnership units,

- General stock market, economic or political uncertainty, or
- Adverse individual company developments.
- **Interest Rate Risk** – Similar to common stocks, MLPs are sensitive to interest rate risk. As with buying most financial assets, including MLPs, the investor has committed to receiving forecasted or expected payments in the future and changes in interest rates may adversely affect the value of these payments.

## **Real Estate Investment Trusts**

A real estate investment trust (“REIT”) is a security that trades like a common stock on the major exchanges and invests in real estate directly, either through properties or mortgages. REITs face various risks that are inherent in these types of investments, including the following:

- **Loss of Money** – Loss of money is a risk of investing in REITs. An investment in REITs is not a deposit in a bank and is not insured or guaranteed by the FDIC or any other governmental agency.
- **Volatility** – REITs fluctuate, and sometimes widely fluctuate, in response to various conditions, including:
  - Potentially lower diversification among underlying real estate portfolios,
  - Potentially lower trading volume than other securities,
  - Activities specific to the company that issued the REIT shares,
  - General stock market, economic or political uncertainty, or
  - Adverse individual company developments.
- **Interest Rate Risk** – Similarly to common stocks, REITs are sensitive to interest rate risk. As with buying most financial assets, including REITs, the investor has committed to receiving forecasted or expected payments in the future and changes in interest rates may adversely affect the value of these payments.
- **Liquidity Risk** – Investors in REITs may face liquidity risks stemming from the lack of marketability of an investment, in this case the underlying real estate properties owned by the REIT, which cannot be bought or sold quickly enough to prevent or minimize a loss.
- **Real Estate Market Risk** – Real estate investments involve certain additional risks such as:
  - Refinancing risks,
  - Real estate property valuation risks,
  - Property management risks, and
  - Potential conflicts of interest risk with fund management company.

## **Mutual Funds**

A mutual fund is an investment vehicle made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by investment management firms that invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio may be structured and maintained to match the investment objectives stated in its prospectus. Mutual funds possess the same risks,

including the risk of loss of money, associated with a direct investment in any of the securities collectively owned by the fund. Mutual fund investing also may involve other risks, including the following:

- **Investment Management Risk** – The risk of inferior investment decisions being made by the investment manager of the fund that could lead to investment performance below the results experienced by other fund managers or investment advisers.
- **Duplicate Fees** – The risk that the investment management fees paid to the mutual fund manager that are in addition to our advisory fees could materially reduce investment performance below results experienced by similarly managed accounts where duplicate management fees are not charged.

## **Exchange Traded Funds**

An exchange traded fund (“ETF”) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs are operated by investment management firms that invest the fund's capital and attempt to produce capital gains and income for the fund's investors. ETFs charge investment management fees that generally are significantly lower than the fees charged by mutual fund investment managers. An ETF's portfolio may be structured and maintained to match the investment objectives stated in its prospectus. ETFs possess many of the same risks described above with respect to mutual fund investing. In addition to those risks, the following risks are also associated with ETF investing:

- **Concentration of Investments** – The risk of more market value volatility due to a less diversified portfolio designed to meet more narrow investment objectives or to only utilize a more narrowly defined type of securities.
- **Duplicate Fees** – The risk that the investment management fees paid to the exchange traded fund manager that are in addition to our advisory fees could materially reduce investment performance below results experienced by similarly managed accounts where duplicate management fees are not charged.

## **Alternative Investments**

All investments in securities, including private investment partnerships, 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). Private investment funds possess many of the same risks associated with the other asset classes outlined herein. For more detailed information regarding the risks of investing in Alternative Investments or private funds, the client should refer to and review the respective private fund's offering memorandum and its partnership agreement.

Alternative Investments have different investment characteristics than publicly-traded investments. Such different characteristics include, but are not limited to:

- net worth and income requirements,
- minimum investment requirements,
- investor suitability,
- restricted or no liquidity,
- full transparency into the Alternative Investment's holdings on a timely basis,
- less regulatory oversight and reporting requirements,
- investment / security valuation standards, and



- marketability of the client's holdings in the Alternative Investment.

As a result of these characteristics, Alternative Investments are generally considered to have an elevated degree of risk as compared to publicly traded investments.

## **Cybersecurity Risks**

As the use of technology has grown, there are ongoing cybersecurity risks that make us and our clients susceptible to operational and financial risks associated with cybersecurity. To the extent that we are subject to a cyber-attack or other unauthorized access is gained to our systems, we and our clients may be subject to substantial losses in the form of theft, loss, misuse, improper release or unauthorized access to confidential or restricted data related to us and / or our clients. Cyber-attacks affecting our service providers holding our and / or client financial and other confidential and sensitive data may also result in financial losses to us and to our clients, despite efforts to prevent and mitigate such risks under our policies and procedures. While measures have been developed which are designed to reduce the risks associated with cybersecurity, there are inherent limitations in such measures and there is no guarantee those measures will be effective inasmuch as we do not directly control the cybersecurity measures of our service providers and financial intermediaries with which we do business.

## **ITEM 9: DISCIPLINARY INFORMATION**

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Neither we, nor our employees, have been involved in any legal or disciplinary events in the past ten (10) years that would be material to a client's evaluation of the company or our personnel.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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We do not have any affiliations with other Financial Industry companies.

Please see *Item 14-Client Referrals and Other Compensation* for information regarding:

- Solicitor Agreements: We have solicitor agreements with certain non-affiliated financial services firms. These solicitation agreements provide that the solicitors have agreed, on a non-exclusive basis, to solicit and refer to us prospective clients. In each case, we have agreed to pay to the solicitor a portion of any advisory fees that we receive from the applicable solicited clients. Solicitation fees paid to solicitors represent no additional expense to the applicable solicited clients. The solicitors have expressly agreed and acknowledged that neither firm is affiliated with the other firm and that the terms of our relationship are limited to their respective Solicitor's Agreement.
- Advertising Agreements: We have advertising agreements with certain non-affiliated financial services firms. Advertising agreements provide that the advertiser has agreed, on a non-exclusive basis, to advertise for us and refer to us prospective clients within specific geographic territories. Advertising fees paid to the advertiser represent no additional expense to the applicable solicited clients. The advertisers have expressly agreed and acknowledged that neither firm is affiliated with the other firm and that the terms of our relationship are limited to their respective advertiser's agreement.

Other than the above listed information, neither we nor other employees have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

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We have adopted a ***Code of Ethics*** for all supervised persons of the firm describing our high standard of business conduct, and fiduciary duty to our clients. All of our supervised persons must acknowledge the terms of the ***Code of Ethics*** at least annually or when amended.

Our written ***Code of Ethics*** addresses expected employee behavior and our expectations regarding the following topics:

- Professionalism
  - Employee Responsibility to Know the Laws
  - Independence and Objectivity in Making Judgments for Clients
  - Avoiding Any Misrepresentations
  - Avoiding Any Misconduct
- Integrity in the Capital Markets
  - Avoiding Use of Material Nonpublic Information
  - Avoiding Manipulative Practices regarding the Market
- Duties to Clients
  - Loyalty, Prudence, and Care of Client Interests
  - Fair Dealing
  - Suitability of Advice and Investments
  - Fair, Accurate and Complete Performance Presentations
  - Preservation of Client Confidentiality
- Duties to Our Firm
  - Loyalty of Service and Confidentiality of Intellectual Property
  - Disclosure of Additional Compensation Arrangements
  - Reporting any Known Violations of the Code of Ethic or Semita Asset Management's Policies and Procedures to the Appropriate Company Officer
  - Diligence and a Reasonable Basis for Advice and Actions
  - Effective and Thorough Communications with Clients and Prospective Clients
- Investment Analysis, Recommendations, and Action
- Conflicts of Interest
  - Disclosure of Conflicts of Interest

- Monitoring and Reporting of Personal Security Transactions
- Disclosure of Any Referral Fees or Commissions Received
- Responsibility to Protect the Reputation and Integrity of Our Firm and of Fellow Employees

Our compliance policies and procedures include various measures designed to assist us in adhering to our **Code of Ethics** and regulatory requirement for registered investment advisory firms such as ours. Our **Compliance Policies and Procedures** include procedures for monitoring employees' trading activities and investment holdings. The policy requires that non-exempt trades made by employees or by persons related to us be pre-approved by the designated person responsible for such oversight and review. Transactions exempt from such pre-approval process include trades in investment company securities (e.g., mutual funds) and/or other exempt transactions. Regarding non-exempt trades, employees and related parties may trade securities for their account(s) by participating in our firm's **Aggregation of Trade Orders** prepared and executed by our firm and receive allocations from such executed orders per our **Compliance Policies and Procedures Manual**. Please see **Item 12 – Brokerage Practices** and specifically the **Aggregation of Trade Orders** disclosure herein.

Additionally, our Chief Compliance Officer ("CCO") or his designee is responsible for receiving notice of and reviewing the trades of each employee. Quarterly reports listing the security traded, the number of shares or units traded, prices, symbols and custodian are reviewed and approved by the CCO or his designee no later than thirty (30) days after the end of the calendar quarter of which the transaction was affected.

Further, we maintain certain policies and procedures concerning the misuse of material non-public information (i.e., "inside information") that are designed to prevent insider trading by any officer, partner, or associated person of our firm. The policy regarding the prohibited use of material non-public information applies to both our affiliated parties' accounts and our clients' accounts.

We have adopted internal policies and procedures to implement and monitor our and our employees' practices regarding our **Code of Ethics**. Clients have the right to receive a complete copy of our **Code of Ethics** and may contact our CCO at 832.956.1000 or [Service@Semita-AM.com](mailto:Service@Semita-AM.com) to receive a copy.

## **ITEM 12: BROKERAGE PRACTICES**

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### **Counterparty Selection**

Although we are not affiliated with any broker-dealer, we do recommend or refer our clients to brokerage firms with which we have a positive, efficient, and professional working relationship. We have a strong preference that clients utilize a brokerage firm that has an efficient and effective combination of:

- Trade execution capabilities;
- Broad financial services capabilities to meet our clients' needs;
- Back office operation systems and personnel; and
- Brokerage commissions and fee schedules consistent with the quality of service we seek on their behalf.

In evaluating brokerage firms for referral or recommendation for our clients' use, we review a wide variety of characteristics and capabilities including:

- Functionality/capabilities,
- Operating systems' compatibility and efficiencies,
- Costs,
- Governance, and
- Financial condition of the brokerage firm.

While many brokerage firms cannot satisfactorily meet each criteria of evaluation, we collectively consider these factors in their totality in evaluating a brokerage firm, its services, and capabilities.

As a result of these preferences and due diligence practices, a significant majority of our clients utilize the custodian and brokerage services of Fidelity Investments and Charles Schwab Institutional.

## **Directed Brokerage**

However, clients may direct us to use a specific custodian/brokerage firm for their account other than those which we might recommend. Clients independently selecting brokerage firms and directing their brokerage business might incur operational limitations or challenges for their account, such as limiting our ability to:

- Negotiate commissions and other fees with the brokerage firm on their behalf such that the client may pay trading costs that are higher than those obtainable from other brokers;
- Allow them to participate in the purchase of an IPO along with other SMAs as the designated brokerage firm may not be part of the distribution syndicate;
- Batch or group the client's orders with our other orders for efficient trade execution such that the client may not receive, in some cases, timely execution of trade orders due to order placement practices of the selected brokerage firm; or
- Seek best execution services from brokerage firms - best execution services include a combination of varied services received by us from brokerage firms including operational support and investment research as described below.

## **Fees in Lieu of Brokerage Commissions**

To assist clients in managing and controlling brokerage commission costs associated with portfolio turnover or trading activity, some clients may seek "Asset Based Pricing" arrangements with certain brokerage firms. Asset Based Pricing arrangements are fees charged by the brokerage firm based upon a percentage of the total asset value of the account. Asset Based Pricing fees from various brokerage firms range from 0.15% to 0.25% of the asset value of the account on an annual basis. Asset Based Pricing allows clients to trade as often as desired without incurring brokerage commission charges. For certain asset-sized accounts, and with anticipated portfolio turnover rates, we assist clients in estimating which brokerage compensation arrangement would better serve their needs in managing and controlling such costs and expenses.

Asset Based Pricing arrangements are not offered by all brokerage firms. Brokerage firms that offer Asset Based Pricing arrangements might have certain requirements for an account to qualify for such brokerage firm compensation arrangements (e.g., annual minimum fees, minimum assets in the account, etc.).

## **Best Execution**

It is our fiduciary responsibility to seek the most favorable transaction terms available under the circumstances for our clients' accounts at the time of each trade. In seeking the most favorable transactions, we consider factors in addition to commissions and custodial settlement fees in the pursuit of the best execution of trades. "Best Execution" is the execution of transactions for client accounts in such a manner that the client's total cost or proceeds are the most favorable under the circumstances at the time of the trade. Best Execution does not necessarily mean paying the lowest possible commission or other trade settlement fees.

The additional factors and capabilities provided by executing brokerage firms that are considered by us may include the following:

- Transaction price and execution, especially with larger trades for multiple clients in batched or blocked orders;
- Supplemental investment research;
- Investment strategy/allocation research;
- Ability to leverage executing brokerage firm's technology;
- Confidential executions and client privacy;
- Customized trade reporting services/capabilities;
- Trading support services;
- Efficiency of back office capabilities/electronic interfaces with our systems;
- Financial strength/surety provided in trading activity;
- Other investment, reporting, or business operational services;
- Providing directly to us, or paying a third party for the provision of, certain research materials, data systems, analytical products or services, and other similar products and services used for the benefit of managing a client's investment portfolios; or
- Other services provided for the direct or indirect benefit of our firm, our clients, and/or the client's account(s).

Therefore, we may pay broker commissions that are higher than another broker might have charged for the same transaction, in recognition of our assessment of the value of the various value-added services listed above. However, when higher commission costs are incurred, we believe that the higher commission costs borne by client accounts are reasonable in relation to the overall services provided. The client account that bears the cost of such a commission for a particular trade will not necessarily be the sole beneficiary of such value-added services.

## **Soft Dollars**

We may enter into arrangements with brokers to benefit specific, qualifying client accounts by:

- having soft dollar credits rebated to the client's account or to have commissions recaptured by the client's account from which the credits or commissions were generated, or
- using soft dollar credits to pay expenses otherwise payable by client's account.

Either of the two uses of soft dollar credits / budgets listed immediately above would have the effect of enhancing the returns associated with such client's account from the returns that would exist absent such uses.

We also engage certain brokerage firms that offer Section 28(e) or "soft dollar" arrangements that we believe provides a benefit to our client base in general. "Soft dollar" credits or budgets or other such benefits are provided to us based upon the volume of trades and commissions received by the brokerage firm from our clients. Our use of these soft dollar credits / budgets / benefits is restricted to obtaining investment research and other investment decision-making products and services selected by us through arrangements provided by the brokerage firm(s). Such investment decision-making products and services may be available from the brokerage firm as a 'proprietary' service (a product or service created or developed by that firm) or 'non-proprietary' (a product or service developed and offered by a third-party) service and acquired for our use through these soft dollar credits / budgets / benefits. Such investment decision-making products and services might include some of the following:

- **Market Research**
  - Trade Order Management Systems
  - Pre-trade & Post-trade Analytical Systems
    - Post-trade matching of trade information
    - Electronic communications of allocation instructions
    - Routing of trade settlement instructions
    - Trade settlement and clearing
  - Research on Trade Optimization venues
  - Advice from brokerage firms regarding trade executions:
  - Research and Publications directed toward investment management and investment decision-making
- **Financial & Market Data**
  - Economic Data such as interest rates, inflation, unemployment statistics
  - Market Data such as stock quotes, last sale prices and trading volumes
  - Company Financial Analysis & Valuation Modeling Systems

The costs of research and other investment decision-making services and products are paid as a result of trading activity by client transactions executed at the brokerage firm(s). Any benefits received from such soft dollar arrangements may benefit our clients in addition to those clients whose trading activity actually generated the soft dollar credits. As a result of trading with brokerage firms providing soft dollar arrangements, clients may pay higher fees for comparable services they could receive other brokerage firms.

Using soft dollars to obtain investment research and/or related services creates a conflict of interest between us and our clients. Soft dollars may be used to acquire products and services that are not exclusively for the benefit of the clients which paid the commissions and that may primarily or exclusively benefit us. If we are able to acquire these products and services without expending our own resources (including advisory fees paid by clients), our use of soft dollars would tend to increase our profitability. Furthermore, we may have an incentive to select or recommend brokers based on our interest in receiving research or other products or services, rather than on our clients' interest in obtaining the lowest execution prices.

Our soft dollar practices are controlled and monitored by our Brokerage Committee following the firm's internal policies and procedures regarding:

- Selecting brokerage firms to engage in soft dollar trading arrangements;
- Selecting research and other related investment decision-making products and services to obtain through soft dollar credit programs; and
- Allocating the costs and expenses of mixed-use products and services among either:
  - Research and investment decision-making products and services vs. non-qualifying products and services, and
  - Our use vs. any affiliated companies' use of such products and services in the investment decision-making process.

Clients may obtain a summary of our Section 28(e) or soft dollar program, including a summary of their trade participation and commissions incurred in the program, by requesting a copy from our CCO 832.956.1000 or [Service@Semita-AM.com](mailto:Service@Semita-AM.com).

### **Aggregation of Trade Orders**

On occasion, we may group or batch orders for the same security to be traded / executed at a respective brokerage firm into one order prior to placing the trades. When we receive only partial fills on orders, the trades that were executed are aggregated and average prices are provided to clients on a pro rata basis on the size of the total shares executed. Unfilled shares are carried forward to the next trading day for aggregation, averaging, and allocating to the accounts as indicated.

We may group or 'batch' orders to buy or sell the same security for more than one advisory account managed and/or for our own account, or affiliated companies' accounts, or the personal accounts of our officers, directors, employees or other affiliated persons. We may, but we are not under any obligation to, batch or group the transactions.

Generally, once executed, the batched transactions are allocated proportionally to all subject accounts and at the average price received for the batched shares from the executing brokerage firm for the trading day. We may make exceptions to this procedure based upon special portfolio constraints, cash position, client or regulatory restrictions, odd-lot size of an available transaction, brokerage firm or custodian firm restrictions or operating procedures, or other equitable fiduciary reason. When it is not possible to receive the same price or time of execution for all of the securities purchased or sold in a batched order, such batched orders may be executed in one or more transactions at varying prices.

## **ITEM 13: REVIEW OF ACCOUNTS**

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Client accounts are periodically reviewed by various employees including traders, portfolio managers, and relationship managers. This includes, but is not limited to: Michael Meagher, CFA®, CKA®, Chief Executive Officer ("CEO"), Chief Compliance Officer ("CCO") & Chief Investment Officer ("CIO"), Joseph Ceasar, CKA®, Wealth Manager, and / or Justin Reede, CFP®, CKA®, Director of Financial Planning. As a result of analyzing our client's specific objectives regarding the timing and use of their investment assets in combination with their tolerance for risk / market value fluctuations, we are able to couple client accounts to one of our Aggregate Models intended to potentially deliver similar risk and returns. As a result, our ability to monitor our client portfolios is greatly facilitated by our use of a limited number of Aggregate Model portfolios across our client base.

Additionally, we have monitoring systems in place to identify accounts significantly or materially out of line with either client-stated asset allocations or our modeled portfolio positions for the respective asset class. This system is actively monitored by the traders and our CCO. Relationship managers are provided with such management reports as needed for their use in monitoring their clients' portfolio's adherence to client-stated asset allocations and our model portfolios, where applicable. Furthermore, these monitoring reports are reviewed at least quarterly by our CIO or his designee from the investment strategies team.

Finally, we review each account's investment performance relative to our other similarly-managed accounts with similar investment objectives and management discretion. This performance results monitoring process is intended to ensure clients with similar investment objectives and account terms and conditions are obtaining similar investment results from our investment advisory process.

Account reviews, in addition to those outlined above, may be undertaken due to:

- Change in market conditions;
- Change of security position(s);
- Request by client for a meeting, or the occurrence of such meeting;
- Change in client's investment objective;
- Change of our internal policies and procedures; or
- Other routine testing requested by our CIO, relationship managers, Portfolio Manager or CCO.

Client portfolio reports are available on a daily basis through the password protected online portal provided by our client portfolio accounting system. Content included in these portfolio reports include:

- Inventory of investment holdings in their account including:
  - Purchase date,
  - Number of shares/units purchased,
  - Cost basis of securities owned,
  - Market price and total market value of securities owned as of the close of the previous trade date, and
  - Realized capital gains and loss summary for the year to date.

We also provide a more comprehensive report to clients on a calendar quarter-end basis and, typically, at periodic account review meetings with clients. Quarterly reports are normally prepared and also published on our secure client portal for our clients' access, review, download, or printing. Alternatively, clients may request that we provide these reports in hard copy and deliver the reports to them by postal service. Also, clients may request reports from us covering interim reporting periods at any time.

Contents published to the client's secured account in their quarterly reports include:

- Inventory of investment holdings in their account including:
  - Purchase date,
  - Number of shares/units purchased,



- Cost basis of securities owned,
- Market price and total market value of securities owned as of the close of the previous trade date,
- Securities purchased and sold during the quarter,
- Realized capital gains and loss summary for the year to date,
- Investment performance reports and comparisons to benchmark indices' results, and
- Quarterly commentary reviewing investment markets' performance and our economic and market outlook.

Clients also receive similar reports from their respective custodians or brokerage firms. Such reports are frequently available from their custodian on a daily basis from their respective custodian's websites and on a monthly basis as applicable for each custodian. Clients are strongly encouraged to compare reports presented by us to those reports presented by their custodian firm(s) covering similar time periods. Any material differences between the two reports should be discussed with both parties independently until client has received adequate reconciliation and explanation of any material differences in the account statements.

Additionally, we furnish Financial Goal Plan Reports to clients. A brief overview of these reports is available on a daily basis through the password-protected online portal of the portfolio accounting system used by us for our SMAs. After periodic client meetings, we provide an updated hard-copy version of the client's Financial Goal Plan as well. The plan may include an analysis of any or all of the following:

- Client financial goals,
- Investment assets and other income sources,
- Insurance and long-term care planning needs,
- Estate planning needs,
- Retirement planning needs,
- Tax planning needs,
- Education planning needs,
- Social Security and Medicare planning needs,
- Employee benefit planning needs,
- Suggestions to improve the likelihood of plan success

The Financial Goal Plan is provided to the client in order that the client might have a more complete overview of their financial situation. This report is meant to serve as a guide for investment planning recommendations and for other financial decision-making.

## **Client Privacy**

We have adopted policies and procedures reasonably designed to protect various records and information of our clients. Except as authorized by each client and/or investor, private information about our clients is disclosed only as permitted by applicable law to our affiliates and service providers, including our accountants, attorneys, brokers, custodians, transfer agents and any other parties whose services are

necessary or convenient to the operation of client accounts. Notice of our privacy policy is provided on an annual basis to clients and is available to clients through our website [www.semita-am.com](http://www.semita-am.com) or from CCO at 832.956.1000 or [service@semita-am.com](mailto:service@semita-am.com).

## **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

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### **Solicitor's Agreements**

We compensate non-employees for soliciting investment advisory clients on behalf of our firm. Solicitation fees are negotiated on a case by case basis and documented in a written agreement with each solicitor.

The solicitation agreements (the "Solicitation Agreements") provide that the solicitors have agreed, on a non-exclusive basis, to solicit for and refer to us prospective clients. In each case, we have agreed to pay to the solicitor a portion of any advisory fees that we receive from the applicable solicited clients. Solicitation fees paid to solicitors represent no additional expense to the applicable solicited clients.

### **Advertising Agreements**

Additionally, we participate in an advertising and referral service. SmartVestor™ is an advertising and referral service for investment professionals operated by The Lampo Group, LLC d/b/a Ramsey Solutions ("RS"). When potential investors provide their contact information through the SmartVestor™ site, RS will introduce them to up to five (5) investment professionals ("Pros") that are in their geographic area, including Semita Asset Management ("Adviser"). It is up to the investor to interview Adviser and decide whether they want to hire them. If the investor decides to hire Adviser, they enter into an agreement directly with Adviser to provide them with investment advisory services. Advisers have signed a Code of Conduct under which Advisers have agreed to certain general investment principles, such as eliminating debt and investing for the longer-term, that are consistent with Dave Ramsey's philosophy, but RS does not monitor or control the investment advisory services Adviser provides to investors.

Adviser has entered into an arrangement with RS under which Adviser pays RS flat monthly fees of \$750 to advertise its services through SmartVestor™ and to receive client referrals in the form of an initial introduction to interested consumers who are located in Adviser's geographic region. The fees paid by Adviser to RS are paid irrespective of whether they become a client of Adviser and are not passed along to the investors. However, the presence of these arrangements may affect Adviser's willingness to negotiate below its standard investment advisory fees, and therefore may affect the overall fees you pay. Please ask us for more information about our fees.

RS is not affiliated with Adviser and neither RS nor any of its representatives are authorized to provide investment advice on behalf of Adviser or to act for or bind Adviser. No investment advisory agreement with Adviser will become effective until accepted by investor and Adviser.

Neither RS nor its affiliates are engaged in providing investment advice. RS does not receive, control, access or monitor client funds, accounts, or portfolios. RS does not warrant any services of Adviser or any SmartVestor™ Pro and makes no claim or promise of any result or success by retaining Adviser. Use of SmartVestor™, including the decision to retain the services of Adviser, is at the investor's sole discretion and risk. Any services rendered by Adviser are solely that of the Adviser. The contact links provided connect to third-party sites. RS and its affiliates are not responsible for the accuracy or reliability of any information contained on third-party websites.

All solicitation, referral, and advertising arrangements entered into by us are appropriately disclosed to applicable clients and are designed to be in substantial compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended.

## **ITEM 15: CUSTODY**

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### **Invoicing Our Client Accounts**

We are deemed to have custody of our clients' funds and securities due to our authority to make withdrawals from client accounts to pay our investment advisory and financial planning fees. However, our firm is not subject to a surprise examination regarding custody issues since:

- our firm has written authorization from each client to deduct advisory and / or planning fees from the account held with the qualified custodian, and
- each time a fee is directly deducted from a client account, we concurrently:
  - send the qualified custodian an invoice or statement of the amount of the fee to be deducted from the client's account, and
  - send the client an invoice or statement itemizing the fees charged. The itemization includes the formula used to calculate the fees, and the value of the assets under management or the hourly charges for the time expended on which the fees are based, and the time period covered by the fee calculations and charges.

### **Standing Letters of Authority**

We have been deemed to have inadvertent custody as a result of our clients providing us with Standing Letters of Authorization ("SLOA(s)") to withdraw funds from their portfolio accounts to pay third-parties. Notwithstanding that arrangement, our firm is not subject to a surprise examination regarding custody issues since we are relying on the conditions set forth in the No-Action letter issued by the Securities and Exchange Commission on February 21, 2017. Pursuant to the conditions set forth in the No-Action Letter, Semita confirms that:

- clients provide an instruction to their qualified custodian, in writing, that includes their signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed;
- clients authorize us, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time;
- we perform appropriate verification of the instruction, such as a signature review or other method to verify their authorization, and the qualified custodian firm provides a transfer of funds notice to the client promptly after each transfer;
- clients have the ability to terminate or change the instruction to their qualified custodian firm;
- we have no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in their instruction;
- we maintain records showing that the third party is not a related party of Semita or located at the same address as Semita; and
- the qualified custodian firm sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

## **Reconciling Account Records with Custodian Account Records**

Clients are strongly encouraged to compare reports presented by us to those reports presented by their custodian firm or sub-advisor or their private fund administrator. Any material differences between the reports from different sources should be discussed with all parties independently until you have received adequate reconciliation and explanation of any material differences in the account statements.

## **ITEM 16: INVESTMENT DISCRETION**

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We accept investment authority to supervise and direct the investments of our clients' SMA portfolios subject to limitations the client may impose in writing on our investment management activities. We, as agent and attorney-in-fact for client's account, without prior consultation with the client, may:

- Direct the purchase, sale, exchange, conversion, and otherwise trade in stocks, bonds and other securities including money market instruments;
- Direct the amount of securities purchased, sold, exchanged, and otherwise traded;
- Place orders for the execution of such securities transactions with a broker dealer or other third-party broker/dealers; and,
- Determine the commission rates paid. We will allocate brokerage transactions in a manner we believe to be fair and responsible to our clients, and consistent with client objectives.

In addition to the investment discretion authority outlined above, we may be assigned, by written agreement, the authority for other activities such as:

- To invoice and receive payment for our investment advisory fees directly from the custodian of the client's investment account;
- To receive and vote proxy statements on behalf of client accounts; and
- To instruct the custodian firm to deliver funds directly to the client via:
  - Transfer to another financial institution for the benefit of an account with the same registration and tax identification number;
  - Transfer within the custodial firm for the benefit of an account with the same tax identification number; or
  - Delivery of a check written to the account holder(s) and mailed to the address on record at the custodian firm.

## **ITEM 17: VOTING CLIENT SECURITIES**

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Unless prohibited by law, clients retain the right and obligation to vote proxies and participate in legal proceedings, including bankruptcies and class actions, relating to the securities held in their accounts. Clients should receive Proxy Voting statements directly from their custodian / brokerage firm.

However, clients may specifically delegate Proxy Voting rights and obligations to a properly authorized agent including our firm. When such voting delegation has been accepted by our firm, the client should direct the custodian / brokerage firm to deliver the Proxy Voting statements directly to us.

For ERISA clients and for those cases where we have been specifically delegated the proxy voting authority by the client, written proxy voting guidelines have been established and are outlined below. A copy of the proxy voting policies and procedures, and our actual proxy votes for securities owned in a client's account and voted on their behalf by us, are available upon request by contacting our Chief Compliance Officer at 832.956.1000 or at [service@semita-am.com](mailto:service@semita-am.com).

## **Delegated Proxy Authority**

Clients who have different proxy voting philosophies from those generally described below, and more fully described in the referenced guidelines, should not delegate proxy voting to us.

Through a third-party proxy management service, we have retained Glass Lewis & Co. ("Glass Lewis") to assist in the proxy voting process. Our Chief Investment Officer or his designee manages our relationship with the proxy management service and Glass Lewis. Glass Lewis provides the following in connection with the voting of proxies by us:

- analyses of proposals,
- vote recommendations,
- vote execution services, and
- record keeping services.

Glass Lewis provides its analyses of proposals and vote recommendations pursuant to and in accordance with written proxy voting guidelines they have established. Clients may obtain a copy of the Glass Lewis' **Guidelines – An Overview of the Glass Lewis Approach to Proxy Advice** by contacting our Chief Compliance Officer at 832.956.1000 or at [service@semita-am.com](mailto:service@semita-am.com).

Absent specific client instructions, we have adopted the following proxy voting procedures designed in an effort to properly identify and vote proxies, and that any conflicts of interest are addressed appropriately.

- (i) First, Glass Lewis analyzes the proxy proposal in accordance with a set of policy guidelines and makes a vote recommendation to their subscribing clients. This recommendation, which becomes the default position for the vote, is available to our designee at our firm.
- (ii) In those instances in which we become aware of a significantly debated or provocative proxy voting matter, we may review the Glass Lewis recommendation. When intervening, we generally evaluate proxy issues according to an approach known as the "Wall Street Rule." This means that we behave as a passive investor in our portfolio holdings and seeks to maximize shareholder value; but, not necessarily exercise control over the issuers of portfolio securities or advance a particular social agenda. We will, therefore, normally vote with management's recommendations on most corporate matters. If we are dissatisfied with corporate management, we will generally sell the securities of that corporation. Nevertheless, we may exercise more independent and critical evaluation of proposals relating to directors', executives', and employees' compensation and benefit programs and vote these items on a case-by-case basis while continuing to rely on the advice from our proxy voting service provider.

- (iii) If our analyst agrees with the vote recommendation submitted by Glass Lewis, we will instruct our proxy management firm to cast the vote according to Glass Lewis' recommendation.
- (iv) If the analyst at our firm does not agree with the default recommendation provided by Glass Lewis, the analyst must provide a written explanation of the reasons for the different opinion. This written explanation is reviewed by the Chief Investment Officer of the firm. If the Chief Investment Officer agrees with the analyst's recommendation, that recommendation becomes final and binding, and our proxy voting firm is instructed to vote according to the internal analyst's recommendation.
- (v) In the rare instance that the Chief Investment Officer and the analyst cannot reach an agreement, the matter is considered by all the investment professionals of the firm. The decision of the group is final and binding.
- (vi) No employee of the firm may participate in the voting process for a particular proxy if any one of the three disqualifying factors enumerated in the Proxy Voting Policy section above applies.
- (vii) Our third-party proxy voting firm, acting on our behalf, will maintain as permanent records the original proxy bulletin, the voting instructions, and the reasons for such votes.

We generally will not accept standing exceptions to our Proxy Voting Guidelines. However, we may accept written directive exceptions to our proxy voting policy from clients on an individual proxy vote basis. Written proxy voting directives should be forwarded to our Chief Compliance Officer at 832.956.1000 or at [service@semita-am.com](mailto:service@semita-am.com).

We do not direct clients' voting or participation in class action proxy activities. However, once class action procedures are completed, and if class actions settlements have been determined, we do provide a class action settlement filing service for our clients. We utilize the services of a third-party firm to identify qualifying client accounts, prepare the necessary submission forms and additional data documentation necessary to file a claim, and to submit a claim on our clients' behalf. The third-party processing firm retains a success fee representing a percentage of the claim amounts obtained from each client's authorized settlement amount. The net amount of the settlement claim is deposited in the respective client's account or returned to them via a check in the amount of claim settlement received less the success fee charged by the collection firm.

## **Proxies and Conflicts of Interest**

To address potential conflicts of interest regarding our employees' interest and clients' interest as they might occur in proxy voting matters, we have engaged the services of a third-party proxy management and voting recommendation service as outline above. In those rare cases where we have taken exception to the advice of the proxy vote adviser, our policy allows for our designated analyst and / or our Chief Investment Officer to make the final decision regarding such matters.

To address potential conflicts of interest when we have rejected the recommendation from our proxy voting adviser, we have established internal policies to manage potential conflicts. These policies are outlined above in the **Delegated Proxy Voting Authority** items (iv), (v) and (vi).

## **ITEM 18: FINANCIAL INFORMATION**

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We have never filed for bankruptcy and are not aware of any financial condition expected to affect our ability to manage client accounts. We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore have no material additional financial disclosures to make.

## **ITEM 19: ADDITIONAL INFORMATION**

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We have no additional information to offer that would be material in making investment decisions.