

## FORM ADV PARTS 2A & 2B DISCLOSURE BROCHURE

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ITS Asset Management, L.P.  
1720 Washington Road, Washington, PA 15301  
+1 724.745.2300  
[www.itsconnect.com](http://www.itsconnect.com)

This brochure provides information about the qualifications and business practices of ITS Asset Management, L.P. ("ITS"). ITS is a registered investment advisor with the Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training.

If you have any questions about the contents of this brochure, please contact us at the telephone number listed above or via electronic mail directed to [customerservice@itsconnect.com](mailto:customerservice@itsconnect.com). Additional information about ITS is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

## **MATERIAL CHANGES**

### **FUTURE AMENDMENTS/FILINGS**

ITS will amend its Brochure promptly for any material change in connection with Disciplinary Events via an interim amendment and deliver a detailed notice of the material amendment to all clients. Otherwise, for other material changes to the Brochure since the last annual update of the Brochure, ITS will include a Summary of Material Changes on the inside front cover of the Brochure filed with the firm's annual updating amendment. ITS will provide all of its clients, with active status at the time of the filing, a copy of the Summary of Material Changes. If the only changes made to the Brochure throughout the year are non-material interim or annual updates, neither a Summary of Material Changes nor a Brochure will be distributed to clients that year.

Since the annual update of this brochure on February 11, 2020, there have been the following material changes to this Brochure:

### **ADVISORY BUSINESS (PAGES 4-7)**

Brief Firm History—Narrative was amended in July 2020 to include language disclosing the new ownership of ITS by the Wadsworth Family LLC that became effective on July 1, 2020.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS (PAGE 14)**

Language has been added to this section to disclose ITS's affiliation with investment advisor, PTS Asset Management, that became effective on July 1, 2020.

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## ADVISORY BUSINESS

### BRIEF FIRM HISTORY

ITS has been in the investment advisory or “asset management” business since 1970. The firm originated as Investment Timing Services, Inc., a Pennsylvania corporation. ITS is now a limited partnership, and has been registered with the Securities and Exchange Commission since February 1971. Where we once served only clients in the Pittsburgh, PA vicinity as well as a few other cities, we now provide management services to clients nationwide. Our asset management strategies and the technologies we utilize have also evolved, adapting to the ever-changing investment and regulatory markets. Jon W. Erdner, who joined the firm’s sales and marketing force in 1976, became the sole owner of ITS in 1988. Effective July 1, 2020 the Wadsworth Family, LLC became the owner of ITS. The Wadsworth Family, LLC is owned by various members of the Wadsworth family. Jon continues to serve as the Chief Investment Officer of ITS, providing a wealth of research, insight, and industry experience.

### ITS’S MANAGED STRATEGIES

ITS offers several management programs each with a preset “style” or approach to the investment markets. This enables ITS to accommodate clients who have differing risk tolerances and investment objectives as determined by the client and his/her personal financial professional. The programs are shown at right:

The aptly-named *Dynamic* strategy features “stage shifting” wherein the percentage of portfolio assets assigned to either equity or fixed income investments may be adjusted upward or downward at reallocation points in response to ITS’s analysis of market outlooks. The *Global Premier* strategy features sector rotation, allowing sectors to be rotated up/down or completely out of the portfolio in favor of a more promising sector(s), based on ITS’s outlook for the markets and the underlying sectors at reallocation points. Finally, our *Income Plus* utilizes primarily fixed income investments, and an optional satellite equity position, with a focus on income generation.

ITS utilizes mutual funds and exchange-traded funds or “ETF’s” as the investment vehicles of choice in our managed strategies and portfolios. Mutual funds offer diversification and exposure to many investment styles, asset classes, and market sectors. The management team of an individual mutual fund typically concentrates in specific areas of investment. For example, managers of a natural resources fund will research several, sometimes hundreds of companies in the mining, timber, oil, and other related natural resources industries prior to investing in the companies that meet their due diligence standards. Thus, by using mutual funds, ITS is able to leverage the expertise of the fund managers in their area of specialization to fill desired areas of exposure in our managed portfolios.

While ETF’s also offer diversification and exposure across various investment styles, asset classes, and market sectors, an ETF may be considered a more passively-managed investment when compared to a mutual fund. In most cases, constant readjustments to an ETF’s underlying holdings do not occur. Rather, an ETF, by design, typically holds a static selection of securities compiled for the purpose of tracking or mirroring the performance of a market index. ITS may, from time to time, elect to utilize an ETF that holds direct exposure to a specific commodity (i.e. a physical product or resource) rather than indirect exposure through the stocks of companies involved in the production or processing of that commodity. For example, an ETF can have direct exposure to gold, the metal itself, with assets backed by the metal, rather than an ETF investing in the stocks of various gold mining companies.

### PORTFOLIO DESIGN

ITS follows its “Disciplined Active Portfolio Management” or “DAPM” formula in each of its managed strategies to combine the flexibility of an active management approach with the discipline of a structured portfolio framework. Client assets are invested in accordance with the structured portfolios ITS has designed for each program. Each

#### MANAGED INVESTMENT STRATEGIES

- Dynamic Conservative
- Dynamic Moderate
- Dynamic Growth
- Global Premier
- Income Plus

## ADVISORY BUSINESS (CONT.)

program portfolio adheres to a disciplined “framework” that is comprised of the four key elements shown below: Investment types refers to the kind of funds utilized in the portfolio (i.e. stock or equity funds, bond or fixed income

1. Investment types
2. Asset allocation range
3. Number of “positions”
4. Transaction frequency

funds, inverse funds, or money market funds). Asset allocation range controls what percentage of the portfolio is held in equities vs. fixed income funds.

Number of positions delineates the portfolio’s diversification among a variety of different asset categories and market sectors, the availability of which can vary between each ITS program. Some examples of fixed income categories/sectors are: corporate, government, high yield, and world bond. Examples of equity

categories/sectors are: financials, industrials, large/mid/small caps, precious metals, and emerging markets. Finally, transaction frequency refers to how often ITS conducts reallocation trading in the program.

Working hand-in-hand with the disciplined framework of each managed program is the active or “adaptive” component of our DAPM approach. There are also four key elements that comprise this component, shown at right:

1. Proprietary research and analysis
2. Asset/sector selection and weighting
3. Fund selection
4. Portfolio rebalancing and reallocation

ITS reviews both technical and fundamental data as well as following a variety of economic and market indicators in the U.S. and abroad in its research and analysis processes. We then apply our research to the particular program’s portfolio framework in determining the investment types and weighting and which asset categories and sectors to utilize. Next, we screen the available individual funds within the categories and sectors, as determined by the investment platform being utilized, prior to making the fund selections. All ITS programs have a monthly reallocation trading capability. This means that a change may be made to category/sector positions and underlying funds on a monthly basis.

## CUSTODIAL ARRANGEMENTS

ITS’s advisory services may be utilized with accounts held at select custodial investment platforms. Currently available platforms include, but may not be limited to those shown at right. There is no affiliation between the independent custodial platforms and ITS. Oversight of these custodial entities is conducted by their respective state and/or federal regulators.

- Constellation Trust Company
- Fidelity Institutional (FCCS)
- Millennium Trust Company

These platforms were selected by ITS based on their ability to meet the criteria necessary for ITS to administer its managed programs effectively and in a manner that takes into consideration the best interests of our clients. One important factor common to all of the listed platforms is that each offers a large universe of available mutual funds covering a wide variety of market sectors and styles. Additionally, ETF’s (including several transaction fee-free ETF’s) may be available to ITS on select platforms. This means that ITS can allocate its program portfolios towards the investment categories and market sectors that we favor as we diversify a client’s account in accordance with the ITS program selected by the client. Perhaps the most attractive feature of the approved investment platforms is the ability to minimize investment and trading costs to the client. When using mutual funds, ITS has the ability to focus on selecting only no-load or load-waived funds, so there are no sales charges to the client upon investment. Additionally, the platforms offer a wide variety of no-transaction-fee or transaction-fee-waived funds. When these funds are utilized, no transaction fees are charged to the client when ITS conducts its program trading (buying and/or selling shares of individual funds) to allocate, reallocate, or rebalance a client’s account in accordance with the ITS program selected by the client. While ITS also generally seeks to utilize ETF’s that are transaction fee-free, there are instances when a transaction fee-free ETF is not available. In such instances, a client’s account will be subject to any applicable transaction charges. It is important to note that certain transaction fee-free mutual funds and ETF’s may impose short-term redemption fees which cannot always be avoided in ITS’s managed strategies (see *Investment, Custodial & Regulatory Costs/Charges*, pages 9-10, for more information).

## ADVISORY BUSINESS (CONT.)

### ACCOUNT MINIMUMS

In order for a client to engage the services of ITS for management of his/her investment assets, each of the client's accounts on an *individual basis* must meet our minimum account size of \$30,000. The minimum is the same regardless of the custodian chosen.

The per-account minimum stated above is not applicable to the accounts of individual participants in employer-sponsored SIMPLE IRA plans or 401(k) plans. The minimum for SIMPLE IRA accounts is \$5,000. The minimum for 401(k) plan participant accounts is \$500 (an exception may apply for legacy plans/platforms). Participants in these plans must wait until their account balance reaches the minimum applicable to their type of account before they can elect ITS management. ITS's management may be provided to 401(k) plans at select investment platforms only; an overall plan size minimum may apply.

### MODEL-BASED ADVISORY SERVICES

As described earlier, ITS's management programs each offer a preset approach to the investment markets using managed portfolios comprised of mutual funds and ETF's. ITS's buy and sell decisions are made with a focus on the primary objectives of the individual management program. ITS's "DAPM" formula described earlier guides the investment decisions made within each of our strategies and portfolios. Thus, our portfolio management decisions are not customized or tailored to the particular or individual needs of any client. All clients using the same ITS program at the same investment platform will generally have identical portfolio holdings—the same percentage allocation to the same underlying funds. (Certain factors, such as client account restrictions, fund closures, fund holding periods, qualified/non-qualified status, or retirement plan restrictions could result in differences in account holdings between some clients.)

Oftentimes, the client's financial professional may obtain personal and financial information from the client through an interview and/or the completion of a "profiling" or suitability questionnaire. The financial professional may use the information gathered to help guide the investment planning and selection process for the client. The information may also be used by the financial professional to assist the client in selecting an ITS management program. ITS, however, does not require, request, or review any questionnaires that may have been completed for these purposes. As stated above, ITS formulates its investment advice around the management program's discipline and objectives rather than around individual client financial circumstances or obligations.

Other than placing reasonable restrictions on their accounts, often to accommodate periodic cash flows or, very rarely, to restrict the use of a specific security, clients leave the investment decisions to ITS. In other words, ITS has "discretionary" authority in connection with client accounts. This simply means that ITS is not required to obtain a client's consent prior to each buy or sell of a particular security, or prior to determining the allocation amount to each security that will be purchased or sold for the managed account (see also *Investment Discretion*, page 22). ITS may exercise its authority to replace a fund(s) or an asset category or sector used within any of its managed programs, at our discretion. At times, it may be necessary for ITS to replace funds that have become restricted or no longer available for use in managed strategies and portfolios.

ITS exercises only a *limited* discretionary authority which is used only for purposes of managing the assets of the client in accordance with the ITS program preselected by the client, and on the custodial investment platform agreed to by the client. Only the client can authorize a change in custodian or management program. Other than the trading, advisory fee liquidation, and limited cash movement authorizations (facilitation of redemptions/withdrawals per client instruction) granted by the client to ITS via the custodial account forms, ITS conducts no other buying or selling nor makes any other investment decisions on behalf of the client.

## ADVISORY BUSINESS (CONT.)

### INDEPENDENT DATA MANAGEMENT PROVIDER

ITS uses Orion Advisor Services, based in Omaha, NE, as an independent provider of client data management services. Orion is the “conduit” that links ITS with client account data provided from the client’s account custodian via secure electronic transfer. Orion provides access to current account information such as daily account values and holdings, as well as storing the historical transaction data for client accounts. The technology provided by Orion enables ITS to perform necessary functions including trading and trade verification, advisory fee billing, performance computation and account reporting, among others. Orion has stringent controls in place to support the security of client account information and the accuracy of its data management and computational functions. On an annual basis, the operational effectiveness of Orion’s systems are reviewed by an independent auditor, and Orion makes this report available to ITS.

### INDEPENDENT GIPS® VERIFICATION

ITS is a GIPS®-compliant firm. What this means is that our clients can be assured that the performance record advertised by ITS is calculated and presented in adherence with comprehensive and rigorous rules designed to promote integrity, credibility, and transparency in performance reporting. GIPS® or “Global Investment Performance Standards” are a strict set of performance measurement standards recognized globally in the investment management industry. Not all firms are GIPS®-compliant, obtaining this distinction is undertaken voluntarily. Strict GIPS® policies and procedures must be established and adhered to, which includes independent verification of compliance. ITS is proud to invest the resources required to maintain GIPS® compliance. ACA Performance Services, LLC, a division of the ACA Compliance Group, a global provider of performance services, headquartered in New York, NY, provides verification services to ITS.

### ASSETS UNDER MANAGEMENT

Discretionary assets under management total approximately \$105,483,981. This represents managed assets in all ITS strategies and portfolios across all custodial investment platforms [with the exception of platforms where ITS solely provides its models and model rebalancing information to other investment advisors]. The total assets amount is based on the market value of the managed accounts as of December 31, 2020. The total assets amount is impacted not only by new or cancelled accounts, but also by daily fluctuations in the market value of the assets.

Please note that, for GIPS purposes, not all portfolios/client accounts are managed on a discretionary basis. Pursuant to ITS’s GIPS policies and procedures, and for GIPS purposes, discretionary accounts will not include portfolios/client accounts subject to such criteria as the following:

- Availability of investment vehicles depending on the client’s strategy and custodian.
- Client-directed transactions that significantly alter the composition of the portfolio.
- Client-restricted securities or industries that affect more than 10% of the portfolio holdings without an accompanying distribution request.
- Accounts utilizing platforms with limited or deficient investment selection.

## FEES AND COMPENSATION

### ADVISORY FEES

ITS is compensated for the investment advisory (i.e. portfolio management) services it provides to its clients through

## FEES AND COMPENSATION (CONT.)

an advisory fee charged to the clients. The fee is calculated as a percentage of the total asset value of the client's ITS-managed account. At the present time, the annual advisory fee rate may vary among ITS's current clients using the same ITS program. One thing has remained unchanged over the years—our maximum annual advisory fee to our clients has never exceeded 2.00%.

### CURRENT FEE SCHEDULE

The fee shown below is the maximum ITS annual advisory fee, regardless of account size, at all investment platforms where the indicated management program is available.

	Dynamic, Global Premier	CIP
<i>All types of individual, business, self-directed (401k, 403b, etc.) and sponsor-directed (401k, PSP, DBP, etc.) retirement accounts</i>	2.00%*	1.00%*

\*Fee shown is total ITS fee to client. There is no additional charge from ITS for solicitor fee payment to client's financial professional.

Variation in the fee rate among clients may result from factors such as the account's inception date at ITS, account or household asset size, whether the account is an ITS employee or solicitor account eligible for a reduced rate, or if it participates in an employer-sponsored retirement plan (where advisory and other fees may vary from plan to plan). There are also other factors that may impact the advisory fee rate such as special arrangements negotiated between ITS and outside strategic partner firms that refer clients to ITS. Clients can refer to their copy of the ITS disclosure materials or ITS New Account Application that was provided for their records if they are unsure of the annual advisory fee rate being assessed on their managed account. Clients may also review their account statement provided directly by the custodian (i.e. Fidelity, Constellation, etc.) which will include an entry for the quarterly advisory fee deduction, from which the annual rate may be calculated. Clients may also contact their financial professional or ITS directly for this information.

While ITS's advisory fee is generally not negotiable, consideration may be given in select circumstances based on account size or other factors at the discretion of ITS. Additionally, some flexibility (limited to specific platforms) is built into the current fee schedule for Dynamic and Global Premier accounts valued at \$100,000 and above. On these accounts, the client's financial professional may, at his/her discretion, elect to reduce the solicitor fee reallowance he/she receives from ITS in accordance with fee reallowance guidelines established by ITS. The fee reduction is passed on directly to the client, effectively reducing the annual advisory fee rate. More information about the relationship between ITS and solicitors (i.e. financial professionals who refer their clients to ITS) is provided to the client in the Solicitor's Separate Disclosure Statement. This document is included as an integral part of the ITS New Account Application and requires acknowledgment and signature of the client. (Additional information may be found under the section entitled *Client Referrals and Other Compensation*, beginning on page 19 of this Disclosure Brochure.

### PAYMENT OF ADVISORY FEE

ITS's advisory fee is paid through automatic liquidation (redemption of shares) from the client's account. The fee is assessed on a calendar quarterly basis, either in advance or in arrears, dependent on the custodian selected by the client. Therefore, the advisory fee amount liquidated each quarter, and appearing on the client's custodial account statement, is calculated at a rate of one-quarter of the annual rate indicated on the client's ITS New Account Application (or in accordance with the schedule of fees agreed upon for the retirement plan). Through the automatic fee liquidation process, the custodian of the client's account collects and distributes the advisory fees to ITS. To maintain sufficient liquidity for the advisory fee deduction, a 1% money market allocation may be maintained in the client's managed account, where applicable.



## FEES AND COMPENSATION (CONT.)

The following table shows the procedure followed in the deduction of the ITS advisory fee from the client's account once the client's assets to be managed are received (either by transfer to or new investment) at the custodial investment platform selected by the client:

	FEES ASSESSED IN ADVANCE	FEES ASSESSED IN ARREARS
New Account — Received Intra-Quarter:	Fee prorated to end of calendar quarter is deducted immediately based on value of asset transfer to or new investment at custodial platform	Prorated fee for the quarter is deducted within the first few weeks of the following quarter and may be based on account's daily balance accrual method, an average daily balance, or balance on last business day of preceding quarter—dependent on custodian being utilized
Established Account— Full Quarter:	Full quarterly fee is deducted within the first few weeks of the current calendar quarter and is based on account's value on last business day of preceding quarter	Full quarterly fee is deducted within the first few weeks of following quarter (see above for account balance calculation methods)
Addition/Deposit to Account	Fee prorated to end of calendar quarter is deducted immediately based on value of addition/deposit	Prorated fee for the quarter is deducted within the first few weeks of following quarter (see above for account balance calculation methods)

### REFUND OF ADVISORY FEE

A client of ITS may cancel the advisory services of ITS at anytime so desired. Otherwise, the ITS Client Agreement will remain in effect until either party (ITS or client) to the Agreement receives written notice from the other to cancel the Agreement. Requests to cancel must be accompanied by the client's signature and will not be processed solely on the request of the client's financial professional.

In reference to cancellations, on accounts where the quarterly advisory fee is prepaid or liquidated in advance, the fee is refunded on a prorated basis through the date of receipt of the cancellation request. On accounts where the quarterly fee is paid or liquidated in arrears, the fee is deducted from the account prior to cancellation, with the fee accrual method varying dependent on the custodial platform being used. In relation to partial withdrawals from active accounts, no adjustments to prepaid fees are made for monies withdrawn during the advisory fee period.

### INVESTMENT, CUSTODIAL & REGULATORY COSTS/CHARGES

As indicated in the Advisory Business section of this Disclosure Brochure, one of the key reasons for ITS offering its management programs at select institutional brokerage platforms is the ability to offer minimized costs to our clients. The availability of no-load and load-waived mutual funds allows for the elimination of sales charges on the initial investment and/or subsequent purchases or sales. Additionally, no-transaction fee mutual funds and transaction fee-free ETF's (where available) enable buys and sells of these products that are free from transaction fees. Each approved platform provides some type of these lower-cost options. (On client-initiated transfers from one investment platform to another, it is possible for a transaction fee to be assessed at the new platform on a fund(s) that was held at the prior platform and on which no transaction fees applied. This is due to differences in the "no-transaction-fee" or "transaction-fee" status of the fund(s) at the respective platforms. ITS is not liable for transaction fees assessed as a result of a transfer between investment platforms.)

Mutual fund and ETF investors, including clients of ITS, are subject to the internal management expenses of the funds which are reflected in the price of a fund's shares. Additionally, some investment companies as well as brokerage platform custodians (i.e. Fidelity; etc.) may levy short-term redemption fees on certain mutual funds and/or ETF's. Redemption fees are fees charged when fund shares are sold within a relatively short period, usually less than 30 days, after having been purchased. ITS does not levy nor does it share in the receipt of any part of these expenses or fees; however, clients remain subject to these costs. The fact that short-term redemption fees may be associated with certain mutual funds or ETF's does not exclude them for consideration in ITS portfolios, as the funds may merit inclusion based on other factors considered by ITS when making fund selections. ITS's programs do not incorporate very frequent or excessive trading into and out of individual funds, helping to keep short-term redemption fees

## FEES AND COMPENSATION (CONT.)

to a minimum. It is important for clients to be aware that the timing of client-initiated transactions (i.e. a partial withdrawal, a contribution, strategy change request, full liquidation, etc.) within an ITS-managed account may trigger such redemption fees. This may occur if 1) part or all of the assets needed to satisfy a redemption amount is held in a fund that levies redemption fees and the fund has not been held in the managed account for the required time period, and 2) rebalancing (buys/sells) of account holdings to the strategy model is required following withdrawals, contributions, or strategy changes.

Other specific fees that may be charged by the custodian of client accounts are transfer fees, wire fees, bounced check fees, and account termination fees. One situation when charges may apply is when a client's assets [to be managed by ITS] are held in individual securities (i.e. stocks, bonds) at the time of their transfer to the brokerage platform to be used in conjunction with ITS management programs. The individual securities must then be sold by ITS and the proceeds invested in the mutual funds and/or ETFs being utilized in the ITS managed program selected by the client. The custodian may assess to the client transaction or "ticket" charges on this trade order. Accounts of individual participants in employer-sponsored 401(k) retirement plans may also be subject to custody charges in addition to administrative/recordkeeping charges. ITS has no control over nor does it share in the receipt of any of these custodial charges or fees.

The government also assesses and charges investors a regulatory fee on sales of covered equity securities such as ETFs. While the fee is only a few cents per \$1,000 of the principal sale amount (the fee rate may be adjusted annually or semi-annually), all securities exchanges are required to pay this fee to the SEC based on the volume of all covered securities sold on the exchanges. The fee is used by the SEC to recover the costs incurred for supervising and regulating the securities markets and securities professionals.

Prospective investors and clients should not hesitate to ask their financial professional to explain any possible charges relative to their investments.

## OTHER COMPENSATION

ITS provides services as an investment advisor only and does not operate as a broker or dealer in buying or selling securities for compensation. Neither does ITS hold a proprietary interest in any of the funds it selects for use in its managed strategies or portfolios. As described in this Disclosure Brochure, ITS makes its management programs available for new business at select institutional brokerage platforms where we can build our managed strategies and portfolios from a broad universe of mutual funds and ETFs while seeking to keep investment costs minimized for clients.

ITS receives an advisory fee for its services, and those financial professionals who recommend our services to their clients are compensated by ITS through a solicitor's fee. Neither ITS nor the financial professional receive any type of brokerage compensation (i.e. mutual fund commissions, trails) from the currently available institutional brokerage platforms in connection with providing or recommending the ITS advisory services to clients. This is true regardless of whether the financial professional is an outside, third-party solicitor or an employee of ITS. (See also *Client Referrals and Other Compensation*, beginning on page 19, for more information.) Essentially, no conflict between the interests of the client and those of ITS and/or the financial professional is created in relation to the use of the available institutional platforms. This is because no monetary incentive (i.e. proprietary fund ownership interest; commissions; trails) exists to promote, recommend, or sell any particular fund(s) in connection with ITS's management services.

Prospective clients may invest in the same or similar funds as utilized by ITS in its management programs through other brokers or financial professionals who do not work with ITS. It is possible that the charges or fees to the client may be less than those related to ITS's services. However, it is also important to note that in many cases purchases may not be load-free, and transaction fees or other charges may apply when buys or sells are made within the client's account. Once again, prospective investors and clients should not hesitate to ask their financial professional to explain any possible charges relative to their investments.

## PERFORMANCE-BASED FEES

Neither ITS nor its supervised persons charge or are compensated via performance-based fees.

## TYPES OF CLIENTS

ITS may provide its advisory services to various types of clients including individuals, corporations, pension and profit-sharing plans, charitable organizations, and other investment advisors. The vast majority of ITS-managed accounts are those of individuals. These include various types of accounts such as IRA's, SEP's, 403(b)'s, 401(k)'s, estates, and trusts.

## SERVICES PROVIDED TO ERISA RETIREMENT ACCOUNTS

ITS provides its advisory services to client accounts regulated under ERISA (Employee Retirement Income Security Act). These accounts are typically qualified retirement plans established and maintained by a sponsor employing firm and include accounts such as 401(k) plans, pension plans, profit-sharing plans, 403(b) plans, among others. As a fiduciary in its role as an investment advisor, ITS is entrusted to place the interests of its clients, including retirement plans and their participants, before its own interests. In doing so, ITS is obligated to avoid conflicts of interest, and to perform its management duties prudently and fairly in a manner designed to benefit its clients.

Essentially, the advisory services provided to ERISA accounts are the same services as provided to non-ERISA accounts—providing a selection of investment strategies utilizing model portfolios designed and managed in keeping with our DAPM formula rather than on a client-customized basis (see description of *Advisory Business*, pages 4-7). Otherwise, ITS provides no other services to retirement plans or sponsors in relation to 1) legal or administrative structuring or setup of the plan, 2) consultations, selection, or monitoring with respect to other service providers, managers, etc., to the plan, or 3) accounting, recordkeeping, or tax-related computations or reporting.

ITS does not market its advisory services directly to the retirement plan marketplace but, as with non-ERISA accounts, obtains ERISA accounts through the presentation of ITS's services by independent financial professionals. ITS may occasionally participate in participant enrollment meetings to assist the financial professional in the presentation of ITS's services; however, it is the employing firm or plan sponsor that is obligated to organize and coordinate such meetings for plan participants.

ITS currently provides its services to retirement plans where, depending on the structure of the individual plan, the services were elected by 1) the plan sponsor for the total plan assets, or 2) the plan sponsor as a managed services option for participants to elect individually, or 3) the individual participant where the sponsor assumes no involvement in the selection of investment options for plan participants. Also dependent on the plan, either the financial professional or an independent plan consultant engaged by the plan sponsor assumes the responsibility to evaluate the financial needs of the plan and/or participant and determine whether ITS's strategies are (and remain on an ongoing basis) an appropriate and suitable option. A plan sponsor that is involved in the selection of ITS in an asset management capacity for the plan retains the fiduciary responsibility for the ongoing monitoring of ITS's performance, and reserves the authority to terminate the services of ITS for the plan and its participants.

Certain plans contain "automatic enrollment" and "opt out" provisions in relation to managed services options such as ITS. This means that, if the plan sponsor selected ITS as an approved managed services option to the plan, participants are automatically enrolled into a designated ITS program based on their age. The participant then has the ability to change the assigned program or opt out of ITS's managed services altogether. By opting out of managed services, the participant can "self direct" or individually make his/her own investment choices in accordance with alternative investment options offered under the plan. Where a participant does not opt out of ITS's services, it remains the responsibility of the financial professional and/or independent consultant to evaluate if and when a change to the assigned, age-based strategy is warranted for the individual participant.

## TYPES OF CLIENTS (CONT.)

ITS receives direct compensation only from ERISA accounts. This means that ITS is compensated for the advisory services it provides solely through the payment of its advisory fee. ITS receives no indirect or other compensation of any kind in relation to the retirement plan account, such as receipt of 12b-1 fees, soft dollar benefits, or any other type of brokerage, consulting, or service fees. (ITS may receive certain benefits through its business relationship with the brokerage platforms. Please refer to the *Economic Benefits* section, pages 20-21, for more information.)

ITS compensates the introducing financial professional through payment of a solicitors fee. (Please refer to the *Compensation Paid/Payments Made by ITS* section, pages 19-20, for more information on the solicitor fee arrangement and revenue sharing payments made by ITS.) Both the ITS advisory fee rate and the compensation arrangement with the solicitor are disclosed in ITS's account paperwork for completion by the plan sponsor/participant.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

As described in more detail in the Advisory Business section of this Disclosure Brochure, ITS does not formulate its investment advice based on the specific needs of individual clients. Rather, ITS offers an array of management programs each with managed portfolios that adhere to a preset portfolio framework. As detailed earlier, the framework allows for a disciplined approach unique to the particular strategy—utilizing complementary (correlating and/or non-correlating) asset categories and market sectors with market exposure adjusted in amounts designed to meet the investment objectives of the ITS program.

ITS's management process incorporates both technical and fundamental market research, following a variety of economic metrics and market indicators in the U.S. and abroad on a current and historical basis. Market indicators include, but are not limited to, sentiment, breadth, trend, momentum, and cycles. Economic metrics include, but are not limited to, interest rates, earnings, inflation, money supply, and central bank policy. Ongoing analysis and research is reviewed by the ITS Investment Advisory Committee in the course of recommending or adopting investment policy for all ITS-managed portfolio strategies.

Investment markets can be volatile and reactive to economic and political events, among other catalysts, and the resulting fluctuations can impact certain market sectors and the funds concentrating in those sectors. ITS continually monitors the markets to determine new target allocations for its strategies and portfolios or whether certain holdings should be eliminated. Through a program-defined trade frequency schedule, account holdings are reallocated and/or rebalanced if determined to be warranted in order to maintain the objectives of each program. Frequent trading, which can sometimes have a detrimental effect on performance as well as triggering increased costs to the client, is not characteristic of ITS's management style. To the contrary, ITS's disciplined approach is designed with a goal of avoiding emotion-driven investment decisions that can be costly in both lost opportunity and, worse, lost investment capital.

While ITS clients do not receive personalized investment advice from ITS that specifically addresses the client's own risk tolerance or profile, it is important to note that ITS's programs themselves, along with ITS's management approach, follow ITS's core philosophy of investing in the markets using a risk-adjusted approach. It is important to note that all investments, including mutual funds and ETF's, are not guaranteed against loss. Prospective investors, including ITS clients, must understand that their investments may lose value in declining markets. In general, equity (stock) sectors are riskier than fixed income (bond) sectors. Depending on when an investor liquidates or cashes in his/her account, it is possible that he/she could end up with less than the initial investment. This is why it is important for investors to review not only their investment objectives, but their risk tolerance and time horizon, with their financial professional to determine what type or style of investment strategy offers the right fit for their unique situation. ITS provides an informational fact sheet for each of its strategies and portfolios that provides an overview of the program including important disclosure information. Additional risks involved in the securities recommended by ITS may include, among others:

- *Sector risk*, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS (CONT.)

more extreme than fluctuations in the overall market.

- *Issuer risk*, which is the risk that the value of a security may decline for reasons directly related to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods or services.
- *Value investing risk*, which is the risk that value stocks may not increase in price, may not issue the anticipated stock dividends, or may decline in price, either because the market fails to recognize the stock's intrinsic value, or because the expected value was misgauged. If the market does not recognize that the securities are undervalued, the prices of those securities might not appreciate as anticipated. They also may decline in price even though in theory they are already undervalued. Value stocks are typically less volatile than growth stocks, but may lag behind growth stocks in an up market.
- *Smaller company risk*, which is the risk that the value of securities issued by a smaller company may go up or down, sometimes rapidly and unpredictably as compared to more widely held securities. Investments in smaller companies are subject to greater levels of credit, market and issuer risk.
- *Foreign (non-U.S.) investment risk*, which is the risk that investing in foreign securities may result in the portfolio experiencing more rapid and extreme changes in value than a portfolio that invests exclusively in securities of U.S. companies. Risks associated with investing in foreign securities include fluctuations in the exchange rates of foreign currencies that may affect the U.S. dollar value of a security, the possibility of substantial price volatility as a result of political and economic instability in the foreign country, less public information about issuers of securities, different securities regulation, different accounting, auditing and financial reporting standards and less liquidity than in the U.S. markets.
- *Interest rate risk*, which is the chance that prices of fixed income securities will decline because of rising interest rates. Similarly, the income from fixed income securities may decline because of falling interest rates.
- *Credit risk*, which is the chance that an issuer of a fixed income security will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that fixed income security to decline.
- *Exchange Traded Fund (ETF) risk*, which is the risk of an investment in an ETF, including the possible loss of principal. ETFs typically trade on a securities exchange and the prices of their shares fluctuate throughout the day based on supply and demand, which may not correlate to their net asset values. Although ETF shares will be listed on an exchange, there can be no guarantee that an active trading market will develop or continue. Owning an ETF generally reflects the risks of owning the underlying securities it is designed to track. ETFs are also subject to secondary market trading risks. In addition, an ETF may not replicate exactly the performance of the index it seeks to track for a number of reasons, including transaction costs incurred by the ETF, the temporary unavailability of certain securities in the secondary market, or discrepancies between the ETF and the index with respect to weighting of securities or number of securities held.
- *Management risk*, which is the risk that the investment techniques and risk analyses applied by ITS may not produce the desired results and that legislative, regulatory, or tax developments, may affect the investment techniques available to ITS. There is no guarantee that a client's investment objectives will be achieved.
- *Investment Companies ("Mutual Funds") risk*, when an investor invests in mutual funds, the investor will bear additional expenses based on his/her pro rata share of the mutual fund's operating expenses, including the management fees. The risk of owning a mutual fund generally reflects the risks of owning the underlying investments the mutual fund holds.
- *Cybersecurity risk*, which is the risk related to unauthorized access to the systems and networks of ITS and its service providers. The computer systems, networks and devices used by ITS and service providers to ITS and ITS's clients to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks or devices potentially can be breached. A client could be negatively impacted as a result of a cybersecurity breach. Cybersecurity breaches can include unauthorized access to systems, networks or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow or otherwise disrupt operations, business processes or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a client; impediments to trading; the inability by ITS and other service providers to transact business; violations

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS (CONT.)**

of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or other compliance costs; as well as the inadvertent release of confidential information. Similar adverse consequences could result from cybersecurity breaches affecting issuers of securities in which a client invests; governmental and other regulatory authorities; exchange and other financial market operators, banks, brokers, dealers and other financial institutions; and other parties. In addition, substantial costs may be incurred by those entities in order to prevent any cybersecurity breaches in the future.

## **DISCIPLINARY INFORMATION**

Investment advisors are required to disclose legal or disciplinary events that are material to a client's or prospective client's evaluation of the advisor's business or the integrity of the advisor's management. Presently, ITS has no such events that are required to be reported.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

ITS's only business is that of providing services as an investment advisor. We are not in the business of providing services as a consultant to clients, nor do we recommend the services of other advisors for compensation. ITS is not registered as a broker/dealer and does not effect securities transactions for compensation as a broker or dealer. ITS is affiliated with the investment advisor PTS Asset Management. ITS does not have a relationship with PTS Asset Management that is material to ITS's advisory business or to its clients. Except as referenced regarding PTS Asset Management, ITS does not have an affiliation with another financial industry firm or entity—such as a broker/dealer, investment company (i.e. mutual fund), insurance company, consultant, etc. ITS selects individual mutual funds and/or ETF's for use in its clients' managed accounts, but neither ITS nor any of its employees or related persons hold an ownership position in a proprietary fund that would create an incentive for its recommendation. ITS's efforts are concentrated in one direction only—providing our clients with professionally managed investment strategies and portfolios.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, & PERSONAL TRADING**

### **CODE OF ETHICS**

ITS maintains a Code of Ethics, which sets forth the high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our firm and personnel owe a duty of loyalty, fairness, and good faith towards our clients, and have an obligation to adhere, not only to the specific provisions of the Code of Ethics, but to the general principles that guide the Code.

The Code defines both nonpublic client and firm information, the limitations on its access and use, and prohibits employees from acting on the information for their own or another's financial interest or gain. The Code also recognizes the duty of all employees to provide to the firm's Compliance personnel information regarding reportable personal securities holdings and transactions in those holdings. Our Compliance personnel review employee personal account information for any activity that breaches our ethical conduct guidelines. The Code is designed to assure that the personal securities interests, activities, and transactions of our employees will not interfere with the making of decisions in the best interests of our clients nor in the implementation of such decisions while, at the same time, allowing employees to invest for their own accounts. In addition, ITS and/or its employees may have an interest or position in certain securities which are also recommended to clients. Our firm and its employees are permitted to buy and sell for their personal accounts the same securities as those recommended to our clients; however, employees may not buy or sell the same security that is being bought or sold by the firm for client accounts prior to the decision becoming public and implemented in client accounts.

## CODE OF ETHICS, PARTICIPATION OR INTEREST . . . (CONT.)

A copy of our Code of Ethics will be provided to any client or prospective client on request.

### PARTICIPATION OR INTEREST IN CLIENTS TRANSACTIONS OR PERSONAL TRADING

This section of our Disclosure Brochure addresses any conflicts between the interests of our firm and those of our clients in relation to transactions initiated by the firm in client accounts. ITS does not act as an investment advisor to an investment company whose securities products we recommend to clients. Neither does ITS, its employees, agents, and/or related persons hold a material financial interest in any securities product recommended by our firm for use in client accounts. No compensation is received by our employees, agents, and/or related persons as a direct result of buy or sell trades effected at the direction of our firm in client accounts. Thus, no conflict of interests exists due to any investment product selections made for ITS managed investment portfolios.

The firm has established policies and procedures in relation to personal trading in reportable securities, including holdings and transaction reporting by all individuals deemed to be access persons to our non-public information (see also Code of Ethics, page 14).

### PRIVACY POLICY

ITS strives for complete customer satisfaction, which includes respecting our clients' right to privacy. Because we value the trust and confidence of our customers, we are committed to the management, use, and security of nonpublic personal information gathered from potential, existing, and former customers of ITS. We value our clients and want to clarify why we collect client information and how that information is used. This section explains our practices and policies for handling personal client information and describes our commitment to protecting the information provided to us. As our advisory services continue to evolve, it may be necessary to review and revise our Privacy Policy. All clients will be provided with a copy of our current Privacy Policy Notice as part of the new client account process.

#### Collection of Nonpublic Customer Information

We gather and maintain nonpublic personal information only as is necessary for us to provide and administer our advisory services to our clients. Most of the information we collect is obtained directly from clients on our account applications or other forms submitted to our firm by the client, their financial professional, or other professional advisor(s). This information may include basic identifying information such as name, address, tax identification number, telephone number, date of birth and other information. Additional information regarding securities transactions may be obtained from the custodian of the client's managed account(s) in order to administer those assets placed under our management.

#### Disclosure of Nonpublic Customer Information

ITS does not disclose or share nonpublic customer information with anyone or any firm except as permitted by law. We do not use customer information for any purpose other than to initiate and maintain our services to the client, to facilitate transactions for the client, and to comply with current regulatory reporting requirements. ITS uses various technologies made available to us by private companies in order to achieve these purposes. These private companies, including data management, data storage, compliance consulting or auditing firms, as well as the financial industry regulatory bodies (i.e. Securities and Exchange Commission; FINRA) are or may become a party to some or all of the information we maintain. Additionally, pursuant to a request by the client, the client's financial professional, or the financial professional's supervisory firm, ITS may disclose the client's nonpublic information to a non-affiliated third-party vendor, so that the client's financial professional may access the information via data aggregation or other financial-related software. ITS will maintain the same standards of privacy after a client relationship has ended and will only disclose information about former customers as described in this privacy policy.

#### Confidentiality and Security of Nonpublic Customer Information

ITS dedicates significant resources to protect the security of our clients' information. We use physical, electronic,



## CODE OF ETHICS, PARTICIPATION OR INTEREST . . . (CONT.)

and procedural safeguards to maintain the integrity of client information and guard against its unauthorized use. All employees are required to follow our privacy procedures to ensure that client nonpublic information is handled properly and used only for authorized purposes.

### Customer Access to Nonpublic Information

A client may write to us if he/she has any questions about the information that we may have in our records about the client. Questions concerning ITS's privacy policy may be directed to our Compliance Department.

## BROKERAGE PRACTICES

### RESEARCH AND OTHER BENEFITS

ITS is not registered as a broker/dealer and does not receive brokerage commissions. Neither does the client's financial professional receive brokerage-type compensation as a result of business placed under the management of ITS on the available investment platforms. ITS offers its advisory services at institutional investment platforms that provide options for reducing investment costs. Clients do, however, remain subject to the internal expenses associated with investment in mutual funds and ETF's such as expense ratios, 12b-1 fees, etc. These expenses may vary based on the fund selection available on each investment platform.

ITS pays for the research, products, and services it requires in the operation of its business. ITS does, however, receive certain benefits through its business relationship with the investment platforms. These are described in the *Economic Benefits* section, pages 20-21, of this Brochure.

### BROKERAGE FOR CLIENT REFERRALS

ITS does not obtain client referrals from the investment platforms where our discretionary management services are available. Thus, there is no "client referral incentive" to ITS for offering its services at these platforms.

### BEST EXECUTION—DIRECTED BROKERAGE & TRADE AGGREGATION PRACTICES

As an investment advisor, ITS has a duty to act in the best interests of its clients. This includes the duty to seek "best execution" for brokerage transactions in client accounts. Often, the first thought at the mention of best execution is that it means obtaining the lowest commission rates and best prices for client securities transactions. However, many other factors contribute to producing favorable securities trading terms. This section will help to explain how best execution relates to the ITS strategies and trading processes.

First, it is necessary to understand the difference in pricing between the two types of securities ITS utilizes in its managed programs:

Mutual Funds — Mutual funds are priced once per day at market close, meaning that all buys or sells of any particular mutual fund on any given day receive the same price.

Exchange-Traded Funds (ETF's) — The price of an ETF fluctuates throughout the day, meaning that buys or sells of any particular ETF on any given day can receive widely differing prices depending on the time of day the trade is executed.

Next, trading practices such as "directed brokerage" and "trade aggregation" can each play a key role in determining trading costs and prices obtained for clients. These practices are more applicable to trading in ETF's rather than mutual funds due to the ever-changing intraday pricing of ETF's. For instance, by directing trades to a specific broker/dealer, overall execution costs to clients are based on that firm's ability to access various markets to obtain competitive pricing, fill the trade order efficiently, and execute the trade on a timely basis. A wide variance in cost can result based on the brokerage firm selected. Additionally, trade aggregation (grouping, bunching, or blocking of



## BROKERAGE PRACTICES (CONT.)

trades) procedures can also impact transaction prices and other related trading costs (if applicable) to clients, while the sequence of unbunched trades can result in different pricing among clients.

Therefore, it is important to understand how trading in client accounts is conducted by ITS in its arrangements with the custodial platforms where client assets are held. The trading process between ITS and the custodial entities is secure and largely automated allowing ITS to electronically and efficiently update its program portfolio models directly with the custodial investment platform. The trading automation allows for reduction in manual entry order errors as well as enabling the initiation of buy and/or sell instructions for hundreds, even thousands of trades efficiently and instantaneously.

When ITS elects to initiate trades to update or reallocate one of its managed strategies, all client accounts coded to the strategy's underlying models will be traded in accordance with the update, regardless of which custodial investment platform holds the account assets. While ITS seeks to initiate its trade orders to all custodial platforms as timely as possible, there are inherent time and processing constraints that may prevent same-date trade execution for all client accounts assigned to the same ITS strategy. For example, the intraday timing of ITS's reallocation decision, the account custodian's model update/trading procedures, the imposition of trading cut-off times, fund closures, among other potential factors will impact completion of ITS's model update across all accounts. ITS follows a rotation schedule that is designed to remove any unintended advantage [or disadvantage] to any single account or group of accounts resulting from the order in which trade initiation was communicated by ITS and ultimately processed by the custodial platform or its service provider.

In reference to custodial platforms where certain underlying strategy models hold ETF's, the same rotation schedule is used and, dependent on the available trade execution process(es) of the selected platform, ITS's trade orders for ETF's are either blocked by individual ETF, or included in trade blocks processed at regularly set intervals. For all accounts holding the specific ETF's for which ITS is initiating a buy or a sell, the first method results in the receipt of the same volume-weighted average price per ETF, while the second method is likely to result in differing prices for the same ETF traded in blocked intervals which could also differ from the volume-weighted price obtained under the first method.\*

The trading processes of ITS and the custodians seek to eliminate the possibility of any one account or group of accounts receiving more favorable treatment than other accounts. No transactions are directed outside of the selected custodial platform, either by ITS or the client, as there is no guarantee of benefit but possible additional cost to the client by doing so. As discussed above, all buy or sell transactions in any mutual fund on any given day receive the same end-of-day market closing price on the transaction. But the price spread for a single ETF on any given day can be substantial, making market access and trading efficiency important features when buying and selling ETF's. At the present time with client accounts, ITS utilizes ETF's available on select custodial investment platforms in our managed strategies and portfolios as it is our belief that these platforms maintain their own trading policies and procedures that support and enhance our best execution goal. Some these factors could include, but are not limited to:

- A wide selection of ETF's, including an array of transaction fee-free ETF's, that cover a variety of market indexes and asset classes
- Technology providing access to client account data as well as the functionality to implement ITS's managed strategies and portfolios within client investment accounts
- Trading desk access to various markets
- Technology for efficient and timely execution of trades
- Accuracy in pricing, account recordkeeping
- Responsiveness and service in addressing trade execution issues or errors
- Reporting on trade execution within accounts to ITS and clients

ETF's will likely continue to be an investment vehicle of choice to fill positions in ITS managed strategies and

## BROKERAGE PRACTICES (CONT.)

portfolios. ETF's are subject to a government regulatory fee which is assessed on sales in covered equity securities. (Please refer to *Investment, Custodial & Regulatory Costs/Charges*, pages 9-10, for more information.)

\*Certain situations may exclude accounts from block trading as described, resulting in ETF pricing differences between accounts being traded by ITS in a program reallocation: 1) client-initiated account activity immediately prior to or during the program trade; 2) retirement plan fund and/or trading restrictions; 3) blocking program trades by portfolio model vs individual ETF if necessary due to unforeseen trading constraints or issues with the software systems of the custodian, investment platform, or ITS's data management service provider

## TRADE ERRORS

Clients must be cognizant of the fact that it is possible that a gain or loss could result in their ITS-managed account should a trading error occur on the part of any party authorized on the account in relation to the management of and trade execution within the account. ITS will restore any loss to a client's account for which ITS is responsible. A trade error account for ITS is established at certain custodial investment platforms to centralize transactions executed to correct trade errors. In the case of trade error gains, the custodian may donate the accrued gains in the trade error account to charity if the error account maintains a positive balance (at scheduled review dates as determined by the custodian), or the custodian may allow the accrued trade error gains to remain in the account. In either case, ITS does not benefit from the gains in the error account except to the extent that any gains remaining in the account can be used to offset future trade error losses posted to ITS's error account. On a custodial investment platform where a trade error account is not utilized, trade error gains benefit the client's account.

## REVIEW OF ACCOUNTS

As described in the *Advisory Business* section of this brochure, ITS does not provide customized advisory services, nor do we provide comprehensive financial planning services. In other words, our advisory services are not based on the unique and specialized needs of any client as an individual investor. Rather, our management programs provide different preset approaches to investing. Depending on the strategy or portfolio selected, program trading may occur monthly.

Thus, while ITS continuously reviews market, economic, and related financial industry data to determine the data's immediate or future impact on our decision-making within each program, ITS does not conduct periodic reviews of individual client accounts for suitability and related purposes. Oftentimes, the client's assets being managed by ITS represent only a portion of the client's overall investment portfolio. ITS does not request or maintain information regarding a client's other investments. Periodic review of the client's ITS-managed account as well as other investments the client may have is under the purview of the client's financial professional. The financial professional is in a position to make a knowledge-based assessment as to the continued suitability of all financial services he/she has recommended for the client. He/she can determine whether the recommended products and services continue to meet the client's prestated goals and objectives. This ongoing review activity is conducted under the oversight of the financial professional's independent supervisory firm. ITS provides to all clients an annual letter designed to encourage clients to review their personal financial situation. Clients should apprise their financial professional of important lifestyle changes or events that may have occurred or will occur that could substantially impact their investments, including any accounts being managed by ITS.

ITS does conduct a verification review following ITS-initiated program trading designed to flag accounts exhibiting a specified variance to the program's portfolio allocation. The goal is to ensure that the ITS program buys/sells are executed properly for all accounts at each ITS program reallocation. Additionally, a similar screen is conducted on an intraquarter basis. Intraquarter account variances can occur as a result of activity such as account withdrawals, additions, or simply up/down movement within a given market sector of investment. Where needed, account holdings are reallocated to realign with the ITS program selected by the client. Other types of account reviews conducted by ITS may include reviews of specific accounts for compliance or performance reporting purposes.

## REVIEW OF ACCOUNTS (CONT.)

ITS also provides a periodic newsletter directly to all clients that provides articles of interest relating to the investment markets as well as brief summaries of the ITS strategies and their performance in general terms. ITS clients may obtain log-in credentials from ITS in order to view their ITS-managed account via a link on ITS's website. Current account holdings, asset values, and performance information is available for review. Account reporting (i.e. quarterly statements) is simultaneously provided to the client directly from the custodian of their account.

The custodian provides the client with quarterly or more frequent account statements showing the securities held and their values, the transactions in the account for the past quarter, as well as dividend/earnings information. ITS also makes various reports, including account statements, available electronically to clients who register for access to our data management system with a log-in and password. Clients are urged to compare the information provided on statements viewed via the ITS data management system with that provided on the statements for the corresponding period provided directly to the client by their custodian. Clients should feel free to contact either their financial professional or ITS if they have any questions related to account reports.

## CLIENT REFERRALS AND OTHER COMPENSATION

### COMPENSATION PAID/PAYMENTS MADE BY ITS

#### Solicitors Fees

As a general practice, ITS does not market or promote its advisory strategies directly to the public, but establishes working relationships with other investment advisory firms that wish to include ITS's strategies as an option for their clients. A client is introduced to ITS through his/her financial professional who works with the client directly to help the client meet his/her financial goals. The financial professional essentially represents the outside advisory firm in offering various securities products and/or advisory services approved by that firm—ITS's strategies being one of these approved services. These advisory firms and the financial professionals are "outside" or "third-party" solicitors of ITS's services.

Outside solicitors have no involvement with the investment decisions made by ITS for client accounts nor are they involved in the actual implementation of the advice (trading) in client accounts. In other words, outside solicitors have no advisory authority or capacity on behalf of ITS. The solicitors do have a financial interest in the referral of clients to ITS in that they will receive a solicitors fee from ITS. The solicitors fee may vary based on the ITS strategy, custodial platform, and advisory fee rate. Payment of the solicitors fee is ongoing so long as the client's account remains under the management of ITS, the advisory fee has been collected on the account, and the client remains a client of the solicitors. Solicitors fees are paid by ITS to the outside advisory firm which may retain a portion of the fees before disbursing the balance to the individual solicitor.

The ITS solicitor's fee is the sole compensation received by financial professionals as a result of placing client accounts in ITS programs at the currently available brokerage platforms. However, it is possible that certain outside solicitors may also be receiving trailing brokerage compensation (12b-1 fees) in addition to the ITS solicitor's fee on some accounts that were established in the past and remain active today. These accounts were set up at non-brokerage platforms or directly with investment company custodians. ITS no longer accepts new accounts in either of these arrangements. The 12b-1 trails are paid by the mutual fund companies directly to the FINRA-member firm (broker/ dealer) with which the solicitor is registered. The FINRA firm then distributes the fees to the solicitor. ITS has never nor does it currently share in any portion of the brokerage fees generated by the accounts of these outside solicitors.

Certain licensed ITS employees may occasionally refer individuals or acquaintances to ITS for asset management services. This activity is very limited, however, as ITS's business model described earlier revolves around a firm-to-firm marketing approach rather than an ITS-to-client approach. No employee is permitted to formulate discretionary investment advice customized for any of these referral clients, or any ITS client with whom the employee may have

## CLIENT REFERRALS AND OTHER COMPENSATION (CONT.)

contact. All investment advice formulated by ITS is generated to meet the objectives of each ITS managed strategy; thus, as with all ITS clients, the clients referred by an ITS employee do not receive personalized advisory services from ITS.

### COMPENSATION/BENEFITS RECEIVED BY ITS

#### Providing Portfolio Models and Periodic Model Rebalancing Information to Other Advisory Firms

ITS's primary source of income is the advisory fee income it receives from its clients for the management services ITS provides to its clients. At its discretion, ITS may provide information regarding its portfolio models and the periodic rebalancing of its models to other investment advisory firms. In this type of arrangement, the outside advisory firms or "sponsors" are able to expand their own advisory services offerings to their clients by including ITS's expertise in the area of managed strategies and portfolios. Some of the programs offered by these outside advisory firms may be considered "wrap fee" programs if the sponsor firm charges its clients a single fee (not based on the transactions in the clients' accounts) for brokerage, custody, management, and certain other services.

These arrangements in which ITS participates have no impact on the relationship between ITS and its clients. No conflict of interest or lost investment opportunity arises for ITS clients using an ITS managed program (i.e. portfolio model) that may also be offered on the investment and trading platforms of these other advisory firms—the same ITS portfolio framework and ITS proprietary analytics apply. When ITS rebalances a portfolio model, the same updates (with allowances for fund and/or sector availability) are made to the model maintained on the investment platforms used by ITS's direct clients as the same model provided by ITS to the outside advisory firms and used by the clients of those firms.

At the present time, ITS maintains arrangements with Envestnet Asset Management, Inc. and Orion Portfolio Solutions. Each of these entities is an independent registered investment advisor. There is no affiliation between ITS and any of these entities. Each of these firms has engaged the services of ITS in connection with their respective managed account investment and trading platforms. Such platforms may be used by authorized financial advisors, financial planners, and similar investment professionals in providing investment management options for their clients. As one of many "model portfolio advisors" or "strategists" available on the platforms, ITS electronically provides to such entities model portfolio trade recommendations for each ITS model made available by the entity on its platform, including sector allocations and mutual fund selection data, on an ongoing basis in accordance with ITS's model-generated trades. ITS's trade recommendations are provided to meet the objectives of the particular ITS model, and are not generated in response to the financial objectives of any individual investor. In fact, in relation to these arrangements, there is no direct relationship between ITS and the individual investors whose accounts are assigned to the ITS model portfolios; rather, model portfolio assignment is determined by the investor's personal financial professional. In certain of the arrangements, the sponsor firm may assist investors by providing a selection of model portfolio advisors or strategists having similar risk management styles as the investor. The sponsor firm may also reserve the authority to execute, reject, or revise the model portfolio trade recommendations of the model portfolio advisors or strategists.

For its services as described above, ITS receives compensation from the sponsor firm if accounts have been assigned to ITS models. In the arrangements with the sponsor firms listed, a compensation and payment schedule has been set by the sponsor firm defining compensation to ITS in the form of a management fee set at an annual rate of either 0.40% or 0.45% (dependent on sponsor platform) and which is based on the overall aggregate value of assets assigned to the ITS model portfolios.

#### Economic Benefits

##### *Custody Charge Offset*

Many mutual funds pay 12b-1 or other administrative fees to broker/dealers, including the brokerage platforms where ITS's services are available, to help cover distribution and marketing costs related to their funds. Such fees are an indirect cost to the client as they ultimately impact the value of a fund's shares owned by the client. ITS may

## CLIENT REFERRALS AND OTHER COMPENSATION (CONT.)

receive an indirect economic benefit in relation to these fees as described in the following paragraph.

From time to time, funds that pay 12b-1 or other fees are selected by ITS for utilization in its managed portfolios. Whether or not a fund pays these fees is not a consideration of ITS in our fund screening process which evaluates an established set of criteria in the selection of funds. Dependent on the custodial platform being utilized and its policy, the platform may retain 100% of these fund fees as it does not impose custody charges to clients. Alternatively, if the platform does impose custody charges to clients, it may choose to offset the charges with the fund fees it collects. Because ITS has elected to pay custody charges where imposed (401(k) platforms excluded) that would otherwise be assessed to the clients, ITS would receive an economic benefit from the offset.

The offsets as described above may be perceived to create a conflict between the interests of ITS and its clients. However, it is important to note that ITS does not select funds for its managed portfolios based on the distribution/administrative fees paid by the funds, nor does ITS require that any particular available custodial platform be utilized over another based on whether or not an offset may be available. Clients receive the same level of service from both ITS and the custodial platform whether or not funds are selected that pay distribution/administrative fees.

### *Account Administration & Support*

The investment platforms where ITS's managed programs are available provide custody and trade execution services for ITS client accounts. Because a client of ITS is also a client of the custodian, it benefits all involved if the transactions in client accounts are handled efficiently and securely. To this end, the custodial platforms provide ITS with website access and technology designed to facilitate client account management functions such as reallocating and rebalancing, as well as administrative functions such as automated advisory fee liquidation and assistance in processing account contributions/redemptions.

### *Professional Services Cost Discount*

An economic benefit available to firms using the Fidelity investment platforms is the availability of discounted rates from a wide variety of third-party service organizations that have established a discount alliance with Fidelity. These organizations provide professional services in many areas such as data management, technology, compliance, legal, and human resources. It is possible that ITS may, from time to time, receive an economic benefit through discounted rates for the services of such third-party firms. ITS's participation in the Fidelity discount alliance program does not depend on the amount of brokerage transactions directed to Fidelity. In addition, there is no corresponding commitment made by ITS to invest any specific amount or percentage of client assets in any specific mutual funds, securities, or other investment products as a result of participation in the program. It is important to note that any discounted rate received by ITS for the services of any organization available through the Fidelity discount alliance is not the determining factor in ITS's selection of an outside service provider. Firm expertise and experience coupled with requisite efficiencies and the capability of meeting ITS's defined needs will continue to guide ITS decision-making. Perhaps a more important point to our clients is that the cost of any economic benefit available to ITS through the Fidelity discount alliance is absorbed by the service provider. No costs are directly or indirectly assessed to ITS client accounts using the Fidelity investment platform (see *Research and Other Benefits*, page 16, for more information). The receipt of these benefits may create a potential conflict of interest and may indirectly influence ITS's choice of Fidelity for custody and brokerage services.

### *Seminars/Meetings Attendance Costs*

Another economic benefit that ITS may receive from time to time involves attendance at seminars, meetings, or training sessions conducted by outside firms that provide services to our firm in relation to our management of client accounts. For example, a data service provider firm may invite ITS personnel to attend a meeting during which new and improved data system functionality and training is presented. Often, the costs associated with ITS's attendance are paid by the firm extending the invitation to the meeting. The fact that costs may be paid by outside parties is irrelevant to and has no bearing on any business decision made by ITS as to whether or not to use the services of the outside party in connection with providing advisory services to our clients.

## CUSTODY

ITS does not have physical custody of the funds or securities we manage for our clients. These funds or securities are held by the custodial platform selected by the client. The platform is an independent qualified custodian. A client always retains access to the assets in his/her managed account and may obtain a portion or the balance of those assets by direct request to the custodian. Even while the client retains direct access, it is strongly recommended that account liquidations or partial withdrawals be administered through ITS. Clients may contact ITS or, if they prefer, their financial professional who will initiate the process with the custodial platform via ITS. When processed through ITS, it helps to ensure that the allocation of the client's account asset balance is maintained in accordance with the ITS program selected by the client.

## INVESTMENT DISCRETION

ITS manages client accounts on a discretionary basis. This means that clients grant ITS the authority to implement our management of the client's designated investment assets utilizing the ITS program selected by the client. The authority granted by the client's execution of a Client Agreement with ITS allows us to effect trading (buying and selling of fund shares) in the client's account without prior notice to or consent from the client. This includes the authority to initially allocate the client's assets into the asset categories and market sectors, and underlying individual funds, selected by ITS for the ITS program chosen by the client. There are limitations to ITS's discretionary authority (see Model-Based Advisory Services on page 6). Additionally, both the ITS Client Agreement and the custodial account forms completed by the client clarify the permission granted by the client to have ITS's advisory fee liquidated from the managed account (unless alternate payment arrangements are established).

Clients cannot place unreasonable restrictions on the management of their account, but are permitted to place reasonable restrictions on the management of their account. Of course, clients always retain the authority to terminate the services of ITS at any time they so desire.

In certain cases, as described under *Providing Portfolio Models and Periodic Model Rebalancing Information to Other Advisory Firms*, page 20, ITS maintains arrangements with certain entities. In these arrangements, ITS provides portfolio models and model rebalance information to the entities, and the entities may execute, reject, or revise the trading information provided by ITS. Therefore, in these situations, ITS is not provided with investment discretion.

## VOTING CLIENT SECURITIES

ITS does not assume the authority to nor does it engage in proxy voting on behalf of its clients. All communication related to voting of securities is provided by the custodian directly to the client.

## FINANCIAL INFORMATION

While ITS is not required to provide an audited Balance Sheet as a part of this disclosure brochure, ITS does engage an independent public accounting firm to annually audit our firm's financial condition. The offer of delivery of a copy of our most recently completed audited Balance Sheet is made to all established ITS clients in our periodic client newsletter. ITS acknowledges its responsibility to disclose to its clients any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients, and will promptly do so should this condition ever arise.

## ITS ASSET MANAGEMENT, L.P. BROCHURE SUPPLEMENT (PART 2B)

### **JON W. ERDNER**

Chief Investment Officer

Year of Birth: 1942

### **Educational Background and Business Experience**

#### Education

- Kent State University, BA Psychology
- University of Pittsburgh, Postgraduate Studies-Economics

#### Business Experience for Preceding Five Years

- ITS Asset Management, L.P.

### **Disciplinary Information**

None

### **Other Business Activities**

Harness Racing — Shared ownership in several standardbred horses.

Landlord — Owner of office building leasing space to several commercial tenants.

### **Additional Compensation**

Jon Erdner does not receive an economic benefit from a non-advisory client for providing advisory services.

### **Supervision**

Jon Erdner serves as the executive management and Chief Investment Officer of ITS. Therefore, Mr. Erdner has the responsibility for supervising the advisory business activities of all ITS team members. Mr. Erdner's compliance-related activities are monitored by Kevin S. Woodard, the Chief Compliance Officer of ITS. Mr. Woodard can be reached by telephone at 513-977-8646.

*This Brochure Supplement provides information about Jon W. Erdner that supplements ITS's Disclosure Brochure. Please contact ITS at 724-745-2300 if you have any questions about the contents of this Supplement. Additional information about Jon W. Erdner is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## ITS ASSET MANAGEMENT, L.P. BROCHURE SUPPLEMENT (PART 2B)

### **MICHAEL R. SCHOFIELD, AIF**

Investment Committee Member; Marketing

Year of Birth: 1978

### **Educational Background and Business Experience**

#### Education

- Robert Morris University, BS Accounting
- AIF® Designee<sup>†</sup>

#### Business Experience for Preceding Five Years

- ITS Asset Management, L.P.

### **Disciplinary Information**

None

### **Other Business Activities**

Licensed Insurance Agent in the lines of Life, Accident & Health.

### **Additional Compensation**

Michael Schofield does not receive an economic benefit from a non-advisory client for providing advisory services.

### **Supervision**

Jon Erdner serves as the executive management and Chief Investment Officer of ITS. Therefore, Mr. Erdner has the responsibility for supervising the advisory business activities of all ITS team members. Mr. Schofield's compliance-related activities are monitored by Kevin S. Woodard, the Chief Compliance Officer of ITS. Mr. Erdner can be reached by telephone at 724-745-2300. Mr. Woodard can be reached by telephone at 513-977-8646.

<sup>†</sup>*Accredited Investment Fiduciary (AIF) - The AIF designation certifies that the recipient has formal training in fiduciary standards of care and their application to the investment management process. Candidates must meet a point-based threshold contingent on relevant industry experience, education (bachelor's degree or higher), and a professional credential conferred in the financial services industry. The individual must complete a training program and pass the AIF exam while satisfying the AIF Code of Ethics and Conduct Standards. To maintain the designation, six hours of continuing education must be accrued annually. The Center for Fiduciary Studies owns the AIF mark, which it awards to those who successfully complete the initial and ongoing accreditation requirements.*