

# FULCRUM CAPITAL

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March 24, 2021

This Brochure provides information about the qualifications and business practices of Fulcrum Capital, LLC. If you have any questions about the contents of this Brochure, you may contact us at (206) 223-9790, or email [info@fulcrumcapllc.com](mailto:info@fulcrumcapllc.com) to obtain answers and additional information. Fulcrum Capital, LLC is a registered investment advisor with the Securities and Exchange Commission. Registration of an investment adviser does not imply any level of skill or training. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC).

Additional information about Fulcrum Capital, LLC is available on the SEC's website at [www.Adviserinfo.sec.gov](http://www.Adviserinfo.sec.gov).

## Item 2 – Material Changes

We will ensure that all current clients receive a Summary of Material Changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. A Summary of Material Changes is also included with our Brochure on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Fulcrum Capital, LLC is 145322. We will provide other ongoing disclosure information about material changes as necessary between annual updates. Currently, our Brochure may be requested by contacting us at (206) 223-9790, or by email to [info@fulcrumcapllc.com](mailto:info@fulcrumcapllc.com).

We have made the following Material Changes to our Brochure since the date of our last annual update dated March 30, 2020:

Our annual minimum account fee has increased from \$10,000 to \$20,000. Please refer to Item 5 for information related to our fees.

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**Item 4 – Advisory Business**

**A** Fulcrum Capital, LLC (“Fulcrum,” “we,” “us,” “our,” “Advisor”) is a Seattle company registered with the Securities and Exchange Commission as an investment advisor. The firm was founded in 2007. Fulcrum is employee-owned and pays careful attention to its obligation to clients to provide long-term continuity of service. Both Darcy Johnson, our CEO and a Fulcrum founder, and Michelle Mathieu, our Chief Investment Officer, are Managing Members and each owns more than 25% of the company.

**B, C** We offer a wide range of investment advisory services to our Clients. Advice and services are tailored to the stated objectives of the Client(s). Generally, we have the authority to determine, without obtaining specific Client consent, the securities bought or sold, as well as the amount of securities bought or sold and commission rates paid. Occasionally clients will direct us to buy or sell specific securities, or not to buy or not to sell specific securities.

We generally construct portfolios using liquid assets (i.e., assets that may readily be sold in the public markets). While we don’t limit our advice to certain securities, our portfolios generally employ individual equities and fixed income securities (i.e., stocks and bonds), as well as exchange traded funds (“ETF”) and some allocation to cash.

We may also recommend illiquid investments, ranging from unregistered securities (private placements) that have very low liquidity, to interval funds where the issuer agrees to redeem a certain amount of the fund’s assets periodically, such as quarterly or annually. We do not typically seek out and recommend private placements, though we may do that on occasion. We are more likely to review a specific offering at the client’s request and then provide an opinion on the offering’s investment merit. When recommending or reviewing a private placement, our due diligence is generally limited to review of the issuer’s offering materials. We do not independently verify issuer representations. We are not able to use our discretionary authority to invest in private placements. We recommend illiquid investments only where we believe the client has sufficient other assets to meet cash flow and other liquidity needs, and where the client has the wherewithal to tolerate significant loss in the investment.

**D** We do not participate in any wrap fee programs.

**E** As of December 31, 2020, we managed approximately \$647 million of Client assets on a discretionary basis and approximately \$47.3 million of Client assets on a non-discretionary basis.

## Item 5 – Fees and Compensation

- A** We are a fee-only advisory firm, meaning we are compensated only by our Clients and do not receive compensation or commissions from any other parties. We believe this method of compensation minimizes conflicts of interest.

In consideration for our services, Clients pay us a fee monthly in arrears. The fee is equal to the agreed upon rate per annum, times the market value of the account, divided by 12 and prorated for the number of days in the month. The market value for billing purposes equals the sum of the values of all assets in the account at month end, as reported by the custodian, not adjusted by any margin debit. Our advisory fees will be adjusted when Client accounts have cash inflows or outflows of \$25,000 and higher. The fee adjustment will be assessed or refunded at month-end and prorated as of the date of the flow.

Compensation for our services is calculated in accordance with “Schedule A” of the Investment Advisory Agreement (IAA”) entered into with each Client when we begin our professional relationship. The IAA may be amended from time to time by us upon 30-days prior written notice to Client.

### STANDARD FEE SCHEDULE

<u>Asset Range Increments</u>	<u>Rate</u>
Zero to \$2,000,000	1.00%
\$2,000,000 to \$5,000,000	0.70%
\$5,000,000 to \$10,000,000	0.55%
\$10,000,000 to \$25,000,000	0.40%
Above \$25,000,000	negotiable

Our fee schedule is “tiered.” As an example, a \$4 million portfolio would be charged 1.00% on the first \$2 million of assets and 0.70% on the next \$2 million. Notwithstanding the schedule above, we assess a minimum annual fee of \$20,000 per billing relationship, not additive to the standard tiered fee schedule in the IAA. Our fee schedule, as well as the minimum, are negotiable. All security pricing is provided by the Client’s custodian, in accordance with the custodian’s pricing policies, which are disseminated periodically to their customers.

As indicated above in Item 4, we will, as appropriate and suitable, recommend illiquid investments, including private placements/limited partnerships. In those cases, we will negotiate a fee separately from our standard fee schedule reflected above. If the custodian does not provide pricing, the asset will be valued using one of the following methods:

- At the most recent market value provided by the issuer, if available;
- At the “invested amount” or “cost” (if not regularly traded or the issuer does not provide a valuation). We choose this method when a current value is not available from an independent third party.

Valuations of illiquid securities may be materially different—either higher or lower—than the values you would realize upon liquidation.

We also may select third-party managers (“sub-advisors”) where we believe it is appropriate for the Client’s investment needs. The sub-advisor’s fees, if any, are charged in addition to Fulcrum’s fees above and are processed through the sub-advisor, not through Fulcrum. Clients will receive current copies of any sub-advisor’s Brochure and may be required to execute additional agreements directly with the sub-advisor.

- B** We require Clients to pay our fees by direct debit from the custodial account, as authorized in the investment advisory agreement. Payment of fees may result in the liquidation of Client’s securities if there is insufficient cash in the account. While we have controls in place to ensure accuracy, the custodian does not independently confirm our calculations; Clients share responsibility with us for verifying fee billing accuracy and we urge Clients to review their custodial statements carefully and notify us promptly of any discrepancies.
- C** In addition to our fee and any sub-advisor’s fees, Clients may be required to pay a proportionate share of any mutual fund’s fees and charges for brokerage commissions, stock transfer fees, and other similar charges incurred in connection with transactions for their account. These fees are paid out of the assets in a Client’s account and are in addition to the investment management fees paid to us. Please see Item 12 – Brokerage Practices for more information.
- D** In the event the advisory relationship is terminated, Clients are responsible for Fulcrum’s compensation for work performed through the date of termination. Fees for partial months at the commencement or termination of this Agreement will be billed on a pro-rata basis reflecting the number of days the account was open during the month. Monthly fee adjustments for additional assets received into the account during a month or for partial withdrawals will also be charged on a pro rata basis.
- E** We are a fee-only investment advisory firm paid on a percentage of Client assets managed. This means that no supervised person associated with us receives or accepts any compensation for the sale of securities or investment products.

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

We do not charge any performance-based fees for our services. Accordingly, this Item is not applicable to our firm.

## Item 7 – Types of Clients

We provide investment advice to the following types of Clients:

- Corporations
- Individuals
- Trusts, Estates or Charitable Organizations

Because each Client is unique, we encourage Client involvement in the planning and processes connected to management of their accounts. Such involvement does not have to be time consuming, though we want our Clients to remain informed and have a sense of confidence about their investments. Our minimum household size is \$1 million, though we may accept, in our sole discretion, households with fewer assets.

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

- A** Our primary investment strategies used to implement investment advice given to Clients include long-term (securities held at least one year) and short-term (securities sold within a year) purchases, trading (securities sold within 30 days), as well as covered call option strategies.

We research and analyze securities using fundamental and technical methods. The main sources of information we rely on include research materials prepared by others, annual reports, prospectuses, direct contact with corporations and public filings with the Securities and Exchange Commission.

- B** We use our best judgment and good faith efforts in rendering services to Clients. We cannot warrant or guarantee any particular level of account performance, or that the account will be profitable over time. Not every investment decision or recommendation made by us will be profitable. All investing in securities involves risks of loss that Clients should be prepared to bear. Clients must also understand that investment decisions made for their account are subject to various market, currency, economic, political and business risks.

**Fundamental Analysis** – Fulcrum attempts to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to

determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents risk as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security. Similarly, Fulcrum's analysis of intrinsic value may simply be incorrect.

**Technical Analysis** – Fulcrum analyzes past market movements and applies that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company, though a key assumption is the market price of a security at any given point accurately reflects all available information and represents the true value of the security. Technical analysis also assumes that price changes are not random. Trend assumptions may be inaccurate and there is no guarantee that the price of a security will actually move in the direction an identified trend or pattern would suggest.

**Environmental, Social, Governance (ESG).** We may select investments wholly or in part based on ESG factors. The factors considered may be specified by the client or may be established by our investment committee. In addition to its own judgment, the investment committee relies on ESG ratings and reports provided by industry analysts. Some of this analysis relies on corporate self-reporting, which is problematic due to the inherent biases in self reporting, but may be the only data available in certain cases. While there is research to suggest that ESG factors, when integrated into investment analysis and portfolio construction, may offer potential performance advantages, there is also the risk that investing based on these factors may, under certain market conditions, lead to underperformance relative to investments that don't pursue ESG priorities. The factors we use in ESG selection will filter out companies that could be profitable, especially if a particular sector is in favor but we choose to avoid it for ethical reasons. We may also use a "gender lens" in stock selection. This is the practice of investing with an aim to earn financial return while also addressing gender disparities.

**Asset Allocation.** In addition to focusing on securities selection, Fulcrum attempts to identify an appropriate proportion of equity securities, fixed income securities, alternative investments and cash suitable to the client's investment goals and risk tolerance. A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the proportions of different asset types will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

- C** All investing involves risks that clients must be prepared to bear. While losses can and will occur, we generally recommend a broad and diversified allocation of equities, fixed



income, ETFs and mutual funds thereby reducing specific risks associated with a concentrated or undiversified portfolio. Below are some of the risks present with investing generally, as well as some key risks of different types of investments. In general, investing in securities with concentrated exposures to (i) particular asset class(es) and/or (ii) a particular sector and/or (iii) one or a select few markets involves greater risk than investing in investments that have greater diversification.

**Counterparty Risk.** This is the risk that the other party to a contract will not fulfill its contractual obligations. Clients investing in debt instruments and in structured products are typically exposed to greater counterparty risk than investors in liquid equities, for example.

**Credit Risk.** This is the risk that an issuer will default in the payment of principal and/or interest on a security. The price of a bond depends in large part on the issuer's credit rating, or perceived ability to pay its debt obligations. Consequently, increases in an issuer's credit risk may negatively impact the value of a bond and often affect equity pricing as well.

**Equity-Related Securities.** Prices of common stock react to the economic conditions of the company that issued the security; industry and market conditions; as well as other factors, and may fluctuate widely. Investments related to the value of stocks may rise and fall based on an issuer's actual and anticipated earnings, changes in management, the potential for takeovers and acquisitions, and other economic factors. Similarly, the value of other equity-related securities, including preferred stock, warrants and options may also vary widely. Market conditions may affect certain types of stocks (such as large-cap or technology-related) to a greater extent than other types of stocks. If the stock market declines, the value of a portfolio will also likely decline and, although stock values can rebound, there is not assurance that values will return to previous levels.

**Exchange-Traded Funds.** Exchange-traded funds ("ETFs") are funds bought and sold on a securities exchange that attempt to track the performance of a specific index (such as the S&P 500), a commodity, or a basket of assets (such as a set of technology-focused, country-specific, or other sector-specific stocks). The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in its being more volatile than the underlying securities. ETFs have management fees that increase their costs. ETFs are also subject to other risks, including: the risk that their prices may not correlate perfectly with changes in the underlying index (tracking error); the risk that the ETF will trade at prices that differ, sometimes materially, from the ETF's net asset value; and illiquidity risk, especially for narrowly-focused ETFs, including the risk of possible trading halts due.

**Fixed-Income Securities.** Prices of fixed income instruments (e.g., bonds) can exhibit some volatility and change daily. Investments in fixed income instruments present numerous risks, including credit, interest rate, reinvestment and prepayment risk, all of

which affect the price of the instruments. For instance, a rise in interest rates will generally cause the price of bonds to go down. If the security is held to maturity and the issuer does not default, the client should receive the face amount of the bond at the maturity date, as well as stated interest payments while the bond is held. In this case, the change in price prior to maturity may not affect the client. If the client needs to sell prior to maturity, however, the investor would likely experience a loss. Where a client's fixed income exposure is to bond funds or fixed-income ETFs, the fund or ETF does not itself "mature," although different issues held by the fund/ETF will mature and will experience price fluctuations. Investors are therefore highly dependent on the manager's ability to accurately anticipate the impact of rate changes and to appropriately manage the portfolio to achieve both adequate returns and reasonable risk. The US has experienced a prolonged period of historically low interest rates; future increases in rates could have a material negative impact on the value of current fixed income holdings. In addition, the value of fixed income instruments may decline in response to events affecting the issuer, its credit rating or any underlying assets backing the instruments.

**Foreign Market Risk.** The securities markets of many foreign countries, including emerging countries, have substantially less trading volume than the securities markets of the United States, and securities of some foreign companies are less liquid and more volatile than securities of comparable United States companies. As a result, foreign securities markets may be subject to greater influence by adverse events generally affecting the market, by large investors' trading significant blocks of securities, or by large dispositions of securities, than as it is in the United States. Further, many foreign governments are less stable than that of the United States. There can be no assurance that any significant, sustained instability would not increase the risks of investing in the securities markets of certain countries. While Fulcrum typically gains exposures to foreign markets through ETFs or mutual funds, rather than investing directly in foreign securities, the limited liquidity of some foreign markets may affect our ability to acquire or dispose of securities at a price and time it believes is advisable. We may also obtain exposure to international markets through debt instruments with multi-national banks. These securities pose the risks associated with domestic fixed-income securities, as well as the risks posed by foreign securities.

**Inflation Risk.** When inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation. This affects all investments, but longer-term fixed income securities are particularly susceptible.

**Liquidity Risk.** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not. Certain instruments may have no readily available market or third-party pricing. Some private placements, for example, have virtually no secondary market. Interval funds offer periodic purchase and/or redemptions through the issuer, subject to specific restrictions.

Reduced liquidity may have an adverse impact on market price and the ability to sell particular securities when necessary to meet cash needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult to obtain market quotations based on actual trades for the purpose of valuing the security. Clients should invest in illiquid (or relatively illiquid) assets only to the extent they have adequate other liquid assets available to fund current and ongoing cash requirements.

**Market Risk.** The price of any security, including stocks, bonds, ETFs, or mutual funds may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a particular security's underlying circumstances. For example, political, economic and social conditions may trigger market events.

**Manager Risk.** Third-party investment advisers who have been successful in the past may not be successful in the future, and they may deviate from their stated investment mandate or strategy. Because we do not control the third-party investment advisor, we may not be able to fully identify internal control weaknesses or fully evaluate the accuracy of representations made by such investment advisers when performing due diligence on them or relying on the due diligence provided by others. Although clients receive disclosures about third-party managers, in light of our discretionary authority to hire and fire these advisers, clients are largely dependent on our ongoing assessment and monitoring. While we do consider conflicts of interest carefully in selecting third-party managers and generally would not choose managers whose business practices pose material conflicts for our clients, we do not have the same level of insight into conflicts of third parties that we have for our own business.

**Mutual Funds.** These are professionally-managed investments that pool money from multiple investors to purchase securities. Mutual funds may be broad-based (e.g., focused on the market overall, or focused on large-capitalization companies), or they can be more narrow in scope, such as those focused on the technology industry or the securities of specific country. The risks of mutual funds are generally connected to the risks of the underlying securities they hold. Mutual funds do not trade on an exchange but are priced daily based on the net asset value of the securities held in the fund. Investors buy or sell fund shares based on that end-of-day price.

**Private Placements and Illiquid Investments.** Where we believe it to be suitable for the client, the firm may occasionally recommend private-placed securities. Private placements (unregistered securities) are exempt from registration under federal securities laws, may have limited or no transparency as to the underlying investments, and are generally available only to "accredited" or "qualified investors," who are assumed to be sophisticated purchasers who have little or no need for liquidity from such investments, and are able to withstand the loss of some or all of their investment.

Limitations on withdrawal rights and non-tradability of interests create higher liquidity risk, and such securities should be viewed as long-term investments. Clients using these products and strategies must be able to tolerate this illiquidity by reserving sufficient resources to meet all obligations. Expenses related to private placements may be a higher percentage of net assets than traditional investment strategies. The duration of private fund investments with longer-term securities are more sensitive to interest rates and include the possibility of more volatility than other investments. This is not an exclusive list of potential or actual risks in any particular private placement and additional important information is found in the specific security's offering materials. Clients must receive and read the offering materials before investing, and execute any required subscriptions documents. The investment sponsor determines whether to accept a specific investment. Fulcrum is not able to exercise its discretionary authority with respect to private placements. We generally assess a fee on illiquid assets under our management despite the lack of secondary market pricing. See Item 5, above, for more information.

**Real Estate Risk.** We may recommend securities that hold real estate or are focused on the real estate industry. Risks associated with real estate generally include: local, national and international economic conditions; the supply and demand for properties; the financial conditions for tenants, buyers and sellers of properties; changes in interest rates; changes in environmental laws or regulations, planning laws and other governmental roles and fiscal and monetary policies; changes in real property tax rates; negative developments in the economy that depress travel and retail activity; uninsured casualties; force majeure acts, terrorist events, under-insured or uninsurable losses; and other factors that are beyond the reasonable control of the Manager. Other risks include, but are not limited to, tenant vacancies; declining market values; potential loss of entire investment principal; that potential cash flow, potential returns, and potential appreciation are not guaranteed in any way; adverse tax consequences; and that real estate is typically an illiquid investment. In addition, real estate assets are subject to long-term cyclical trends that give rise to significant volatility in values. Investment is disproportionately exposed to the foregoing risks because of its concentration in real estate and real estate-related investments.

## Item 9 – Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of our firm, or the integrity of our management. We have no information to disclose applicable to this Item.

## Item 10 – Other Financial Industry Activities and Affiliations

Neither Fulcrum nor its management persons has any ownership or other affiliation with other financial services companies. We do not have fee sharing or referral arrangements with other professionals, except as described in Item 14.

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

**A** Fulcrum discloses to Clients material conflicts of interest which could reasonably be expected to impair the rendering of unbiased and objective advice. Fulcrum has a Code of Ethics which all employees are required to follow. The Code of Ethics outlines proper conduct related to all services provided to Clients. Prompt reporting of internal violations is mandatory. Fulcrum's chief compliance officer regularly evaluates employee performance to ensure compliance with the Code of Ethics. A copy of the Code of Ethics is available to current or prospective Clients upon request.

**B-D** Fulcrum or individuals associated with us may buy and sell some of the same securities for their own accounts that we buy and sell for our Clients. When purchasing or selling a security for a group of our existing accounts, we either (1) aggregate employee trades with client trades and allocate all transactions at the same average price; or (2) we ensure that client trades are completed before employee trades are entered. In some cases, we may buy or sell securities for our own accounts for reasons not related to the strategies adopted by our Clients.

As stated above, we disclose to Clients material conflicts of interest relating to us, our representatives, or any of our employees which could reasonably be expected to impair the rendering of unbiased and objective advice.

## Item 12 – Brokerage Practices

### **A Recommendation of a Broker / Custodian; Factors Considered in our Recommendations**

Although we occasionally work with other broker/dealers and custodians, we recommend Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer and member SIPC, to our clients who need such services. We've described the factors in our recommendation below. Please also see Item 10 of this brochure for details our CEO's role as a member of the Schwab Advisor Services Advisory Board.

Fulcrum does not maintain custody of the assets we manage, though we may be deemed to have custody if the Clients give us authority to withdraw assets from their account

under certain circumstances (see Item 15, below). Client assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. Fulcrum currently recommends the custodial and brokerage services of Charles Schwab & Co., Inc., (“Schwab”) a registered broker-dealer and member SIPC. We are independently owned and operated and are not affiliated with Schwab. While we recommend Schwab as custodian/broker, clients will decide whether to do so and will open accounts with Schwab by entering an account agreement directly with them. We do not open accounts for clients, though we may assist in doing so.

### **How We Select Brokers/Custodians**

We seek to recommend a custodian/broker that will hold client assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. We consider a wide range of factors, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for the account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, ETFs, etc.) and financial services for Clients (banking, lending, etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate prices
- Reputation, financial strength, security and stability
- Dedicated service team and local personnel
- Prior service to us and our clients
- Availability of other products and services that benefit us, as discussed below

We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above.

### **Your Brokerage and Custody Costs**

Schwab generally does not charge clients separate for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Schwab is also compensated by earning interest on

the uninvested cash in Schwab's Cash Features Program or on any margin balance maintained in Schwab accounts, and from other ancillary services.

Most trades no longer incur commissions or transaction fees, though there are exceptions. Schwab discloses its fees and costs to clients and we take those costs into account when executing transactions on your behalf. Schwab charges you a flat dollar amount as "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds form the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account.

Certain mutual funds and ETFs are made available for no transaction fee; as a result the confirmation may show "no commission" for a particular transaction. Typically the custodian (but not Fulcrum) earns additional remuneration from such services as recordkeeping, administration, and platform fees, for the funds and ETFs on their no-transaction fee lists. This additional revenue to the custodian will tend to increase the internal expenses of the fund or ETF. Fulcrum selects investments based on our assessment of a number of factors, including liquidity, asset exposure, reasonable fees, effective management, and low execution cost. Where we choose a no-transaction fee fund or ETF, it is because it has met our criteria in all applicable categories.

### **Products and Services Available to Fulcrum from Schwab**

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. They provide Fulcrum and our clients with access to their institutional broker services (trading, custody, reporting, and related services), some of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services are generally available without our requesting them and at no charge to Fulcrum. Following is a more detailed description of these services:

#### **Services that Benefit Clients**

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment, lending, and banking products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher cost or higher minimum initial investment by our clients. These services general benefit you and your account.

### **Services that May Not Directly Benefit Clients**

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or a substantial number of our clients' accounts, including If we had accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

### **Services that Generally Benefit Only Fulcrum**

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support
- Occasional business entertainment of our personnel

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. We make limited use of the services in this section. We are most likely to use compliance and technology consulting and to attend conferences and other educational events, some of which include business entertainment.

### **Fulcrum's Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them, and we don't have to pay Schwab for them. This creates an incentive for us to recommend that clients maintain their accounts with Schwab, based



on our interest in receiving Schwab's services that benefit our business rather than based on clients' interest in receiving the best value in custody services and the most favorable execution of their transactions. While this incentive creates a conflict of interest, we believe that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us.

### **Sub-Advisors**

As described in Item 4, in some cases we may select sub-advisors to advise on a portion of your assets. Sub-advisors will typically place all transactions for your account at your broker/ custodian, subject to its obligation to you to seek best execution. Because Schwab charges fees for transactions that are placed with outside brokers (see **Your Brokerage and Custody Costs**, above), sub-advisors will most often select your custodian as the broker who provides the best execution on a specific transaction after weighing possible price improvement versus the trade-away fee. Sub-advisors may, however, choose to trade away from your custodian when they believe (in their sole determination) that doing so is in your best interest. As a result, in addition to additional costs assessed by Schwab, you may pay an additional fee to the broker/dealer used for your transactions.

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

We do not have any "soft dollar" arrangements in place, in which we agree to direct a certain amount of commission dollars to a specific custodian in exchange for research or other services. Rather, the services described in this Item 12 are made available to us simply because we maintain client accounts on the Schwab platform.

Many of these services generally may be used to service all or a substantial number of Fulcrum' accounts, including accounts not maintained at Schwab Advisor Services.

The availability to Fulcrum of the foregoing products and services is not contingent upon Fulcrum committing to Schwab Advisor Services any specific amount of business (assets in custody or trading commissions). In some cases, clients could pay more for custody and execution through the custodian we recommend than through others. We review the capacities and costs of Schwab regularly to ensure that our clients are receiving quality executions and competitive pricing, as well as more intangible service benefits.

### **Directed Brokerage**

Because we execute your investment transactions through the custodian holding your assets, we are effectively requiring that you "direct" your brokerage to your custodian, absent other specific instructions as discussed below. Because we are not choosing

brokers on a trade-by-trade basis, we may not be able to achieve the most favorable executions for clients and this may ultimately cost clients more money. Not all investment advisers require directed brokerage.

We do not use, recommend, or direct activity to brokers in exchange for client referrals.

Although not a normal business practice for Fulcrum, we may permit clients to direct us to use brokers other than the custodian. If we agree to accommodate your request to do this, we will likely have little or no ability to negotiate commissions or influence execution price, and you will also not benefit from any trade aggregation we may implement for other clients. This may result in greater costs to you.

## **B Trade Aggregation**

We routinely aggregate client transactions with those of other client accounts at the same custodian. This results in client trades being executed and billed at the same price. Schwab's flat commission rate will be applied to each account participating in the transaction, rather than a single ticket charge for the entire block; for other custodians, the current commission schedule will apply and the trade would typically not be executed as a block.

We may aggregate Client orders, so long as it is done for purposes of achieving best execution, and so long as no Client is systematically advantaged or disadvantaged. Before aggregating Client orders, we document the participating accounts and the allocation instructions. Generally, we submit allocation instructions to the broker-dealer before the market closes on the day of the order. We allocate aggregated orders to Client accounts (including employee accounts, if applicable) at the average price obtained. We allocate partially filled orders pro rata based on the size of the order placed by each account. If we judge that we cannot or should not allocate a partially filled order pro rata (e.g., if the quantity of securities obtained is too small or would not have a material impact if distributed among each account), we will document our allocation decision and we will review our allocations to ensure they result in a fair and equitable distribution of opportunities over time.

## **Item 13 – Review of Accounts**

- A** All Client accounts are reviewed by our financial advisors on a regular basis to confirm they remain in line with the Client's Investment Policy Statement. The frequency of reviews is determined by various factors, including major market or economic events, Client life or business events, or by specific Client request, but no less frequently than twice per year.

- B** More frequent reviews may be triggered by a change in Client’s investment objectives, tax considerations, large deposits or withdrawals, large sales or purchases, or changes in the manager’s investment strategy.
- C** All Clients receive monthly or quarterly statements from the custodian holding their accounts. We may prepare separate reports at the time of Client meetings or periodically, depending on Client needs. The custodial statement is the official record of the account and we urge Clients to carefully compare reports we provide to those provided by the custodian and to notify us of any discrepancies.

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

We compensate certain non-employees when they refer clients to us. These referral sources are referred to as “solicitors,” and they provide referrals to us subject to a written agreement that specifies, among other things, the amount of compensation the solicitor will receive. The solicitor’s compensation does not increase the fees that any client pays to us. Any clients referred to us by a solicitor are furnished with a written disclosure document that details the compensation arrangement between the solicitor and Fulcrum. Clients also receive our Brochure before signing a contract with us.

Industry vendors, fund managers, and other advisors, periodically provide us with educational offerings and business entertainment as part of those vendors’ marketing of their products and services. The benefits we receive create a conflict of interest in that we have an incentive to use the vendors’ products and services if we believe we will continue to receive the benefits. To mitigate the conflict, we accept only those benefits we see as non-material and widely offered (e.g., receptions at industry conferences at which food and beverage are provided, and other advisors also attend). Further, we follow an internal due diligence process when selecting third-party service providers for clients; that process does not consider these kinds of benefits as a selection criterion.

We receive some benefits from Charles Schwab & Co., which are common to other advisors who use their services, and which are described in Item 12, above.

#### **Item 15 – Custody**

All client funds and securities are maintained with a qualified custodian; we don’t take physical possession of client assets. Our clients will receive account statements directly from the custodian at least quarterly, which they should carefully review. We urge clients to carefully compare the custodian’s account statements with the periodic statements and reports they receive from us and to notify us promptly of any discrepancies.

Fulcrum has the ability to deduct our advisory fees directly from client accounts based on the Client's written authorization to do so, and this ability is technically considered "custody" but doesn't require separate reporting or surprise audits. In addition, in some cases Clients provide us with standing letters of authorization ("SLOAs"). These are written directives from the client authorizing us to initiate payments from their custodial accounts to specified third parties. This authority is considered "custody" under current SEC guidance and requires us to report that we have custody over these account assets on our ADV 1A. To the extent the SLOAs comply with certain conditions, however, including that clients have the right to terminate the SLOA, and that the qualified custodian will confirm the status of the SLOA annually directly with the client, we are not subject to a surprise custody audit.

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

Our investment advisory agreement gives us discretionary authority to make investment decisions for your account, without obtaining your specific consent before each decision, with the following limitations:

- We must make investment decisions in accordance with investment objectives documented in the Client's Investment Policy Statement, or with any other written directions or preferences provided to us by each Client.

### **Item 17 – Voting Client Securities**

Generally, we do vote proxies for Client accounts. However, Clients may retain the right to vote their own proxies.

We have established guidelines ("Guidelines") in our Proxy Voting Policies and Procedures in a manner generally intended to support the ability of management to run its business in a sustainable and cost-effective manner while staying focused on maximizing shareholder value. Generally, we will vote proxies in accordance with management's recommendations. However, all proxy votes are ultimately cast on a case-by-case basis, taking into account relevant facts and circumstances at the time of the vote. For this reason, consistent with our fiduciary duty to ensure that proxies are voted in the best interest of our Clients, we may from time to time vote proxies against management's recommendations, in accordance with our Guidelines.

Where a proxy proposal raises a material conflict between us and a Client's interest, we will resolve the conflict as follows:

1. Vote in Accordance with the Guidelines. To the extent that we have little or no discretion to deviate from the Guidelines with respect to the proposal in question, we will vote in accordance with the pre-determined voting policy.

2. Obtain Consent of Clients. To the extent that we have discretion to deviate from the Guidelines with respect to a proposal in question, we will disclose the conflict to the relevant Clients and obtain their consent to the proposed vote prior to voting the securities. The disclosure to the Client will include sufficient detail regarding the matter to be voted on and the nature of the conflict so that the Client can make an informed decision regarding the vote. If a Client does not respond to such a conflict disclosure request or denies the request, we will abstain from voting the securities held by the Client's account.

We will review the proxy proposal for conflicts of interest as part of the overall vote review process. Any material conflict of interest identified by us will be addressed as described above.

If we determine that it is in the Client's best interest, we will not vote proxies received. We will not vote proxies received for securities which are no longer held by the Client's account.

Clients may obtain information on how proxies were voted with respect to Client's portfolio securities or a copy of our Policies and Procedures by calling us at (206) 223-9790 or email to [info@fulcrumcapllc.com](mailto:info@fulcrumcapllc.com).

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

We are required to disclose specific financial information in response to this item. We do not solicit or require prepayment from any Client for advisory services. We do not have any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our Clients.