

**Item 1: Cover Page for Part 2A Appendix 1 of  
Form ADV: Wrap Fee Program Brochure  
February 2021**

**Diligent Investors, LLC**

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**Firm Contact:  
Henk Fischer, Chief Compliance Officer**

This wrap fee program brochure provides information about the qualifications and business practices of Diligent Investors, LLC. If you have any questions about the contents of this brochure, please contact by telephone at (909) 792-2894 or email at [ecicchillo@diligentinvestorsllc.com](mailto:ecicchillo@diligentinvestorsllc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Authority.

Additional information about Diligent Investors, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Please note use of the term "registered investment adviser" and description of Diligent Investors, LLC and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise you for more information on the qualifications of our firm and its employees.

**Item 2: Material Changes to Part 2A Appendix 1 (Wrap Fee Program Brochure) of Our Form ADV**

Diligent Investors, LLC is required to advise you of any material changes to our Wrap Fee Program Brochure ("Wrap Brochure") from our last annual update, identify those changes on the cover page of our Wrap Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Wrap Brochure.

Since our last annual amendment filed on 01/23/2020, we have no material changes to report.

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## Item 4: Services, Fees & Compensation

We offer wrap fee programs as described in this Wrap Fee Program Brochure. Our wrap fee accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc.

A wrap fee program allows our clients to pay a specified fee for investment advisory services. Diligent Investors pay for the execution of transactions. The advisory services may include portfolio management, and the fee is not based directly upon transactions in your account. Fees for the execution of transactions do not result in a higher advisory fee for you however you should be aware that we may have an incentive to limit our trading activities in your account(s) because we are charged for executed trades. By participating in a wrap fee program, you may end up paying more or less than you would through a non-wrap fee program where a lower advisory fee is charged, but trade execution costs are passed directly through to you by the executing broker.

Our recommended custodian, Charles Schwab & Co., Inc. ("Schwab"), does not charge transaction fees for U.S. listed equities and exchange traded funds. Since we pay the transaction fees charged by the custodian to clients participating in our wrap fee program, our firm's expenses have decreased. This presents a conflict of interest because we are incentivized to recommend equities and exchange traded funds over other types of securities in order to reduce our costs.

### **Wrap Comprehensive Portfolio Management:**

Our comprehensive portfolio management service encompasses asset management as well as providing financial planning/financial consulting to clients. It is designed to assist clients in meeting their financial goals through the use of financial investments. We conduct at least one, but sometimes more than one meeting (in person if possible, otherwise via telephone conference) with clients in order to understand their current financial situation, existing resources, financial goals, and tolerance for risk. Based on what we learn, we propose an investment approach to the client. We may propose an investment portfolio, consisting of exchange traded funds, mutual funds, individual stocks or bonds, or other securities. Upon the client's agreement to the proposed investment plan, we work with the client to establish or transfer investment accounts so that we can manage the client's portfolio. Once the relevant accounts are under our management, we review such accounts on a regular basis and at least quarterly. We may periodically rebalance or adjust client accounts under our management. If the client experiences any significant changes to his/her financial or personal circumstances, the client must notify us so that we can consider such information in managing the client's investments.

When applicable to client circumstances our investment approach may be implemented by enrolling clients in a specific model portfolio. We currently use several models that line up our clients' different investment tolerances and time horizons.

Prior to enrolling a client in a model portfolio we work diligently to gain a holistic understanding of our client's financial resources and goals so we can design and implement strategies tailored to meet their individual investment needs. To assist them in meeting those goals we provide our institutional investment management process which consists of the following:

1. **Develop and establish objectives and goals.** After understanding financial goals and objectives, we customize an Investment strategy to align client's objectives with a customized

portfolio. Goals and objectives determine the details of the portfolio, including asset allocation, performance expectations, risk characteristics, etc.

2. **Recommend Asset Allocation and Manager Selection** – Based on client’s objectives, we give specific asset allocation and manager recommendations designed to best meet their goals.
3. **Implement** – We implement our recommendations by selecting investments appropriate to their risk tolerance. Our portfolios span multiple asset classes with very different risk characteristics (conservative dividend stocks, more aggressive emerging markets equities, high quality bonds, commodities, etc.). To understand the overall risk level of such diverse portfolios, we build and deploy proprietary mathematical models based on historical risk characteristics of the various asset classes within our portfolios. These models quantify both the relative risks of these asset classes and the extent to which those risks tend to expand or offset one another.
4. **Monitor and Review** – We continually monitor the asset allocation strategies and the performance of all selected managers to confirm their continued merit in the portfolio. Further, we review our client’s plan with them and make adjustments when necessary as we progress steadily toward their goals year after year.

#### **Fee Schedule:**

<u>Assets Under Management</u>	<u>Annual Percentage of Assets Charge:</u>
Up to \$1,000,000	1.50%
\$1,000,001 to \$5,000,000	1.00%
Over \$5,000,000	Negotiable

Our firm’s fees are billed on a pro-rata annualized basis quarterly in advance based on the value of your account on the last day of the previous quarter. Fees will generally be automatically deducted from your managed account. As a courtesy to smaller accounts, we do not charge a fee to accounts whose fee calculation is less than \$50.00. As part of this process, you understand and acknowledge the following:

- a) Your independent custodian sends statements at least monthly to you showing all disbursements for your account, including the amount of the advisory fees paid to us;
- b) You provide authorization permitting us to be directly paid by these terms;
- c) If we send a copy of our invoice to you, we send a copy of our invoice to the independent custodian at the same time we send the invoice to you;
- d) If we send a copy of our invoice to you, our invoice includes a legend urging you to compare the information provided in our statements with those from the qualified custodian.

In some cases, we agree to directly bill clients (i.e. qualified plans).

When establishing the asset charge for a specific account, the advisor will consider various factors which include the size of the account, trading frequency and transactions cost imposed. There are instances when the advisor will assess a lower asset charge to offset the cost of transaction charges or the selection of higher share classes which do not assess a transaction charge. The goal being to establish a total cost that is equivalent or lower than the asset management schedule above.

#### **Other Types of Fees & Expenses:**

You may pay custodial fees, charges imposed directly by a mutual fund, index fund, or exchange traded fund which shall be disclosed in the fund’s prospectus (i.e., fund management fees and other fund expenses), mark-ups and mark-downs, spreads paid to market makers, wire transfer fees and

other fees and taxes on brokerage accounts and securities transactions. These fees are not included within the wrap-fee you are charged by our firm.

#### **Termination and Refunds:**

Either party may terminate the advisory agreement signed with our firm for Wrap Comprehensive Portfolio Management services in writing at any time. Upon notice of termination our firm will process a pro-rata refund of the unearned portion of the advisory fees charged in advance.

#### **Wrap Fee Program Recommendations:**

Our investment advisory representatives receive a portion of the advisory fee that you pay us, either directly as a percentage of your overall fee or as their salary from our firm. In cases where our investment advisory representatives are paid a percentage of your overall advisory fee, this may create an incentive to recommend that you participate in a wrap fee program rather than a non-wrap fee program (where you would pay for trade execution costs) or brokerage account where commissions are charged. This is because, in some cases, we may stand to earn more compensation from advisory fees paid to us through a wrap fee program arrangement if your account is not actively traded. Inasmuch as our firm will pay to Charles Schwab & Co., Inc. ("Schwab"), Member FINRA/SIPC, the transaction/execution costs associated with equities transaction, a potential disincentive to trade securities may be presented.

#### **Regulatory Assets Under Management:**

Our firm manages \$452,249,381 on a discretionary basis and \$0 on a non-discretionary basis as of December 31<sup>st</sup>, 2020.

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

Types of clients we typically manage wrap fee accounts on behalf of, include:

- Individuals and High Net Worth Individuals;
- Trusts, Estates or Charitable Organizations;
- Pension, Profit Sharing Plans, IRAs and other qualified plans; and
- Corporations, limited liability companies and/or other business types.

Our firm does not impose requirements for opening and maintaining accounts or otherwise engaging us.

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

#### **Selection of Portfolio Managers:**

Our firm utilizes our in-house portfolio managers as well as a selection of outside portfolio managers. In-house accounts are managed by licensed investment adviser representatives ("IARs") of our firm. Prior to becoming licensed with our firm, each IARs industry experience, licensure, outside business activities, client complaints (if any), disciplinary or regulatory history (if any) and financial well-being will be reviewed. Each IAR will then have a Form U4 and ADV Part 2B on file with our firm. Outside portfolio managers, either individually or firm-wide, are selected based on past performance, investment philosophy, market outlook, experience of associated portfolio managers and executive

team, disciplinary, legal and regulatory histories of the firm and its associates, and/or whether compliance procedures are in place to address at a minimum, insider trading, conflicts of interest, and/or anti-money laundering.

Performance returns of wrap portfolios are reviewed at least quarterly. The nature of these reviews is to learn whether client accounts are in line with their investment objectives and appropriately positioned based on market conditions. If these standards fall below the client objectives, our firm will discuss the review with the portfolio manager for proactive action to realign the investment strategy.

#### **Advisory Business:**

Please see Item 4 of this Wrap Fee Program Brochure for information about our wrap fee advisory program. We offer individualized investment advice to clients utilizing our Wrap Comprehensive Portfolio Management service. Each Wrap Comprehensive Portfolio Management client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. Restrictions on investments in certain securities or types of securities may not be possible due to the level of difficulty this would entail in managing the account.

#### **Participation in Wrap Fee Programs:**

We only offer wrap fee accounts to our clients, which are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc. We do not manage non-wrap fee accounts.

#### **Performance-Based Fees and Side-By-Side Management:**

We do not charge performance-based fees or side-by-side management fees to our clients.

#### **Methods of Analysis, Investment Strategies and Risk of Loss:**

Our firm will utilize fundamental analysis which examines earnings, dividends, new products, research and the like. Our firm will make long term purchases (securities held at least a year), and may make short term purchases (securities sold within a year). Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible that the stock market may decrease and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market, are appropriately diversified in your investments, and ask us any questions you may have.

Our firm has developed proprietary asset allocation models and investment strategies as part of our investment process. The purpose of these models and strategies is to create a foundation for clients' investment portfolios based on their individual risk tolerance, investment timeframe, and specific investment goals. Our proprietary models provide recommended percentage allocation ranges to specific asset classes based on risk tolerance. Our risk tolerance models typically range from growth to conservative. Our firm then tailors our investment models to fit clients' individual investment needs and goals. The risks associated with our proprietary models reflect risks similar to that of asset allocation strategies. This includes that a client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that a client's actual holdings may deviate from the model over time and if not corrected, may no longer be appropriate for the client's goals.

We generally invest client's cash balances in money market funds, high-grade commercial paper and/or short term bond funds.

Ultimately, we try to achieve the highest return on our client's cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to comprehensive portfolio management service.

### **Voting Client Securities:**

SEC Rule 206(4)-6 requires investment advisers who have voting authority with respect to securities held in their clients' accounts to monitor corporate actions and vote proxies in their clients' interests. We are required by the SEC to adopt written policies and procedures, make those policies and procedures available to clients, and retain certain records with respect to proxy votes cast.

We consider proxy voting an important right of our clients as shareholders and believe that reasonable care and diligence must be taken to ensure that such rights are properly and timely exercised. When we have discretion to vote the proxies of our clients, we will vote those proxies in your best interests and in accordance with these policies and procedures. Clients may request a copy of our written policies and procedures regarding proxy voting and/or information on how particular proxies were voted by contacting our Investment Officer, Nick Brown by phone at (909) 792-2894 or email at [nbrown@diligentinvestorsllc.com](mailto:nbrown@diligentinvestorsllc.com).

All proxies received by our firm will be given to our Investment Officer for processing. Our Investment Officer will determine which accounts managed by our firm hold the security to which the proxy relates. These accounts and their shareholdings will be matched to the proxies received for each security. Missing proxies or significant variances in shares held will be investigated.

A grid of shares held by the client for each security being voted will be updated with each proxy being voted. Our Investment Officer will review each item for voting on each proxy. Based on our proxy voting guidelines outlined below, a determination of how our firm votes will be made. Any undefined issues will be referred to our managing principal. A listing of each proxy voted will be updated at the time the proxy is voted. Proxies will generally be voted by mail.

In the absence of specific voting guidelines from the client, we will vote proxies in the best interest of each particular client.

We look to ensure that our firm is compliant with the New Exchange Act rule 14a-11. In accordance with the aforementioned rule, our firm provides shareholders with the opportunity to nominate directors at a shareholder meeting under the applicable state or foreign law. Clients also have the ability to have their nominees included in the company proxy materials sent to all of our shareholders.

Furthermore, the clients as shareholders also have the ability to use the shareholder proposal process to establish procedures for the inclusion of shareholder director nominations in company proxy materials.

Where voting authority exists, proxies are voted by our firm in the best interests of plan beneficiaries:

- for directors and for management on routine matters;



- for a limit on or reduction of the number of directors, and for an increase in the number of directors on a case by case basis;
- against the creation of a tiered board;
- for the elimination of cumulative voting;
- for independence of auditors;
- for deferred compensation;
- for profit sharing plans;
- for stock option plans unless the plan could result in material dilution to shares outstanding or is excessive;
- for stock repurchases;
- for an increase in authorized shares unless the authorization effectively results in a blind investment pool for shareholders;
- for reductions in the par value of stock;
- for company name changes;
- for routine appointments of auditors.

Material issues not addressed above (e.g., mergers, poison pills, social investing and miscellaneous shareholder proposals) are dealt with on a case-by-case basis.

Our firm will defer to client voting policies as directed. Eligible shares are monitored against ballots received from custodians, and detailed records of all issues and votes are maintained and reported to clients as requested.

We recognize that under certain circumstances we may have a conflict of interest between us and our clients. Such circumstances may include, but are not limited to, situations where our firm or one or more of our affiliates, including officers, directors and employees, has or is seeking a client relationship with the issuer of the security that is the subject of the proxy vote. We shall periodically inform our employees that they are under an obligation to be aware of the potential for conflicts of interest on the part of our firm with respect to voting proxies on behalf of funds, both as a result of our employee's personal relationships and due to circumstances that may arise during the conduct of our business, and to bring conflicts of interest of which they become aware to the attention of the proxy manager.

We shall not vote proxies relating to such issuers on behalf of client accounts until we have determined that the conflict of interest is not material or a method of resolving such conflict of interest has been agreed upon by our management team.

A conflict of interest will be considered material to the extent that it is determined that such conflict has the potential to influence our decision-making in voting a proxy. Materiality determinations will be based upon an assessment of the particular facts and circumstances. If we determine that a conflict of interest is not material, we may vote proxies notwithstanding the existence of a conflict. If the conflict of interest is determined to be material, the conflict shall be disclosed to our management team and we shall follow the instructions of the management team. We shall keep a record of all materiality decisions and report them to the management team on an annual basis.

Our Chief Compliance Officer will maintain files relating to our proxy voting procedures. Records will be maintained and preserved for five years from the end of the fiscal year during which the last entry was made on a record, with records for the last two years kept on our premises.

Records of the following will be included in the files:

- copies of these proxy voting policies and procedures, and any amendments thereto;
- a copy of each proxy statement that we receive, provided however that our firm may rely on obtaining a copy of proxy statements from the SEC's Edgar system for those proxy statements that are available;
- a record of each vote that we cast;
- a copy of any document we created that was material to making a decision how to vote proxies, or that memorializes that decision;
- a copy of each written client request for information on how we voted such client's proxies, and a copy of any written response to any client request for information on how we voted their proxies.

Clients may request a copy of our written policies and procedures regarding proxy voting and/or information on how particular proxies were voted by contacting our Chief Compliance Officer, Henk Fischer by phone at (909) 792-2894 or email at [hfischer@diligentinvestorsllc.com](mailto:hfischer@diligentinvestorsllc.com).

We do not pay for proxy voting services with soft dollars. Also, we do not charge an additional fee to vote proxies.

#### **Item 7: Client Information Provided to Portfolio Manager(s)**

We are required to describe the information about you that we communicate to your portfolio manager(s), and how often or under what circumstances we provide updated information. Our firm communicates with your portfolio manager(s) on a regular basis as needed (daily, weekly, monthly, etc) to ensure your most current investment goals and objectives are understood by your portfolio manager(s). In most cases, we will communicate such information as part of our regular investment management duties. Nevertheless, we will also communicate information to your portfolio manager(s) when you ask us to, when market or economic conditions make it prudent to do so, etc.

#### **Item 8: Client Contact with Portfolio Manager(s)**

Clients are always free to directly contact their portfolio manager(s) with any questions or concerns they have about their portfolios or other matters.

#### **Item 9: Additional Information**

##### **Disciplinary Information:**

We have determined that our firm and management have no disciplinary information to disclose.

##### **Financial Industry Activities & Affiliations:**

We have the following financial industry activities and affiliations to disclose:

Mr. Brown is a Board Member of Sam & Alfreda Maloof Foundation for Arts & Crafts, a non-profit organization formed to recognize and celebrate fine artists and craftsmen. Mr. Brown devotes

approximately two percent (2%) of his time on this activity. Clients of Sam & Alfreda Maloof Foundation for Arts & Crafts will not be solicited to use our firm for investment advisory services. Our clients are not obligated to participate in Sam & Alfreda Maloof Foundation for Arts & Crafts' activities.

Representatives of our firm are registered representatives of M. S Howell & Co., member FINRA/SIPC, and licensed insurance agents. As a result of these transactions, they receive normal and customary commissions. A conflict of interest exists as these commissionable securities sales create an incentive to recommend products based on the compensation earned. To mitigate this potential conflict, our firm will act in the client's best interest.

### **Custody:**

The SEC issued a no-action letter ("Letter") with respect to the Rule 206(4)-2 ("Custody Rule") under the Investment Advisers Act of 1940 ("Advisers Act"). The letter provided guidance on the Custody Rule as well as clarified that an adviser who has the power to disburse client funds to a third party under a standing letter of instruction ("SLOA") is deemed to have custody. As such, our firm has adopted the following safeguards in conjunction with our custodian, Charles Schwab:

- The client provides an instruction to the qualified custodian, in writing, that includes the client's 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.
- The client authorizes the investment adviser, 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.
- The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
- The client has the ability to terminate or change the instruction to the client's qualified custodian.
- The investment adviser has 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 the client's instruction.
- The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
- The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

### **Code of Ethics, Participation or Interest in Client Transactions & Personal Trading:**

We recognize that the personal investment transactions of members and employees of our firm demand the application of a high Code of Ethics and require that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, we believe that if investment goals are similar for clients and for members and employees of our firm, it is logical and even desirable that there be common ownership of some securities.

Therefore, in order to prevent conflicts of interest, we have in place a set of procedures (including a pre-clearing procedure) with respect to transactions effected by our members, officers and employees for

their personal accounts<sup>1</sup>. In order to monitor compliance with our personal trading policy, we have a quarterly securities transaction reporting system for all of our associates.

Furthermore, our firm has established a Code of Ethics which applies to all of our associated persons. An investment adviser is considered a fiduciary. As a fiduciary, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. Our fiduciary duty is considered the core underlying principle for our Code of Ethics which also includes Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understand, and agree to comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.

This disclosure is provided to give all clients a summary of our Code of Ethics. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

Related persons of our firm may buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request. Further.

#### **Review of Accounts:**

We review accounts on at least a quarterly basis for our clients subscribing to our Wrap Comprehensive Portfolio Management service. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. Only our Financial Advisors or Portfolio Managers will conduct reviews.

We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

We provide quarterly performance reports to clients upon request. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to our firm's Wrap Comprehensive Portfolio Management service.

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<sup>1</sup> For purposes of the policy, our associate's personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.

## **Client Referrals & Other Compensation:**

### Charles Schwab & Co., Inc.

Our firm has an arrangement with Charles Schwab & Co., Inc. ("Schwab"), Member FINRA/SIPC. Schwab offers to independent investment Advisers services which include custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from Schwab through our participation in the program. However, our firm is independently owned and operated and not affiliated with Schwab. Our firm may also recommend that Clients establish accounts with firms other than Schwab.

Our firm places trades for its Clients' accounts subject to its duty to seek best execution and its other fiduciary duties. Our firm may use broker-dealers other than Schwab to execute trades for client accounts maintained at Schwab, but this practice may result in additional costs to clients so that we are more likely to place trades through Schwab rather than other broker-dealers. Schwab's execution quality may be different than other broker-dealers.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Some of the products, services and other benefits provided by Schwab benefit us and may not benefit our firm's client accounts. Our recommendation/requirement that a client place assets in Schwab's custody may be based in part on benefits Schwab provides to us, and not solely on the nature, cost or quality of custody and execution services provided by Schwab.

Schwab also makes available to our firm other products and services that benefit us but may not benefit clients' accounts. These benefits may include national, regional or specific to our firm, educational events organized and/or sponsored by Schwab Institutional. Charles Schwab provided the firm with a \$50,000 soft dollar budget to be used for research, advertising, marketing and record keeping in 2016 which will be exhausted during 2017. Other potential benefits may include occasional business entertainment of personnel of our firm by Schwab Institutional personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist us in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of our firm's accounts, including accounts not maintained at Schwab Institutional. Schwab Institutional also makes available to us other services intended to help our firm manage and further develop its business enterprise.

These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to our firm by independent third parties. Schwab Institutional may discount or waive fees

it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. While, as a fiduciary, our firm endeavors to act in our clients' best interests, our recommendation/requirement that clients maintain their assets in accounts at Schwab may be based in part on the benefit to our firm of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

As a result of receiving such products and services for no cost, we may have an incentive to continue to place Client trades through broker-dealers that offer the aforementioned products and services. This may present a conflict of interest with our duty to achieve best execution of client transactions.

From time-to-time our firm may make an error in submitting a trade order on a client's behalf. When this occurs, we may place a correcting trade with the broker-dealer which has custody of the client's account. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should have received the gain, it is not permissible for the client to retain the gain, or our firm confers with the client and the client decides to forego the gain (e.g., due to tax reasons). If the gain does not remain in the client's account and Schwab is the custodian, Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100, we will pay for the loss. Schwab will maintain the loss or gain (if such gain is not retained in the client's account) if it is under \$100 to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in the client's account, they may be netted.

#### Client Referrals:

We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm in accordance with Rule 206 (4)-3 of the Investment Advisers Act of 1940.

#### **Financial Information:**

Our firm is not required to provide financial information in this Brochure because:

- Our firm does not require the prepayment of more than \$1,200 in fees when services cannot be rendered within 6 months.
- Our firm does not take custody of client funds or securities.
- Our firm does not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.

Our firm has never been the subject of a bankruptcy proceeding.