

# **Channel Islands Group**

**(operating under Lang Advisors, LLC)**

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## **Form ADV, Part 2A Brochure**

**March 19, 2021**

This brochure provides information about the qualifications and business practices of Channel Islands Group (CIG), a business name of Lang Advisors, LLC (Lang) (referred to herein as “Channel Islands”, “us”, “we”). If you have any questions about the contents of this brochure, please contact us at (805) 652-6944 or [info@ChannellIslandsGroup.com](mailto:info@ChannellIslandsGroup.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.

Any reference to or use of the terms “registered investment adviser” or “registered,” does not imply that Channel Islands or any person associated with Channel Islands has achieved a certain level of skill or training.

Additional information about Channel Islands Group and Lang Advisors, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (CRD # 168868 and SEC # 801-80798).

## ITEM 2 - MATERIAL CHANGES

**March 19, 2021**

The purpose of this page is to inform you of material changes since the previous annual update to our brochure dated March 27, 2020. If you are receiving this brochure for the first time, this section may not be relevant to you.

This brochure reflects the business practices of Channel Islands Group, a business name of Lang Advisors LLC. We review and update this brochure at least annually to confirm that it remains current.

If we had made material changes since our last annual update they would be listed immediately below. However, we have not made any material changes since the previous annual update on March 27, 2020.

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## ITEM 4 - ADVISORY BUSINESS

### Description of Advisory Firm

This brochure reflects the business practices of Channel Islands Group (“Channel Islands”), which operates under Lang Advisors, LLC. Lang Advisors, LLC (“Lang Advisors,”) is a privately-owned limited liability company headquartered in Covington, Kentucky. Lang Advisors is registered as an investment adviser with the United States Securities and Exchange Commission. The Channel Islands office in Ventura, CA is the only office of Lang Advisors, LLC that is currently serving clients.

Lang Advisors was founded in 2013. Tyler S. Lang, CFA and the Stephan Lang Family Trust are the principal owners of Lang Advisors. Financial advisors Michael J. Snowden, Jr. and Russell E. Charvonja, along with Lang Advisors, LLC are the owners of Channel Islands Group.

Tyler Lang serves as Managing Member, Chief Compliance Officer, and Portfolio Manager of Channel Islands/Lang Advisors. Tyler oversees the compliance aspects of Channel Islands and also provides portfolio management as well as business development input and guidance. Tyler is assisted by various individuals at Lang Advisors who serve in the roles of Portfolio Manager, Research Analyst/Trader, Financial Advisor, Chief Financial Officer, etc.

Investment advisory services are provided to you through an appropriately licensed and qualified individual who is an investment adviser representative of Lang Advisors. Information about our investment advisor representatives is available in our brochure supplement (which is also known as Form ADV Part 2B).

### Advisory Services Offered

Channel Islands offers the following services to advisory clients:

#### Financial Planning Services

Channel Islands collects information about the client’s financial situation and needs, which may include: net worth, income, expenses, taxes, investments, retirement plans, life insurance, disability insurance, health insurance, long term care insurance, business agreements, divorce papers, pre-nuptial agreements, estate documents, and any other documents that pertain to their overall financial picture. In addition, Channel Islands asks the client about their future goals and objectives. Channel Islands then develops a personalized investment plan including specific asset allocation recommendations. Typically, we develop the plan with the client over several in-person meetings.

Our financial planning services do not include preparation of any kind of income tax, gift, or estate tax returns nor preparation of any legal documents, including wills or trusts.

We describe fees charged for financial planning services below under **Item 5 - Fees and Compensation**.

### Portfolio Management Service – *Wealth Management Account (WMA)*

Through WMA, our firm provides continuous and regular asset management of client funds based on the individual needs of the client. Through personal discussions, goals are discerned and established based on the client's circumstances. During our data-gathering process, we determine the client's individual objectives, time horizons, investment risk tolerance, tax considerations, and liquidity needs. As appropriate, we may also review and discuss a client's prior investment history, as well as family composition and background. We then develop the client's guidelines and/or profile which results in a personalized investment plan and asset allocation.

Based on the client's personalized investment plan and recommended asset allocation, Channel Islands will generally invest the account on a fully discretionary basis, limited only by the client's individual needs and any restrictions imposed on the account. Channel Islands will primarily utilize the following types of securities when making investment purchases in client accounts, depending on the individual investment objectives and needs of the client:

1. Mutual Funds
2. Equity securities, such as stocks and foreign securities listed on US exchanges (ADRs) and/or foreign exchanges
3. Exchange traded funds (ETFs)
4. Fixed income securities, such as corporate bonds, commercial paper, and certificates of deposit (CDs)
5. Securities with equity and debt characteristics, including convertible bonds, preferred stocks or other preferred securities
6. Municipal securities
7. U.S. government securities

Channel Islands may also occasionally offer advice regarding additional types of investments if they are appropriate to address the individual needs, goals, and objectives of the client or in response to client inquiry. Channel Islands may offer investment advice on any investment held by the client at the start of the advisory relationship. We describe the material investment risks for many of the securities that we utilize under the heading ***Specific Security Risks*** in ***Item 8*** below.

It is important that you understand that we manage investments for other clients and may give them advice or take actions for them or for our personal accounts that is different from the advice we provide to you or actions taken for you. We are not obligated to buy, sell or recommend to you any security or other investment that we may buy, sell or recommend for any other clients or for our own accounts.

### Automated Portfolio Management Service – *Institutional Intelligent Portfolios (IIP)*

With IIP, we offer an automated investment program (the "Program") through which clients' assets are invested in a range of investment strategies we have constructed and manage, each consisting of a portfolio of exchange-traded funds and mutual funds ("Funds") and a cash allocation. As with WMA, continuous and regular portfolio management services are provided on IIP accounts. During our data-

gathering process, we determine the client's individual objectives, time horizon, risk tolerance, and liquidity needs. Based on this information, an investment profile is developed. (The client may instruct us to exclude up to three Funds from their portfolio.) At account inception, client's legacy holdings are evaluated and assessed relative to a suitable model strategy/portfolio. Only those securities already held in the chosen model strategy (if any) are retained. Client legacy holdings not already held in the model portfolio are liquidated, with the proceeds invested in the securities held in the chosen model.

When utilizing IIP, the client's portfolio is held in a brokerage account opened by the client at Charles Schwab & Co., Inc. ("CS&Co"). We use the Institutional Intelligent Portfolios® platform ("Platform"), offered by Schwab Performance Technologies ("SPT"), a software provider to independent investment advisors and an affiliate of CS&Co., to operate the Program. We are independent of and not owned by, affiliated with, or sponsored or supervised by SPT, CS&Co., or their affiliates (together, "Schwab"). CIG/Lang, and not Schwab, is the client's investment advisor and primary point of contact with respect to the Program. CIG/Lang is solely responsible for determining the appropriateness of the Program for the client, choosing a suitable investment strategy and portfolio for the client's investment needs and goals, and managing that portfolio on an ongoing basis. We have contracted with SPT to provide us with the Platform, which consists of technology and related trading and account management services for the Program. The Platform enables us to make the Program available to clients online and includes a system that automates certain key parts of our investment process (the "System"). The System includes an online questionnaire that can help us determine the client's investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that, if we use the online questionnaire, we will recommend a portfolio via the System in response to the client's answers to the online questionnaire. The client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, and we then jointly agree on and select a portfolio based on all the information discussed with the client. The System also includes an automated investment engine through which we manage the client's portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and elects).

Channel Islands charges clients a fee for our services as described below under Item 5 Fees and Compensation. Our fees are not set or supervised by Schwab. Clients do not pay brokerage commissions or any other fees to CS&Co. as part of the Program. Schwab does receive other revenues, including (i) the profit earned by Charles Schwab Bank, a Schwab affiliate, on the allocation to the Schwab Intelligent Portfolios Sweep Program described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement; (ii) investment advisory and/or administrative service fees (or unitary fees) received by Charles Schwab Investment Management, Inc., a Schwab affiliate, from Schwab ETFs™ Schwab Funds® and Laudus Funds® that we select to buy and hold in the client's brokerage account; (iii) fees received by Schwab from mutual funds in the Schwab Mutual Fund Marketplace® (including certain Schwab Funds and Laudus Funds) in the client's brokerage account for services Schwab provides; and (iv) remuneration Schwab receives from the market centers where it routes ETF trade orders for execution.

### WMA and IIP Differences

WMA and IIP differ in the following ways. WMA is more flexible and comprehensive. **WMA allows for more personal discussion and can offer greater customization of holdings, including for tax and cash flow planning.** WMA can hold/trade individual stocks and bonds whereas IIP cannot (see list of possible holdings under WMA above). IIP portfolios, on the other hand, hold only mutual funds and/or exchange-traded funds (ETFs) and a cash allocation. IIP is intended for clients who may benefit from automated enrollment and/or trading, lower account minimums, and generally fewer interactions with the financial advisor. IIP cannot accommodate any “legacy” holdings (i.e., carry-over positions not already part of the IIP models). WMA can accommodate some legacy holdings that are not part of a chosen asset allocation model.

We discuss our discretionary authority below under **Item 16 - Investment Discretion**. For more information about the restrictions clients can place on their accounts, see **Tailored Services and Client Imposed Restrictions** in this item below.

We describe the fees charged for WMA and IIP below under **Item 5 - Fees and Compensation**.

### Retirement Plan Consulting Services

Channel Islands offers retirement plan consulting services to qualified retirement plans. Our services include but are not limited to: fee transparency benchmarking; evaluating and selecting service providers; optimizing plan design; transition services; education services; investment monitoring; fiduciary compliance; preparation of Investment Policy Statement (IPS); analysis meetings; and acting as 3(21) co-fiduciary. The specific consulting services provided to each plan client will be determined with the client.

For participant directed retirement plans, Channel Islands will recommend a range of investment options, generally in mutual funds, to be made available to participants in the plan. The named fiduciaries of the retirement plan are responsible for reviewing and approving these options. For non-participant trustee directed retirement plan clients, Channel Islands will recommend the investment options to the named fiduciaries of the retirement plan. Channel Islands offers periodic monitoring of investment performance as agreed to with the plan client.

Channel Islands’ recommendations are based on the investment strategy discussed below under **Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss**. Recommendations are made in accordance with the plan’s written investment guidelines and any legal and/or client restrictions communicated to us. Channel Islands may assist the plan client with the preparation of a written investment policy statement that is based upon the plan’s specific goals and objectives. All plan clients are responsible for informing Channel Islands of any changes to their investment policy statement, guidelines and any restrictions.

Channel Islands may also offer portfolio construction and/or educational services for participants of retirement plans. All services provided will be outlined in the written investment services agreement executed with each plan client.

### *Limitations on Investments*

Channel Islands recommends investments on a non-discretionary basis to qualified retirement plans. In making our recommendations, Channel Islands is limited to those investment providers and investment options chosen by the plan administrator. Therefore, Channel Islands can only make recommendations to the plan client from among the available options, and will not recommend other securities, even if there may be better options elsewhere.

### *Consulting Services*

Channel Islands offers other financial consulting as requested by the client. We describe the fees charged for consulting services below under **Item 5 - Fees and Compensation**.

### *Non-Managed Assets*

With respect to investment management services, Channel Islands will only be responsible for the supervision and management of securities we recommend. Channel Islands will not be responsible for the supervision or management of non-managed assets. Non-managed assets may include securities held in a client's account that is under management with Channel Islands that were:

1. Delivered into the account by the client;
2. Purchased by the client;
3. Purchased by Channel Islands at the request of the client as an accommodation; or
4. Designated by the client to be non-managed securities by written notification.

### *Non-Managed Accounts*

As also discussed in Items #5 and 10 in this disclosure brochure, certain of Channel Islands' personnel are also licensed as registered representatives with Purshe Kaplan Sterling Investments ("PKS"), a broker-dealer and member of FINRA/SIPC. As such, it is important to know that portfolio management/advisory services are not provided to PKS's brokerage clients. Channel Islands is not affiliated with PKS.

## **Tailored Services and Client Imposed Restrictions**

Channel Islands manages client accounts based on the asset allocation and investment strategy discussed below under **Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss**. Channel Islands applies the recommended asset allocation and strategy for each client, based on the client's individual circumstances and financial situation. We make investment decisions for clients based on information the client supplies about their financial situation, goals, and risk tolerance. Our recommended asset allocation and investment selections may not be suitable if the client does not provide us with accurate and complete information. It is the client's responsibility to keep Channel Islands informed of any changes to their investment objectives or restrictions.



Clients may request certain restrictions on the account, such as when a client needs to keep a minimum level of cash in the account or desires a certain level of cash distributions. Clients may also request reasonable restrictions on the specific securities or security types in the account on the condition that such restrictions do not materially interfere with Channel Islands' responsibility to manage the portfolio consistent with the clients' personal investment guidelines or profile as described above. Channel Islands reserves the right to not accept and/or terminate management of a client's account if we feel that the client-imposed restrictions would limit or prevent us from meeting or maintaining the client's investment strategy.

## **Wrap Fee Programs**

Channel Islands does not manage accounts as part of a wrap or bundled fee program.

## **Assets Under Management**

Channel Islands provides continuous and regular asset management of client funds, mostly on a discretionary basis. Non-discretionary services are also offered. As of December 31, 2020, the total amount of assets under Channel Islands/Lang Advisors' management was \$224,443,538 (approximately 91% of which was managed on a discretionary basis).

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedule**

#### *Financial Planning/ Consulting Services*

Channel Islands charges a negotiable fixed fee generally ranging from \$1,500 to \$3,500 for our financial planning services, the total of which depends on the nature and complexity of each client's circumstances. Channel Islands in our discretion may choose to waive the financial planning fee. Subject to negotiation, an hourly fee may be charged for financial planning services in lieu of a fixed fee.

Channel Islands charges an hourly fee of \$200 for our consulting services.

#### *Portfolio Management Service – Wealth Management Account (WMA)*

Channel Islands charges an asset management fee for WMA. Our annual fee generally ranges from 1-1.5%. The fee charged to each client is negotiable and determined based on the scope and complexity of the services provided. The fee for each client/account will be shown in the Investment Advisory Agreement. Fees are typically assessed on cash and cash equivalents held within the WMA.

#### *Automated Portfolio Management Service – Institutional Intelligent Portfolios (IIP)*

Channel Islands charges an asset management fee for IIP. Our annual fee generally ranges from .75 to 1.25%. The fee charged to each client is negotiable and determined based on the scope and complexity of the services provided. The fee for each client/account will be shown in the Investment Advisory Agreement. Fees are typically assessed on cash and cash equivalents held within the IIP account(s).

As described in *Item 4 Advisory Business*, under IIP, clients do not pay fees to SPT or brokerage commissions or other fees to CS&Co. as part of the Program. Schwab does receive other revenues, including (i) the profit earned by Charles Schwab Bank, SSB, a Schwab affiliate, on the allocation to the Schwab Intelligent Portfolios Sweep Program described in the Schwab Intelligent Portfolios Sweep Program Disclosure Statement; (ii) investment advisory and/or administrative service fees (or unitary fees) received by Charles Schwab Investment Management, Inc., a Schwab affiliate, from Schwab ETFs™ Schwab Funds® and Laudus Funds® that we select to buy and hold in the client's managed brokerage account; (iii) fees received by Schwab from mutual funds in the Schwab Mutual Fund Marketplace® (including certain Schwab Funds and Laudus Funds) in the client's managed brokerage account for services Schwab provides; and (iv) remuneration Schwab receives from the market centers where it routes ETF trade orders for execution. Brokerage arrangements are further described below in *Item 12 Brokerage Practices*.

#### *Retirement Plan Consulting Services*

Channel Islands charges an asset management fee for retirement plan consulting services. Our annual fee generally ranges from 0.10-0.75% of the value of the plan assets. The fee charged to each client is negotiable and determined based on the scope and complexity of the services provided to the plan.

Channel Islands believes that its fees are reasonable in relation to: (1) services provided and (2) the fees charged by other investment advisers offering similar services/programs. However, our annual investment advisory fee can be higher than that charged by other investment advisers offering comparable services/programs.

### **Billing Method**

#### *Financial Planning/Consulting Services*

We reserve the right to request a retainer upon completion of our initial fact-finding session with the client; however, advance payment will never exceed \$1,000. The balance is due upon completion of the plan or at intervals agreed upon by the client and the planner.

#### *Investment Management & Retirement Planning Services*

Channel Islands' advisory fees are payable quarterly in advance at the beginning of each calendar quarter. We charge one fourth of the annual fee rate each quarter based on the market value of the client's portfolio or plan value as of the last day of the prior calendar quarter. The formula used for the calculation is as follows:  $(\text{Annual Rate}) \times (\text{Total Assets Under Management at Month-End}) / 4$ .

For new client accounts, the first payment is a pro-rata calculation due upon execution of the advisory agreement that takes into consideration the number of days remaining in the month and the initial value of the portfolio. The formula used to calculate the initial advisory fee would be as follows:  $(\text{Result of Monthly Calculation}) \times (\text{Days Remaining in Month}) / (\text{Total Number of Days in Month})$ . For advisory fee calculation purposes, a calendar quarter is a period beginning on January 1, April 1, July 1, or October 1 and ending on the day before the next quarter. A day is any calendar day including weekends and holidays.

With client authorization, Channel Islands will instruct the custodian to automatically withdraw our advisory fee from the client's account. Typically, we authorize the custodian to withdraw our advisory fee from the client's account during the first month of each quarter. All clients will receive brokerage statements from the custodian no less frequently than quarterly. The custodian statements will show the deduction of the advisory fees.

## Other Fees and Expenses

Channel Islands' fees do not include custodian fees. Clients pay all brokerage commissions and other charges incurred in connection with transactions in accounts, from the assets in the account. These charges are in addition to the fees client pays to Channel Islands. See **Item 12 - Brokerage Practices** below for more information on the factors that Channel Islands considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

In addition, the shares of mutual funds and exchange-traded funds held in a client's account are subject to fund-related expenses. The fund's prospectus fully describes the fees and expenses. All fees paid to Channel Islands for investment advisory services are separate and distinct from the fees and expenses charged by the funds. Funds pay advisory fees to their managers, which are indirectly charged to all holders of the fund shares. Consequently, clients with funds in their portfolios are effectively paying both Channel Islands and the fund manager for the management of their assets.

A client could invest in a mutual fund or exchange-traded fund directly, without using our services. In that case, the client would not receive the services we provide, which include assisting the client in determining which fund or funds we feel are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and the advisory fees we charge to understand the total amount of fees the client will pay and evaluate the advisory services we provide accordingly.

**ERISA Accounts:** Channel Islands is deemed to be a fiduciary to advisory clients that are employee benefit plans pursuant to the Employee Retirement Income and Securities Act ("ERISA"). As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Channel Islands may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees.

## Termination

Either party may terminate the agreement upon thirty (30) days written notice to the other party. The client may terminate the agreement by writing to Channel Islands at our office.

Channel Islands will refund any prepaid, unearned advisory fees based on the effective date of termination, using the following formula:  $(Fees\ Paid) \times (Days\ Remaining\ in\ Quarter) / (Total\ Number\ of\ Days\ in\ Quarter)$ .

Terminations will not affect liabilities or obligations from transactions initiated in client accounts prior to termination. In the event the client terminates the investment advisory agreement, Channel Islands will not liquidate any securities in the account unless instructed by the client to do so. In the event of client's death or disability, Channel Islands will continue management of the account until we are notified of client's death or disability and given alternative instructions by an authorized party. Our ongoing management and/or ability to effect transactions in a client's account(s) may be limited by restrictions placed on accounts by the client's broker/custodian.

## **Other Compensation**

Channel Islands does not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds held in client advisory accounts (i.e., WMA or IIP). However, certain of Channel Islands' personnel are also licensed as registered representatives with Purshe Kaplan Sterling Investments ("PKS"), a broker-dealer and member of FINRA/SIPC. (Channel Islands is not affiliated with PKS.) In their individual capacity as registered representatives with PKS, these individuals may receive compensation, commissions and/or trailing 12b-1 fees from PKS for services provided to PKS's brokerage clients. These 12b-1 fees are included in the expense ratio of the fund (as described above), and are paid to companies or individuals who help service the fund's investors. See **Item 10 – Other Financial Industry Activities and Affiliations** for more information.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Channel Islands does not charge performance-based fees or other fees based on a share of capital gains or capital appreciation of the assets of a client.

## **ITEM 7 - TYPES OF CLIENTS**

In general, Channel Islands provides portfolio management services as well as financial planning services to individuals (including IRAs), high net worth individuals, trusts and estates, charitable organizations, corporations or other business entities, pension and profit-sharing plans, and individual participants of retirement plans.

However, for IIP, clients eligible to enroll in the Program include individuals, joint registrations, various IRAs, and revocable living trusts. Clients that are organizations (such as corporations and partnerships) or government entities, and clients that are subject to the Employee Retirement Income Security Act of 1974, are not eligible for the Program.

## Account Requirements

For WMA, Channel Islands generally requires clients to maintain a minimum account size of \$50,000. Channel Islands may, at its discretion, combine family accounts to meet the account size minimum, or reduce or waive the account minimum requirements.

For IIP, the minimum investment required to open or convert an account in the Program is \$5,000. The minimum account balance to enroll in the tax-loss harvesting feature is \$50,000.

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

### Methods of Analysis and Investment Strategies

#### General Investment Strategies

Channel Islands generally uses diversification in an effort to minimize risk and optimize the potential return of a portfolio. We may, for example, utilize mutual funds that contain multiple asset classes, market capitalizations, sectors, and regions to provide diversification. Each fund has a different target asset allocation, and the particular fund or mix of funds selected for a client is determined in accordance with the client's investment objectives, risk tolerance, and time horizon. Generally, Channel Islands reviews each client's investment portfolio every quarter to confirm that the actual allocation matches the target allocation.

#### Methods of Analysis for Selecting Securities

There are risks involved in using any analysis method.

The mutual funds we utilize have asset class strategies that include, but are not limited to, U.S. and non-U.S. equities, fixed income, global and real estate through real estate investment trusts (REITS). In selecting funds, we evaluate their internal expenses, diversification, and consistency of exposure to a specific asset class. Channel Islands generally relies on research materials provided by Schwab and other sources when determining investment recommendations for client accounts and informing our general macro-economic view.

### Investing Involves Risk

Investing in securities always involves the risk that you will lose money. Before investing in the securities markets, clients should be prepared to bear that risk. Over time, a client's account value will fluctuate. At any time, your assets may be worth more or less than the amount you invested. As with any investment strategy, there is no guarantee that our strategies will be successful. Channel Islands makes no guarantees or promises that our market analysis will be accurate or the investment strategies we use will be successful.

Channel Islands exercises our discretionary authority to invest in securities that we believe are appropriate for the client, based on our understanding of the client's risk tolerance and investment objectives. We have generally summarized below what we feel are relevant risks broadly relating to the types of securities we primarily invest in for client accounts; however, securities may be subject to additional risks that are specific to that security or issuer, and we cannot and do not attempt to cover all risks that clients may be exposed to within their portfolios. Clients are strongly encouraged to review the prospectus disclosures and offering documents relating to the securities held in their portfolios if they have any questions, as these documents discuss in more detail the risks relating to the particular product. These documents are provided to the client by the client's custodian/broker. Clients with questions regarding a particular security should contact Channel Islands or the custodian/broker.

## **Specific Security Risks**

### *General Risks of Owning Securities*

The prices of securities held in client accounts and the income they generate may decline in response to certain events taking place around the world. These include events directly involving the issuers of securities held as underlying assets of mutual funds in a client's account, conditions affecting the general economy, and overall market changes. Other contributing factors include local, regional, or global political, social, or economic instability and governmental or governmental agency responses to economic conditions. Finally, currency, interest rate, and commodity price fluctuations may also affect security prices and income.

### *Mutual Funds (Open-end Investment Company)*

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The price that investors pay for mutual fund shares is the fund's per share net asset value (NAV) plus any shareholder fees that the fund imposes at the time of purchase.

The benefits of investing through mutual funds include professional management, diversification, affordability, and liquidity. Mutual funds also have features that some investors might view as disadvantages:

#### **Costs Despite Negative Returns**

Investors must pay annual fees and other expenses regardless of how the fund performs. Depending on the timing of their investment, investors may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing shares.

#### **Lack of Control**

Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

### Price Uncertainty

With an individual stock, investors can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling a broker or investment adviser. Investors can also monitor how a stock's price changes from hour to hour—or even second to second. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the investor placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

### *Different Types of Funds*

When it comes to investing in mutual funds, investors have literally thousands of choices. Most mutual funds fall into one of three main categories; money market funds, bond funds (also called “fixed income” funds), and stock funds (also called “equity” funds). Each type has different features and different risks and rewards. Generally, the higher the potential return, the higher the risk of loss.

### *Money Market Funds*

Money market funds have relatively low risks, compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, short-term investments issued by the U.S. Government, U.S. and foreign corporations, state and local governments, and bank issued certificates of deposit. Money market funds try to keep their net asset value (NAV), which represents the value of one share in a fund, at a stable \$1.00 per share. However, the NAV may fall below \$1.00 if the fund's investments perform poorly. Investor losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That is why “inflation risk,” the risk that inflation will outpace and erode investment returns over time, can be a potential concern for investors in money market funds.

### *Bond Funds*

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term investments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

Some of the risks associated with bond funds include:

### Credit Risk

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury Bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.

### Interest Rate Risk

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, investors can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have higher interest rate risk.

### Prepayment Risk

Issuers may choose to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to “retire” its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

### *Stock Funds*

A stock fund’s value can rise and fall quickly (and dramatically) over the short term but may demonstrate more stability over the long-term. Overall “market risk” poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same.

For example:

#### Growth Funds

Growth funds focus on stocks that generally do not pay a regular dividend but that have the potential for large capital gains. These funds favor companies expected to grow earnings, which could result in stock prices rising faster than the economy, and may be smaller and less seasoned companies. The smaller and less seasoned companies that may be in a growth fund have a greater risk of price volatility. Growth stocks, sometimes priced on future expectations rather than current results, may decline substantially from unmet expectations general weakened market conditions.

#### Equity Income Funds

Equity income funds stress current income over growth, and may invest in stocks that pay regular dividends. These funds are subject to dividend payout risk, which is the possibility that a number of the companies in which the fund invests will reduce or eliminate the dividend on the securities held by the fund.

#### Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure than larger, well-established blue-chip companies do. Historically, smaller company stocks have experienced a greater degree of market volatility than the overall market average.

#### Mid-Cap Funds

Funds that invest in companies with mid-range market capitalizations involve additional risks. The securities of these companies may be more volatile than the securities of larger companies and contain less liquidity in securities markets.



### International Funds

International investments are subject to additional risks, including currency fluctuation, political instability, and potential illiquid markets.

### Emerging Market Funds

Funds that invest in foreign securities of smaller, less-developed countries involve special additional risks. These risks include, but are not limited to currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

### *Real Estate Funds*

Investments in real estate funds are subject to the risks related to direct investment in real estate, such as real estate risk, regulatory risks, concentration risk, and diversification risk.

### *Tax Consequences of Mutual Funds*

When investors buy and hold an individual stock or bond, the investor must pay income tax each year on the dividends or interest the investor receives. However, the investor will not have to pay any capital gains tax until the investor actually sells and makes a profit. Mutual funds are different. When an investor buys and holds mutual fund shares, the investor will owe income tax on any ordinary dividends in the year the investor receives or reinvests them. Moreover, in addition to owing taxes on any personal capital gains when the investor sells shares, the investor may have to pay taxes each year on the fund's capital gains. That is because the law requires mutual funds to distribute capital gains to shareholders if they sell securities for a profit that cannot be offset by a loss.

### Investing Outside the U.S.

Investing outside the United States may involve additional risks of foreign investing. These risks may include currency controls and fluctuating currency values, and different accounting, auditing, financial reporting, disclosure, and regulatory and legal standards and practices. Additional factors may include changing local, regional, and global economic, political, and social conditions. Further, expropriation, changes in tax policy, greater market volatility, different securities market structures, and higher transaction costs can be contributors to greater risk. Finally, various administrative difficulties, such as delays in clearing and settling portfolio transactions or in receiving payment of dividends can also lead to additional risk.

Investments in developing countries can further heighten the risks described above. A developing country may be in the earlier stages of its industrialization cycle with a low per capita gross domestic product ("GDP") and a low market capitalization to GDP ratio relative to those in the United States and the European Union. Historically, the markets of developing countries have been more volatile than the markets of developed countries.

Developing countries may have less developed legal and accounting systems. The governments of these countries may be more unstable and more likely to impose capital controls, nationalize a company or industry, place restrictions on foreign ownership and on withdrawing sale proceeds of securities from the

country, and/or impose punitive taxes that could adversely affect security prices. In addition, the economies of these countries may be dependent on relatively few industries that are more susceptible to local and global changes. Securities markets in these countries are also relatively small and have substantially lower trading volumes. As a result, securities issued in these countries may be more volatile and less liquid than securities issued in countries with more developed economies or markets.

### Exchange-traded notes

An exchange-traded note (“ETN”) is a debt note issued by a financial institution. ETNs are linked to a particular market benchmark or strategy which may fall in value, resulting in a loss of return/principal to an account holding the ETN. ETNs are subject to credit risk generally to the same extent as debt securities. ETNs may also be subject to the following additional risks: liquidity risks – trading activity may vary widely; issuance risk – volatile premiums due to limited supply; and closure risk – note terms may not include accelerated redemption provisions allowing the issuer to call the note.

### Cash and Cash Equivalents

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

## **Financial Planning**

The financial planning tools Channel Islands uses to create financial plans for clients rely on various assumptions, such as estimates of longevity, inflation, risk, economic conditions, and rates of return on security asset classes. All return assumptions use estimates of future returns of asset classes, not returns of actual investments, and do not include fees or expenses that clients would pay if they invested in specific products.

Financial planning software is only a tool used to help guide Channel Islands and the client in developing an appropriate strategy, and we cannot guarantee that clients will achieve the results shown in the plan. Results will vary based on the information provided by the client regarding the client’s assets, risk tolerance, and personal information. Changes to the program’s underlying assumptions or differences in actual personal, economic, or market outcomes may result in materially different results for the client. Clients should carefully consider the assumptions and limitations of the financial planning software as disclosed on the financial planning reports and should discuss the results of the plan with a qualified investment professional before making any changes in their investment or financial planning program.

## **ITEM 9 - DISCIPLINARY INFORMATION**

Channel Islands and our personnel seek to maintain the highest level of business professionalism, integrity, and ethics. Channel Islands does not have any disciplinary information to disclose.

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

### **Related Investment Adviser**

Lang Advisors, LLC (“Lang Advisors”) is related to Journey Advisory Group, LLC, another registered investment adviser that offers similar services. Lang Advisors and Journey Advisory Group are under common ownership. Tyler S. Lang, CFA is Managing Member, Chief Compliance Officer, and Portfolio Manager of both Lang Advisors and Journey Advisory Group. In these roles, Tyler oversees the activities of five physical offices and approximately twenty-two employees/associates. Tyler oversees the compliance aspects of Channel Islands and also provides portfolio management as well as business development input and guidance. Tyler is assisted by various individuals who serve in the roles of Portfolio Manager, Research Analyst/Trader, Financial Advisor, Chief Financial Officer, Director of Operations, etc.

Tyler, the Chief Financial Officer, the Research Analyst/Trader, and a portfolio manager split their time between Lang Advisors and Journey Advisory Group as needed, generally spending approximately 15% of their working hours on duties related to Lang Advisors/Channel Islands. Financial advisors Michael Snowden and Russell Charvonja along with certain operations personnel are dedicated exclusively to the Channel Islands business. The financial advisors of Channel Islands share portfolio management duties with Tyler Lang.

Additional information regarding the duties and any outside business activities of Tyler and other advisory personnel can be found in our brochure supplement. Lang Advisors and Journey Advisory Group have no other relationship or agreements with each other.

### **Registered Representative of Unaffiliated Broker-Dealer**

Certain of Channel Islands’ personnel are also licensed as registered representatives with Purshe Kaplan Sterling Investments (“PKS”), a broker-dealer and member of FINRA/SIPC. Channel Islands is not affiliated with PKS. In their individual capacity as registered representatives, these individuals may receive compensation, commissions and/or trailing 12b-1 fees from PKS for services provided to PKS’s brokerage clients. This presents a conflict of interest because the registered representatives may have an incentive to recommend PKS for executing securities transactions or securities for which they receive additional compensation. Commissions paid through PKS may be higher or lower than at other broker-dealers. When recommending commissionable products to clients, we have a duty to only recommend products that are suitable for the client. We will disclose to the client any commissions our personnel receive in connection with advisory transactions. Clients are under no obligation to act on any recommendations of these individuals or place any transactions through them or through PKS if they decide to follow their recommendations.

### **Other Industry Activities**

Channel Islands shares an office with a separate mortgage lending firm, Channel Islands Mortgage Services (“CIMS”), a separate law firm, Channel Islands Law Group, a P.C. (“CILG”), and a separate mediation firm, Channel Islands Mediation Services (“CI Mediation”). All four firms offer complementary legal and

financial services to clients at one location and collectively market themselves as the Channel Islands Group. The licensed attorneys of CILG primarily practice in the areas of estate planning and charitable planning. Russell Charvonia, one of the principals of CILG and of CI Mediation, is an advisor of Lang Advisors/Channel Islands. CIMS provides services as a mortgage lender. Cathy Milligan, the principal of CIMS, is an employee of Channel Islands.

The companies within the Channel Islands Group from time to time refer clients to each other. Channel Islands does not pay or receive compensation in connection with referrals to CILG, but compensation may be shared for referrals to and from CIMS. These referral relationships are mutually beneficial, and we have an incentive to recommend services of these firms because they refer clients to Channel Islands. Our receipt of compensation for referrals from CIMS further heightens the incentive to refer clients to CIMS over other mortgage services providers. Channel Islands only refers clients to professionals we believe are competent and qualified in their field, but it is ultimately the client's responsibility to evaluate the provider. Clients are under no obligation to purchase any products or services through these separate companies, and Channel Islands has no control over the services provided by another firm. Clients who choose to engage these professionals will sign a separate agreement with the other firm. Fees charged by the other firm are separate from and in addition to fees charged by Channel Islands. Channel Islands does not share client information with the other companies in the Channel Islands Group unless first authorized by the client.

## **ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Channel Islands believes that we owe clients the highest level of trust and fair dealing. As part of our fiduciary duty, we place the interests of our clients ahead of the interests of the firm and our personnel. Channel Islands has adopted a Code of Ethics that emphasizes the high standards of conduct that we seek to observe. Channel Islands' personnel are required to conduct themselves with integrity at all times and follow the principles and policies detailed in our Code of Ethics.

Channel Islands' Code of Ethics attempts to address specific conflicts of interest that either we have identified or that could likely arise. Channel Islands' personnel are required to follow clear guidelines from the Code of Ethics in areas such as gifts and entertainment, other business activities, prohibitions of insider trading, and adherence to applicable state and federal securities laws. Additionally, individuals who formulate investment advice for clients, or who have access to nonpublic information regarding any clients' purchase or sale of securities, are subject to personal trading policies governed by the Code of Ethics (see below).

Channel Islands will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

### Personal Trading Practices

Channel Islands Group or associated persons of the firm may buy or sell for their personal accounts, securities identical to those recommended to clients. This creates a potential conflict of interest. It is the express policy of Channel Islands that all persons associated in any manner with our firm must place clients' interests ahead of their own when implementing personal investments.

We strive to be in compliance with all applicable state and federal rules and regulations at all times. Consistent with our fiduciary obligation, we have developed personal investment and trading policies for our representatives, employees and their immediate family members (collectively, associated persons):

- Personal securities transactions must never adversely affect clients.
- Associated persons are prohibited from purchasing or selling securities of companies in which any client is deemed an "insider" and the client has disclosed this to us.
- Associated persons are discouraged from conducting excessive personal trading.
- Associated persons are generally prohibited from serving as board members of publicly traded companies unless an exception has been granted by the Chief Compliance Officer
- We do not engage in Principal Transactions nor effect Internal Cross Transactions

Any associated person not observing our policies is subject to sanctions up to and including termination.

## **ITEM 12 - BROKERAGE PRACTICES**

Channel Islands requires clients to open one or more custodian accounts in their own name at a qualified custodian ("Custodial Broker"). Channel Islands generally requires the use of Schwab Advisor Services™, a division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer and Member SIPC, as the Custodial Broker and we place client transactions through Schwab.

The client will enter into a separate agreement with Schwab to custody the assets. Channel Islands/Lang Advisors are independently owned and operated, and unaffiliated with any broker-dealer/custodian.

Schwab charges commissions (ticket charges) for executing certain transactions. We do not receive any part of these separate charges. Schwab may provide us with access to their institutional trading and custody services, which are typically not available to their retail investors. These services include brokerage custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. Channel Islands' clients who have their assets held at Schwab will not be charged separately for custody, as Schwab is compensated by account holders through commissions or other transaction-related fees or securities trades that are executed through Schwab or that settle into the client's account at Schwab. Schwab does receive other revenues, including the profit earned by Charles Schwab Bank, a Schwab affiliate, on the allocation to any cash position in client accounts held at Schwab.

## Factors Considered in Selecting Broker-Dealers for Client Transactions

Channel Islands considers several factors in recommending Schwab to clients, including availability of funds, ease of use, reputation, service, execution, pricing and financial strength. Channel Islands may also take into consideration the availability of the products and services received or offered (detailed below) by Schwab.

### Research and Other Benefits

Channel Islands may receive from Schwab, without cost (or at a discount), support services and/or products that benefit Channel Islands but may not directly benefit our clients' accounts.

Client accounts enrolled in the Institutional Intelligent Portfolios (IIP) Program are maintained at, and receive the brokerage services of Schwab affiliate, CS&Co., a broker-dealer registered with the Securities and Exchange Commission and a member of FINRA and SIPC. While clients using IIP are required to use CS&Co. as custodian/broker to enroll in the Program, the client decides whether to do so and opens its account with CS&Co. by entering into a brokerage account agreement directly with CS&Co. We do not open the account for the client. If the client does not wish to place his or her assets with CS&Co., then we cannot manage the client's account through the IIP Program. CS&Co. may aggregate purchase and sale orders for Funds across accounts enrolled in the Program, including both accounts for our clients and accounts for clients of other independent investment advisory firms using the Platform.

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. Through Schwab Advisor Services, CS&Co. provides us and our clients, both those enrolled in the Program and our clients not enrolled in the Program, with access to its institutional brokerage services— trading, custody, reporting, and related services—many of which are not typically available to CS&Co. retail customers. However, certain retail customers may be able to get institutional brokerage services from Schwab without going through us. CS&Co. 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. CS&Co.'s support services described below are generally available on an unsolicited basis (we don't have to request them) and at no charge to us. The availability to us of CS&Co.'s products and services is not based on us giving particular investment advice, such as buying particular securities for our clients. Here is a more detailed description of CS&Co.'s support services:

CS&Co.'s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. CS&Co.'s services described in this paragraph generally benefit the client and the client's account.

CS&Co. also makes available to us other products and services that benefit us but do not directly benefit the client or its account. These products and services assist us in managing and administering our clients' accounts and operating our firm. They include investment research, both Schwab's own and that of third parties. We use this research to service all or some substantial number of our clients' accounts, including

accounts not maintained at CS&Co. In addition to investment research, CS&Co. 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; and
- assist with back-office functions, recordkeeping, and client reporting.

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

- educational conferences and events;
- technology and business consulting;
- Consulting on legal and related compliance needs;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants, and insurance providers.

CS&Co. provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. CS&Co. also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. If you did not maintain your account with Schwab, we would be required to pay for these services from our own resources.

The availability of services from CS&Co. benefits us because we do not have to produce or purchase them. We don't have to pay for these services, and they are not contingent upon us committing any specific amount of business to CS&Co. in trading commissions or assets in custody. With respect to the IIP Program, as described above under *Item 4 Advisory Business*, we do not pay SPT fees for the Platform so long as we maintain client assets in accounts at CS&Co. The fact that we receive these benefits from Schwab is an incentive for us to recommend the use of Schwab rather than making such a decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of transactions. This is a conflict of interest. We believe, however, that taken in the aggregate our recommendation of CS&Co. as custodian and broker is in the best interests of our clients. It is primarily supported by the scope, quality, and price of CS&Co.'s services and not Schwab's services that benefit only us.

Because of Channel Islands' professional relationship with Schwab, they may offer Channel Islands discounts for services of affiliated or unaffiliated companies.

As part of our fiduciary duty to clients, Channel Islands endeavors at all times to put the interests of our clients first. Clients should be aware, however, that the receipt of economic benefits by Channel Islands or our personnel in and of itself creates a potential conflict of interest and may indirectly influence Channel Islands' recommendation of Schwab for custody and brokerage services.

### Brokerage for Client Referrals

Channel Islands does not receive client referrals from any broker-dealer in exchange for using that broker-dealer.

### Directed Brokerage Transactions

Channel Islands will not allow clients to direct Channel Islands to use a specific broker-dealer to execute transactions. Clients must use the broker-dealer that Channel Islands recommends. Not all investment advisers require their clients to trade through specific brokerage firms. By requiring clients to use Schwab for both custody and trading, Channel Islands believes we may be able to more effectively manage the client's portfolio, achieve favorable execution of client transactions, and overall lower the costs to the portfolio.

Clients with 401(k) or annuity accounts are not required to use Schwab, and Channel Islands will work with the custodian of the account.

## **Aggregation and Allocation of Transactions**

Transactions for each client account generally will be executed independently, unless Channel Islands decides to purchase or sell the same securities for several clients at approximately the same time. Channel Islands may (but is not obligated to) combine or "bunch" such orders to obtain better price execution, to negotiate more favorable commission rates, or to allocate equitably among the Channel Islands' clients any differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Channel Islands shall not receive any additional compensation or remuneration as a result of such aggregation.

## **ITEM 13 - REVIEW OF ACCOUNTS**

### **Managed Account Reviews**

The frequency of account reviews will vary based on several factors including (but not limited to) the type of portfolio management service being provided (e.g., WMA or IIP), the stated investment objectives, the economic environment, the outlook for the securities markets, and the merits of the securities in the accounts. Regardless, we manage portfolios on a continuous and regular basis with security selection reviews no less frequently than monthly.

In addition, we may conduct a special review of an account based on one or more of the following:

1. A change in the client's investment objectives, guidelines and/or financial situation;
2. Changes in diversification;
3. Tax considerations; or
4. Material cash deposits or withdrawals.



We generally offer to meet with clients on a semi-annual basis to discuss their accounts. More frequent discussions can be arranged under various circumstances. You should notify us promptly if your circumstances or needs change. Clients may choose to engage with the advisor either in person, by video conference, or by telephone. Certain reports and other information are made available in writing.

## **Financial Plan Reviews**

Channel Islands portfolio managers are responsible for creating and reviewing clients' financial plans. Channel Islands will generally contact clients at least annually to discuss any changes in the client's circumstances and necessary updates to the financial plan. We will also work with clients on an ongoing basis to review the plan as requested by the client.

## **Account Reporting**

Each client receives a written statement from Schwab that includes an accounting of all holdings and transactions in the account for the reporting period. In addition, for investment management clients Channel Islands prepares a written report detailing performance in a client's account, which is reviewed with the client at each review meeting. Channel Islands will provide a written performance report at any time the client requests it. Clients are reminded and encouraged to compare the written reports from Channel Islands with the statements from the custodian.

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

### **Custodial Broker Support Products and Services**

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us. You do not pay more for assets maintained at Schwab as a result of these arrangements. However, we benefit from the arrangements because the cost of these services would otherwise be borne directly by us. You should consider these conflicts of interest when selecting a custodian. The products and services provided by Schwab, how they benefit us, and the related conflicts of interest are described above under Item 12 Brokerage Practices. The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

### **Referral Arrangements**

Channel Islands does not directly or indirectly compensate any person for client referrals.

### **Outside Compensation**

Channel Islands may refer clients to unaffiliated professionals for a variety of services such as insurance, mortgage brokerage, real estate sales, estate planning, legal, and/or tax/accounting services. In turn, these professionals may refer clients to Channel Islands. In particular, Channel Islands has aligned with two firms to create Channel Islands Group, which provides complimentary legal and financial services (see ***Other Industry Activities*** in ***Item 10*** for more information.) Channel Islands will not refer clients to

financial planners and other investment advisers unless they are licensed, registered or exempt from registration as an investment adviser.

## ITEM 15 - CUSTODY

Clients' accounts are held by Schwab Advisor Services™, a division of Charles Schwab & Co., Inc. ("Schwab"), a qualified custodian.

Channel Islands Group does not accept custody of client funds or securities. In other words, we are not granted access by our clients which would enable us to withdraw or transfer or otherwise move funds or cash from their account to our account. This does not apply, however, to a situation where we would deduct our advisory fee from client accounts or process a standing letter of authorization (SLOA) or journal, as explained below. Our policy of not accepting custody is for the safety of our client's assets. Also, Channel Islands Group employees do not accept clients' online usernames and passwords at any time.

With a client's consent, Channel Islands may be provided with the authority to seek deduction of our contracted advisory fee directly from the client's account. This process is generally more efficient for both the client and Channel Islands.

On February 21, 2017, the SEC issued a no-action letter clarifying that standing authority (also known as a standing letter of authorization or "SLOA") to move money from a client's account to a third-party account is "custody" within the meaning of Investment Advisers Act Rule 206(4)-4 (the "Custody Rule"). The SEC also stated that any accounts that meet the following seven conditions (the SEC refers to them as "representations") will not be subject to the "independent verification" requirement under Rule 206(4)-2(a)(4), also known as the annual surprise accountant's examination.

1. 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 paper and electronic forms that Schwab uses to establish a standing letter of authorization (SLOA) must be signed by the client and includes the third party's name and address or account number.
2. 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. Schwab's SLOA forms (whether paper or electronic) require a client's signature to indicate in writing that the client has authorized the advisor to direct transfers to identified third party(s) by giving instructions to Schwab regarding those transfers.
3. 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. Schwab uses signature verification or similar means as a qualified

custodian to verify the client's authorization reflected on the SLOA form. Schwab provides a transfer of funds notice to the client within one to two business days after each transfer.

4. The client has the ability to terminate or change the instruction to the client's qualified custodian. The client has the ability to contact Schwab directly to terminate or change instructions, either in writing or verbally.

5. 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. Other than a request by the advisor to terminate its authority on an SLOA, Schwab does not allow an advisor on its own to make any changes to the SLOA. Any change relating to the third party - including identity, address, or account number - requires that the client submit a new form.

6. Channel Islands Group maintains records showing that the third party is not a related party of Channel Islands Group or located at the same address and is responsible for meeting this condition.

7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction. As of March 2017, Schwab sends the client a notification in writing, confirming the instruction, within one to two business days of the SLOA being established. As of June of 2017, Schwab will send the client an annual notice reconfirming the SLOA instruction. This notice will be sent every year while an SLOA is in effect.

For client accounts where we have fee-deduction authority, or when an SLOA is executed, the following procedures apply:

1. As mentioned above, clients' accounts are held by Schwab Advisor Services™, a division of Charles Schwab & Co., Inc. ("Schwab"), a qualified custodian.
2. Clients will receive statements directly from Schwab at least quarterly. The statements will reflect the client's funds and securities held with Schwab as well as any transactions that occurred in the account, including the deduction of Channel Islands' fee.
3. We send the amount of our fee to Schwab. It is the client's responsibility to verify the accuracy of the fee calculation. Schwab will not determine whether the fee is properly calculated.
4. Clients should carefully review the account statements they receive from Schwab. When clients receive statements from Channel Islands as well as from Schwab, they should compare these two reports carefully. Clients with any questions about their statements should contact us at the address or phone number on the cover of this brochure. Clients who do not receive a statement from Schwab at least quarterly should also notify us.

## ITEM 16 - INVESTMENT DISCRETION

Channel Islands generally has full discretion to decide the specific security to trade, the quantity, and the timing of transactions for client accounts. For discretionary accounts, Channel Islands will not contact clients before placing trades in their account, but clients will receive confirmations directly from the broker for any trades placed. Clients generally grant us discretionary authority in the contracts they sign with us. Clients also give us trading authority over their accounts when they sign the Schwab paperwork.

If you decide to grant trading authorization only on a non-discretionary basis, we will be required to contact you prior to implementing changes in your account. Therefore, you will be contacted and required to accept or reject our investment recommendations including:

- The security being recommended
- The number of shares or units
- Whether to buy or sell

Please Note: Transactions for non-discretionary accounts will generally be executed following the execution of similar transactions for discretionary accounts and may not receive the most favorable execution.

## ITEM 17 - VOTING CLIENT SECURITIES

### Proxy Voting

Unless otherwise agreed to in writing, Channel Islands does not accept or have the authority to vote client securities. However, clients may call us if they have questions about a particular solicitation. Channel Islands will not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

If/when Channel Islands accepts such responsibility, we will only cast proxy votes in a manner consistent with the best interest of our clients. Absent special circumstances, which we fully describe in our Proxy Voting Policies and Procedures, we will vote all proxies within the guidelines we established and describe in our Proxy Voting Policies and Procedures, as we may amend from time-to-time. At any time, clients may contact us to request information about how we voted your proxies for your securities or to get a copy of our Proxy Voting Policies and Procedures. A brief summary of Channel Islands' Proxy Voting Policies and Procedures is as follows:

1. We make every effort to ensure that we vote shares in the best interests of clients and the value of their investment.
2. Absent special circumstances, our policy is to exercise our proxy voting discretion according to written pre-determined proxy voting guidelines ("Proxy Voting Guidelines").

3. If Channel Islands becomes aware of any type of potential or actual conflict of interest relating to a proxy proposal, Channel Islands will promptly document the conflict and may handle the conflict in a number of ways depending on the type and materiality. The method selected by Channel Islands will depend upon the facts and circumstances of each situation, and the requirements of applicable laws, and will always be handled in the client's best interests.
4. Channel Islands may also choose not to vote proxies in certain situations or for certain accounts; for example, (1) where a client has retained the right to vote the proxies; (2) where Channel Islands deems that the cost of voting the proxy would exceed any anticipated benefit to the client, or (3) where a proxy is received for a client account that has been terminated.

## **ITEM 18 - FINANCIAL INFORMATION**

Registered investment advisers are required in this item to provide clients with certain financial information or disclosures about the firm's financial condition. Channel Islands does not require the prepayment of more than \$1,200 in fees per client, six months or more in advance, does not have or foresee any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.