



## **Firm Brochure**

Form ADV Part 2A

**MARCH 30, 2021**

**R3 Returns, LLC**

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**This brochure provides information about the qualifications and business practices of R3 Returns, LLC (“R3”). If you have any questions about the contents of this brochure, please contact us at 303.444.0283 or [info@r3returns.com](mailto:info@r3returns.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about R3 is available on the SEC website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**R3 is registered with the SEC as an investment adviser and conducts itself accordingly. Such registration requires that we conduct our business in accordance with the Investment Advisers Act of 1940 but does not imply a certain level of skill or training.**

## **Item 2 - Material Changes**

R3 is required to disclose material changes to each annual update to its Form ADV Part 2A (the “Brochure”).

This Brochure dated March 30, 2021 replaces the October 9, 2020 version, which was our last amendment. Key updates were made to the following sections since the last amendment:

- Item 7 – Types of Clients – was revised to reflect that R3’s advisory agreements are with other registered investment advisers.
- Item 12 – Brokerage Practices – was updated to describe the sub-advisor’s broker-dealer selection process as well as the sub-advisor’s cross-trade and pre-allocated trade procedures.

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## Item 4 - Advisory Business

**Overview:** R3 Returns, LLC (“R3”) is a Boulder, Colorado-based independent investment advisor and separate account manager that provides financial and investment services on a fee-only basis through relationships with other registered investment advisory firms (RIAs) and their clients. The firm was founded in 2012.

**Ownership:** R3 is a wholly owned subsidiary of BSW Wealth Partners, Inc., a Public Benefit Corporation (“BSW”). BSW is actively engaged in R3’s business. BSW Wealth Partners, Inc., a Public Benefit Corporation is the successor to BSW Wealth Partners, LLC. In 2019, BSW elected to change its corporate and legal structure from a limited liability company to a Public Benefit Corporation.

**Specialization:** R3 specializes in developing, managing, and providing impact screening, rating, and reporting capabilities for fixed income separately managed account strategies. Impact investing seeks to maximize both investor returns and community/ecological/societal objectives. R3 provides several impact bond strategies. As a separate account manager, the client’s advisor selects one of our strategies based on their client’s investment objectives. R3 relies on the strategy selection as the suitability determination.

**Services:** R3 provides specialized investment management and separately managed account services. Services may include:

### **Separately Managed Accounts: R3 Impact Bond Strategies**

- R3 Impact Bond Strategies:
  - R3 Impact Bond – Tax Exempt Ladder PLUS
  - R3 Impact Bond – Tax Exempt Muni PLUS
  - R3 Impact Bond – Taxable PLUS
- Customized separately-managed account portfolios of laddered bonds financing impact projects in three areas: economic empowerment, healthy communities, and environmental sustainability.
- Monitoring client’s investments coming under R3’s supervision;
- Monitoring client’s R3 portfolio on a regular basis and making changes as necessary and appropriate;
- Maintaining regular communication with advisor; and
- Preparing periodic investment reports for advisor.

### **Use of Sub-Advisors**

- R3 provides investment management services to clients facilitated in a collaborative effort with an unaffiliated independent investment advisory firm, Belle Haven Investments, L.P. (“Belle Haven”). R3 has entered into an agreement with Belle Haven to provide sub-advisory, trade execution, and portfolio management services to R3 clients.
- R3 will manage and monitor accounts based on impact investing criteria and metrics and Belle Haven will manage and monitor the accounts based on various economic and investment factors.
- Under these arrangements, each account is held at an unaffiliated brokerage firm or custodian and is registered to the client. The custodian maintains physical custody of all funds and securities of the account, and the client retains all rights of ownership
- R3 does not receive any compensation from commissions or other charges levied by the account’s brokerage or custodial firm. R3 is compensated solely by the investment management fee.
- Depending on the client’s custodial or platform arrangement, Belle Haven can incur transaction charges and other miscellaneous charges assessed to it by its clearing firm, Pershing, LLC (“Pershing”). Such transaction charges are not determined by Belle Haven. Belle Haven, in its capacity as a broker-dealer, then assesses an identical fee to the relevant client in order to recoup its costs. Belle Haven does not receive or retain any portion of such charges in excess of the amount charged to it by Pershing. R3 receives no portion of these charges.
- For accounts held at a custodian other than Pershing, the client will generally also pay an additional per-transaction fee to their account custodian. Therefore, clients that do not use Pershing as their custodian, may pay more in overall fees than clients that use Pershing as their custodian. No portion of these per-transaction fees are ultimately retained by R3 or Belle Haven.
- Clients will engage R3 to design an investment portfolio and provide ongoing corresponding investment management services on a fee-only basis. All securities are owned directly by the account’s registered owner.

**Suitability:** R3 and its sub-advisor(s) do not gauge the suitability of R3 investment strategies for client investors. Investment suitability is entirely determined by the client and/or client’s primary adviser. In performing its services, R3 and its sub-advisors are not required to verify the suitability of the

client and is expressly authorized to rely on the assessment of suitability as determined by the client's primary adviser.

**Account Restrictions:** Clients may impose limited, reasonable restrictions on their account investments by including such restrictions in R3's Exhibit A to the agreement. Any such restrictions must be approved and accepted by R3 and/or Belle Haven prior to implementation.

**Assets Under Management:** As of December 31, 2020, R3 has approximately \$166,463,553 regulatory assets under management ("RAUM"), all of which are managed on a discretionary basis.

**Wrap Fee Programs:** R3 does not participate in wrap fee or similar types of programs.

### **General Statement of Ethical Principles**

- R3 will, at all times, place the interests of its clients first;
- All personal securities transactions will be conducted in such a manner as to avoid any actual or potential conflict of interest or any abuse of R3's position of trust and responsibility;
- R3 will not take inappropriate advantage of its position;
- R3 will uphold the fiduciary principle that information concerning the identity of security holdings and financial circumstances of clients is confidential;
- R3 will uphold the principle that independence in the investment decision-making process is paramount; and
- R3 will always act with honesty, integrity, and professionalism.

## **Item 5 - Fees and Compensation**

R3 is an independent fee-only investment advisor and separate account manager. As such, R3 is compensated for its services using one or more of the methods described below. R3's billing method will be disclosed to and agreed to by the primary advisor as contained in client's written Exhibit A with R3.

**Compensation Methods:** R3's fees are described generally below. Clients may choose between: (1) an asset-based fee; or (2) a fixed fee, as further described below. All fees are subject to negotiation.

- (1) **Asset Based Fee:** R3 generally charges an asset-based fee for its services, calculated according to the following fee schedule:

| <b><u>STRATEGY</u></b> | <b><u>ANNUAL FEE</u></b> |
|------------------------|--------------------------|
| Tax Exempt Ladder PLUS | 0.650%                   |
| Tax Exempt Muni PLUS   | 0.750%                   |
| Taxable PLUS           | 0.750%                   |

**Affiliated Firm Discount:** BSW is an affiliated firm of R3 (see “Other Financial Industry Activities and Affiliations” below). BSW’s clients may utilize R3 investment strategies for a reduced asset-based annual fee. Any R3 fees in such an engagement are solely to compensate the sub-advisor.

- (2) **Fixed Fee:** R3 and the client may agree to negotiate a fixed quarterly fee instead of an asset-based fee for R3’s investment management services. The fixed fee is negotiable by the client and R3.
- (3) **Minimum Fee:** R3’s minimum fee is \$100 per quarter. This minimum may be waived at R3’s discretion.

**Negotiability of Advisory Fees:** R3, in its sole discretion, retains the discretion to negotiate alternative fees and fee arrangements or waive fees entirely. As a result, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees.

**Travel Expenses:** Travel related expenses incurred by R3 on client’s behalf will be reimbursed by the client.

**Other Expenses:** In addition to R3’s compensation described above, the client will incur various trading commissions, transaction fees, and administrative costs in the implementation of R3’s recommendations. R3 will receive no compensation from these sources. Please refer to Item 12 of this Brochure for more information on R3’s brokerage practices.

Depending on the custodial or platform arrangement, Belle Haven can incur transaction charges and other miscellaneous charges assessed to it by its clearing firm, Pershing. Such transaction charges are not determined by Belle Haven. Belle Haven, in its capacity as a broker-dealer, then assesses an identical fee to the relevant client in order to recoup its costs. Belle Haven does not receive or retain any portion of such charges in excess of the amount charged to it by Pershing. R3 receives no portion of these charges.

For accounts held at a custodian other than Pershing, the client will generally also pay an additional per-transaction fee to their account custodian. Therefore, clients that do not use Pershing as their custodian, may pay more in overall fees than clients that use Pershing as their custodian. No portion of these per-transaction fees are ultimately retained by R3 or Belle Haven.

**Method and Timing:** R3's fees are billed and payable quarterly in advance by applying one quarter of the applicable annual rate to the value of the account as of the final day of the prior quarter, including cash and accrued interest, as set forth and valued by the custodian. Fees will be deducted from client's R3 managed assets.

**Termination and Refunds:** Client or R3 may terminate their agreement at any time upon five days prior written notice. If R3 and client's relationship is terminated prior to the end of a billing period, R3 will prorate and refund the paid but unearned portion of client's fee for that period back to the client.

#### **Prohibited Compensation Methods:**

**Commissions:** R3 does not charge or receive commissions or similar types of compensation.

### **Item 6 – Performance-Based Fees**

R3 is required to disclose if any accounts are charged performance-based fees (fees based on a share of capital gains or on capital appreciation of the assets of a client). This type of fee structure may, under certain circumstances, create a conflict with client interests.

R3 does not charge any performance-based management fees.

### **Item 7 - Types of Clients**

R3 works with other investment advisors on behalf of their clients who are looking for a trusted and specialized impact investment advisor to assist them.

**Minimum Account Size:** R3 has a required minimum account size of \$250,000. At R3's sole discretion, this minimum account size may be waived. As indicated above, R3 also maintains a minimum quarterly fee (see **Item 5 – Fees and Compensation**). Certain account minimums may also be imposed by various custodians to qualify the account for Prime Brokerage services.

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

R3 currently specializes in managing fixed income impact strategies. Like all investments, fixed income involves different levels of risk including, but not limited to, the potential to lose some or all of the money a client may invest, so each client should be prepared for this possibility, and understand the risks.

**Impact Strategies:** Evaluation, screening, rating, and reporting of securities using a proprietary assessment and rating methodology to target three thematic investment areas: economic empowerment, healthy communities, and environmental sustainability. The analysis includes both quantitative and qualitative factors. The sub-advisor uses an investment approach based on: security selection, diversification, trade execution, and credit research in building portfolios. The sub-advisor looks to position portfolios to capture opportunistic trades.

**Risks Associated with Impact Strategies:** Impact investing strategies will generally favor certain economic sectors and/or issuer types over others. Although R3 strives to maintain adequate and sufficient diversification across economic sectors and/or issuer types, portfolio concentration may occur. The R3 Impact Bond Strategy targets three thematic areas (economic empowerment, healthy communities, and environmental restoration) for which there may be a limited supply of bonds and which may negatively affect investment returns. The strategy's impact screening methodologies also narrow the manager's opportunity set of potential investments which may negatively affect investment returns. Investing for impact involves risks of loss that clients should be prepared to bear including loss of investment principal, fluctuation of investment values, illiquidity, inability to liquidate investments without incurring losses, loss of purchasing power, and loss of income.

**Fixed Income Strategies:** Fixed income investments such as bonds are intended to provide diversification, generate income, and to preserve and protect assets. Generally, the stabilizing influence of fixed income comes at the cost of lower returns relative to other investments. R3's Impact Bond portfolios generally consist of high quality domestically issued municipal bonds.

**Material Risks Associated with Fixed Income Strategies:** Fixed Income investing involves risks of loss that clients should be prepared to bear including loss of purchasing power, loss of income, fluctuation of investment values, loss of investment principal, illiquidity, and inability to liquidate investments without incurring losses. Additional risks associated with investments in general, fixed income investments, and municipal fixed income investments include:

**Credit Risk:** The financial soundness of an issuer (borrower) is often measured by a credit rating agency such as Standard & Poor's, Moody's or Fitch. The rating agencies attempt to measure the ability of an issuer to pay the interest and principal payments on their debt. Typically, the higher the issuer's credit rating the lower the expected investment return will be.

**Liquidity Risk:** Liquidity risk is the risk that there may be limited buyers for a security when an investor wants to sell. Typically, this results in a discounted sale price in order to attract a buyer. Bonds that are lower quality generally have higher liquidity risk.

**Odd Lots:** In certain instances, R3's sub-advisor may purchase securities suitable for one or more of our investment strategies in smaller sizes, referred to in the industry as odd lots, to take advantage of the pricing benefit of odd lots in the fixed income markets. An odd lot of bonds is a lot of a specific bond whose par value is less than one hundred thousand dollars (\$100,000). At times odd lots may be less liquid than round lots potentially resulting in a lower sale price.

**Default Risk:** A default occurs when an issuer fails to make payment on a principal or interest payment.

**Event Risk:** Event risk is difficult to predict because it may involve natural disasters such as earthquakes or hurricanes, as well as changes in circumstance from regulators or political bodies.

**Political Risk:** Political risk is the risk associated with the laws of the country, or to events that may occur there. Particular political events such as a government's change in policy would restrict the flow of capital.

**Market Risk:** Market risk refers to the bond market as a whole declining, causing the value of all securities to decline regardless of the individual characteristics of a particular security.

**Duration Risk:** Duration is a way to measure a bond's price sensitivity to changes in interest rates. The duration of a bond is determined by its maturity date, coupon rate, and call feature. Duration is a way to compare how different bonds will react to interest rate changes. If a bond has a duration of five (5) years it means that the value of that security will decline by approximately five percent (5%) for every one percent (1%) increase in interest rates.

**Inflation Risk:** Inflation is the decline in the purchasing power of a dollar, meaning today's dollar will buy less tomorrow. In other words, the purchasing power of a bond's future interest and principal payments will be reduced. Typically, in an inflationary environment interest rates will rise as well, causing the value of bond holding to decline.

**Interest Rate Risk:** Interest rate risk refers to the relationship between the value of a bond and changing interest rates. A rise in interest rates will cause a decline in the value of a bond holding.

**Reinvestment Risk:** Reinvestment risk is the risk that future interest and principal payments may be reinvested at lower yields due to declining interest rates.

**Tax Risk:** For municipal bonds, depending on the client's state of residence, the interest earned on certain bonds may not be tax-exempt at the state level.

**Disclosure Risk:** The amount of public information available on municipal bonds is generally less than that for corporate bonds or equities.

**Regulatory Risk:** Market participants are subject to rules and regulations imposed by one or more regulators. Changes to these rules and regulations could have an adverse effect on the value of an investment.

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of them or the integrity of their management.

As of the date of this Brochure, R3 does not have any legal, financial or other disciplinary items to report to you. R3 is obligated to disclose any disciplinary event that would be material to you when evaluating a client/adviser relationship.

## **Item 10 - Other Financial Industry Activities and Affiliations**

R3's management persons are not registered, nor do any management persons have an application pending to register, as a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

R3 is an independent investment advisor and separate account manager. R3 is a wholly owned subsidiary of BSW. R3 earns advisory fees from non-BSW clients. For BSW clients, R3 does not charge an additional advisory fee in addition to BSW's advisory fee. See R3 Returns Compensation Methods for complete information. BSW may utilize R3 investment strategies for a reduced asset-based annual fee (see "Affiliated Firm Discount" above).

## **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

**Code of Ethics:** As required by the Investment Advisers Act of 1940, as amended (the "Advisers Act"), R3, in conjunction with its parent company BSW, has adopted a written Code of Ethics (the "Code") that emphasizes a set of high standards of conduct for all employees to observe. The Code governs a number of potential conflicts of interest which exist when providing advisory services to R3 clients. This Code is designed to enable R3 to meet its fiduciary obligation to R3 clients (or prospective clients) and to instill a culture of compliance within R3. The Code is designed to assist R3 in preventing violations of securities laws.

The Code is distributed to each employee at the time of hire and annually thereafter, and it is available on R3's intranet. R3 also supplements the Code with ongoing monitoring of employee activity.

The Code includes (among other things):

- Requirements related to confidentiality of client information;
- Prohibitions on:
  - Insider trading (if we are in possession of material, non-public information);
  - The acceptance of gifts and entertainment that exceed our policy standards;
- Requirements and reporting of gifts and/or entertainment;
- Pre-clearance of certain securities transactions;
- Reporting of personal securities transactions; and,
- Disclosure of accounts over which employees have beneficial interest.

On a quarterly basis, R3 requires all employees to certify that they are in compliance with the Code.

**Participation or Interest in Client Transactions:** R3 does not recommend to clients, or buy or sell for client accounts, securities in which R3 or a related person has a material financial interest.

**Personal Trading:** R3 employees may trade for their own accounts in securities which are purchased or sold for R3's clients. Because R3 permits such personal trading, this creates the potential conflict that employees could use their knowledge of pending client transactions in an attempt to benefit their own personal transactions. For example, if an employee owns a security the employee knows R3 will be selling out of a client's account, the employee could sell the personal holding ahead of time in an effort to obtain a higher price than might exist when the client account holdings are sold.

To address conflicts related to personal trading, the Code requires employees to pre-approve certain types of securities transactions. In order to avoid either an actual or apparent conflict of interest, R3 will disclose the names of all such securities to client upon request.

You may request a copy of R3's Code by contacting us at the address, telephone number or email on the cover of this Brochure.

## Item 12 - Brokerage Practices

**Broker/Dealer Selection:** Belle Haven has the authority to place securities transactions for a client's account through one or more registered broker-dealers of their choosing, including the authority to select themselves – in which capacity generally all fixed income transactions are executed – subject to Belle Haven's fiduciary duty to achieve best execution for its clients. In these transactions, Belle Haven does not charge commissions, mark-ups or mark-downs on such trades. Belle Haven uses its best efforts to obtain the best available price and most favorable execution with respect to all portfolio transactions executed on behalf of its clients. "Best available price and most favorable execution" is defined to mean "the execution of a particular transaction at the price and commission that provides the most favorable resultant price reasonably obtainable under the circumstances." Belle Haven believes it can provide quality execution due to its broad market access as a broker-dealer. Belle Haven can direct trades to other broker-dealers in any case where they believe that they are not able to obtain quality execution.

**Aggregate Trading:** Belle Haven, on behalf of R3, may aggregate the purchase or sale of securities for R3 clients when aggregation is in the client's best interest including best execution and/or lower transaction costs.

**Purchase Allocation Procedures.** Belle Haven determines the appropriate strategy(s) for a particular purchase based on the securities' characteristics. They allocate, at their discretion, such securities among Belle Haven accounts determined to be eligible, using a qualitative and quantitative allocation approach which considers such characteristics including, but not limited to, maturity, average coupon (interest rate), duration, sector, state of origin, rating, and percentage of cash on hand relative to the value of the client's portfolio.

In certain instances, Belle Haven will purchase securities suitable for one or more of its fixed income strategies, in smaller sizes referred to in the industry as odd lots, to take advantage of the pricing benefit of odd lots in the fixed income markets. An odd lot of securities is defined as a quantity of a specific bond whose par value is less than one hundred thousand dollars (\$100,000). Because of this approach, each individual purchase generally will not be adequate to fill the account mandates of all of their clients. Bonds are acquired based on various criteria and then allocated to such client account(s) that Belle Haven has determined to be most suitable for such security, based on the allocation procedures listed above.

Belle Haven may also purchase securities suitable for one or more of its fixed income strategies in round lots of greater than one hundred thousand dollars (\$100,000). Each individual round lot purchase may not be adequate to fill the portfolio requirements of all the accounts. Bonds are acquired based on various criteria and then allocated to such client account(s) that Belle Haven has determined to be most suitable for such security based on the allocation procedures listed

above. There may be instances when a suitable account does not receive an allocation.

Given the varying nature of investment objectives and restrictions, exceptions to this quantitative approach will occur. In these instances, Belle Haven will use its discretion to allocate in a fair and equitable fashion in accordance with a particular investment mandate.

**Selling Allocation Procedures for all Strategies.** Generally, the sale of a security is a pre-allocated trade, as described below for a specific client account. In the instance that a security is sold for an opportunistic purpose, and such security is held across multiple accounts, Belle Haven will allocate the sale at its discretion among such investment accounts, giving priority to clients with the lowest cash balance percentage. Consideration is also taken to match the order size of the sale to the portfolio holdings in an effort to allocate in the most cost efficient and equitable manner. At times, odd lots and client/advisor directed trades may be less liquid, potentially resulting in a lower sale price. In addition, should Belle Haven utilize another broker-dealer to liquidate a position, there may be additional costs incurred as a result of a mark-up charged by the other broker-dealer. Such additional costs are not determined by, nor remitted to, Belle Haven.

**Pre-Allocated Trades.** Investment decisions by Belle Haven to buy or sell certain securities for a particular account are dependent upon many factors including, but not limited to R3's fixed income strategy's investment objectives, client-imposed restrictions, cash needs or availability, tax considerations, target duration and credit quality. These considerations may result in Belle Haven targeting certain securities for purchase or sale for a client's account(s) prior to the trade execution. These transactions will not go through the allocation process described above, but rather be allocated to such client's account(s) for which the order was placed on a pre-trade basis. In the instance that the order is not filled, the bonds will be allocated on a pro rata basis unless such pro rata allocation violates an account mandate, in which instance Belle Haven will use their discretion to allocate such securities in the most equitable manner.

**Directed Brokerage:** R3 requires clients to use Charles Schwab & Co., Inc. or Fidelity Investments as their qualified custodian. Requiring the use of specific broker/dealer may cost clients more money including higher brokerage commissions and transaction costs and/or less favorable prices, and may not provide for most favorable execution of their transactions. While R3 endeavors to act in its clients' best interests, compliance and operational efficiencies warrant R3 requiring clients to use a particular broker/dealer or qualified custodian. Clients are not permitted to direct trades to another broker-dealer.

**Research and Other Soft Dollar Benefits:** In order to avoid an actual or apparent conflict of interest, R3 does not receive soft dollar benefits or engage in any similar

practices. R3 does not use client funds to purchase research or other products or services.

**Cross Transactions:** Belle Haven, on behalf of R3, may engage in cross transactions to the extent permitted by, and in accordance with, the advisory agreement and all applicable laws and regulations. When Belle Haven determines that an account it manages needs to liquidate securities, they may sell the securities to another Belle Haven advisory client in need of securities of the same type when such transaction benefits both accounts. Belle Haven may bid, along with other third-parties, on behalf of its investment advisory clients, for bonds offered by Belle Haven in the same manner as it would for bonds offered by other third-parties in the market. If Belle Haven is the highest bidder, it will buy the bonds for its investment advisory clients, subject to Belle Haven's allocation procedures. This is known as a "cross trade" transaction. If Belle Haven is not the highest bidder, the bonds may be sold to the highest bidder and no cross transaction will take place. Belle Haven will seek bids from at least two other third-parties. In the event that Belle Haven does not receive any third-party bids, and Belle Haven has determined that such cross transaction would be beneficial for both parties, Belle Haven will execute a cross transaction at the bid price Belle Haven has placed on the bonds. Belle Haven does not receive any transaction-based compensation, directly or indirectly, for effecting cross trades. Various circumstances may influence the number of bids sought based on liquidity demands, market conditions, time, size, type of security and administrative resources.

Because R3 ultimately retains discretionary authority over client accounts, including those accounts allocated to Belle Haven as sub-advisor, engaging in cross transactions presents a conflict of interest in that R3 represents both the buyer and the seller in the transaction. This conflict is mitigated through Belle Haven's cross trading procedures, which do not permit cross transactions to be effectuated unless beneficial to both the buying and selling client, including in consideration of the price of the subject security.

## **Item 13 - Review of Accounts**

**Reviews:** Client accounts are electronically updated each business day. Account holdings are monitored on an ongoing basis. All client accounts are reconciled on at least a quarterly basis. Client portfolios are reviewed in detail at least quarterly.

**Reviewer:** Accounts are reviewed periodically by both R3 and Belle Haven. Accounts are reviewed to ensure that the portfolio characteristics are appropriate for the selected fixed income strategy as well as for impact investment factors, holdings, performance, and risk relative to appropriate benchmarks.

**Reports:** The client, or someone the client designates, receives a confirmation of each transaction directly from the custodian. Clients also receive statements directly from the custodian at least quarterly. Clients also receive periodic (generally quarterly) written reports and account valuations prepared by R3. Periodic reports evaluate

holdings, asset allocation, investment returns and performance relative to appropriate benchmarks.

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

R3 is required to provide each client with information regarding any relationships where R3 compensates individuals for client referrals. R3 greatly appreciates referrals from satisfied clients and partners but does not directly or indirectly compensate anyone who is not our supervised person for those referrals.

## **Item 15 - Custody**

All clients' accounts and assets are held in custody by unaffiliated qualified custodians; not with or by R3 or any of its associates. However, with respect to certain assets, we do possess a level of authority and/or legal capacity and for this reason R3 is considered to have custody of such assets. Such capacity comes from our ability to debit advisory fees from the client's account.

Clients should receive at least quarterly statements from the qualified custodian that holds and maintains the client's investment assets. R3 urges each client to carefully review such statements and compare such official custodial records to the account statements that we provide. R3 statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 - Investment Discretion**

R3 manages accounts on a discretionary basis. There are various ways in which R3 establishes discretionary authority to trade in a client's account. Discretionary authority gives R3 the ability to make investment decisions on a client's behalf. Generally, discretion is granted to us pursuant to our Advisor Agreement with the client's primary advisor. These agreements give us the right to choose both the amount and type of security to be traded within a specified investment strategy selected by the client or advisor. Reasonable restrictions are allowed to be imposed on this discretionary authority. A non-discretionary basis would require that R3 contact a client prior to implementing changes in their R3 managed account. R3 does not offer its services on a non-discretionary basis.

## **Item 17 - Voting Client Securities**

R3 primarily invests in municipal securities which do not carry proxy voting rights. R3 does not vote proxies on behalf of clients.

## **Item 18 - Financial Information**

As an advisory firm having custody and exercising discretionary authority regarding client accounts, we are also required to disclose any financial condition reasonably likely to impair our ability to meet our contractual obligations to clients. R3 has no financial commitment that impairs its ability to meet our contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

The requirement to provide an audited balance sheet is not applicable to R3 as it does not require or solicit prepayment of advisory fees six months or more in advance.