



Sheppard Wealth Management, LLC

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This brochure provides information about Sheppard Wealth Management, LLC's ("Sheppard Wealth Management") qualifications and business practices. If you have any questions about the contents of this brochure, please contact us at 541-604-8603 or by email at [john@sheppardwealth.com](mailto:john@sheppardwealth.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 Sheppard Wealth Management is also available at the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (select "investment adviser firm" and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.

We are an investment adviser registered with the Securities and Exchange Commission. Our registration does not imply any level of skill or training. The oral and written communications we provide to you, including this brochure, are for you to evaluate us. Please use this information as factors in your decision to hire us or to continue our business relationship.

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## **ITEM 2 – MATERIAL CHANGES**

Sheppard Wealth Management, LLC updates its ADV Part 2 annually, or more frequently in the event of certain material changes. This section outlines and summarizes specific changes made to this Brochure since our last annual update dated on March 27, 2020.

We will ensure that you receive a summary of any material changes to this and subsequent disclosure brochures within 120 days after our firm's fiscal year ends. Our fiscal year ends on December 31, so you will receive the summary of material changes no later than April 30 each year. At that time we will also offer or provide a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

We do not have any material changes for this item.

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**ITEM 4 – ADVISORY BUSINESS****4a: Firm Description**

Sheppard Wealth Management (“Sheppard,” “we,” “us,” or “our”) was established in April 2014 by John S. Swanson. We are headquartered in Bend, Oregon with offices in Eugene, Oregon and Bellevue, Washington.

Our affiliate, OSO Management LLC, is the general partner to our private fund. To the extent OSO Management LLC may be deemed to be acting as an investment adviser, it is registered with the SEC in reliance on Sheppard’s Form ADV under the January 18, 2012 SEC no-action letter issued to the American Bar Association. Please see Item 10 (Other Financial Industry Activities and Affiliations) for additional information regarding OSO Management LLC.

**4a1: Principal Member**

John S. Swanson, Managing Member: Mr. Swanson may be contacted by email at [john@sheppardwealth.com](mailto:john@sheppardwealth.com) or by telephone at 541-633-5262.

**4b: Types of Advisory Services****Separately Managed Accounts**

Sheppard offers a variety of investment advisory services to our clients. We work with you to identify your investment goals and objectives as well as risk tolerance in order to create an initial portfolio allocation designed to complement your financial goals and objectives. We may create a portfolio, consisting of, but not limited to individual stocks or bonds, exchange traded funds, no-load funds and/or load-waived funds (front-end commissions will not be charged).

Each portfolio will be initially designed to meet a particular investment goal, which together we have determined to be suitable to your circumstances. Once the appropriate portfolio has been determined, we will review the portfolio and rebalance the account based upon your individual needs, stated goals and objectives. Our strategy, generally, will be to seek to meet your investment objectives while providing you with access to personal advisory services.

Based on our analysis and determination of the appropriate investment strategy or strategies, we may also engage unaffiliated third party managers to manage a portion or all of your assets. Under such an engagement, you will also be subject to the particular manager’s fee schedule in addition to the fees you pay us, as outlined in the third party manager’s advisory agreement and Form ADV 2A as appropriate.

**Pooled Investment Vehicles**

Sheppard also provides investment management services on a discretionary basis to privately-offered pooled investment vehicles exempt from registrations under the Investment Company Act of 1940, as amended (the “Fund”). Investment advice is provided directly to the Fund.

Sheppard may, in the future, organize additional investment vehicles that follow an investment program similar to or different from the investment program of the Sheppard Fund(s), however, we have no present intent to do so.

Advisory services are tailored to achieve the Funds’ objectives. However, Sheppard has the authority to select which and how many securities and other instruments to buy or sell without consultation with the Fund or the investors in the Fund.

Neither the Fund nor the investors in the Fund may impose restrictions on investing in certain types of securities. A more detailed description of the investment strategy and related risks of the Fund is included in Item 8 below and in the Fund's offering documents.

As described in Item 10, Sheppard is currently offering advisory services to Opal Sheppard Opportunities Fund I LP. Sheppard recommends to clients and potential clients, interests in the Fund on a non-discretionary basis, whereby each client makes the decision whether or not to invest in the Fund.

The recommended Fund offers its interest through a limited partnership structure ("LP"). The detailed terms applicable to investors in the Fund are described in the organizational documents and the offering memorandum of the Fund.

Clients have a right to terminate their subscription to the Fund without penalty within five business days after executing the subscription documents if Sheppard's Form ADV Part 2A was not delivered at least 48 hours prior to such execution.

We may recommend the purchase of LP interests in the Fund to persons who meet qualification requirements for an offering following an evaluation of the prospective client's particular financial circumstances, investment goals, liquidity needs and time horizons. In the event we recommend additional Funds or changes to LP interest(s), we will also inquire about changes in the client's circumstances or goals. An investment in Sheppard advised Fund(s) is illiquid and subject to strict limitations on withdrawals. (Please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more information on our separately managed accounts and our Fund strategy.)

#### **Rollovers from Retirement Plans; Fiduciary Status for Retirement Investors**

In recommending that any client roll over retirement plan assets to our management, we have a conflict of interest. Before making any such recommendation we review your existing investment options, fees and expenses, and your overall investment objectives. We only make the recommendation once we've determined that doing so is in your best interest.

As an investment advisor we are a fiduciary to all of our clients.

#### **Investment Consulting**

Sheppard offers financial and retirement consulting services, in which we provide specific services outside of investment management. These services vary and will be described in a separate agreement.

#### **4c: Client-Tailored Relationships and Restrictions**

As a fiduciary, Sheppard always acts solely in your best interests. Your separately managed account portfolio is customized based on your investment objectives. You may make requests or make suggestions regarding the investments made in your portfolio. Restrictions on trading which, in our opinion, are not in your best interest cannot be honored and if forced may result in the termination of our agreement.

Similarly, you are under no obligation to act upon Sheppard's or associated person's recommendations related to your separately managed account. If you elect to act on any of the recommendations, you are under no obligation to effect the transaction through Sheppard or any of its associated persons

**4d: Wrap Fee Program**

Sheppard does not sponsor nor provide portfolio management services to a wrap fee program.

**4e: Assets under Management (AUM)**

As of December 31, 2020, we managed approximately \$124 million on a discretionary basis, and \$18 million on a non-discretionary basis.

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**ITEM 5 – FEES AND COMPENSATION****5a, b & d: Fee Schedules, Payments & Options****Investment Management**

<b>Asset Value</b>	<b>Annual Fee</b>
Less than \$500,000	1.50%
\$500,000 to \$2,000,000	1.25%
\$2,000,001 to \$5,000,000	1.00%
\$5,000,001 to \$10,000,000	0.90%
\$10,000,001 and above	Negotiable

Our minimum annual fee is \$2,500. In certain circumstances, fees may be negotiable.

The fee includes the time and activities necessary to work with your attorney and/or accountant in reaching agreement on solutions, as well as assisting them in implementation of all appropriate documents. We are not responsible for attorney or account fees charged to you as a result of the above activities.

Sheppard fees are deducted from your account by the custodian when we submit an invoice to them. If there is insufficient cash in your account to pay your fees, an equal balance of securities in your portfolio may be sold to pay our fee. In addition to our fees, there may be custodial, transaction fees, and mutual fund or similar third party management fees and charges. See Item 12, Brokerage Practices, for additional information.

Sheppard fees are paid monthly in arrears, with payment due within 10 days from the date of the invoice. Our fee is determined by taking the percentage rate we charge, times the market value of the account, divided by the number of days in the year and multiplied by the number of days in the month. The market value is the sum of the values of all assets in the account, not adjusted by any margin debit. Fees for partial months at the commencement or termination of our agreement will be billed or refunded on a pro-rated basis contingent on the number of days the account was open during the month. Monthly fee adjustments for additional assets received into the account during a quarter or for partial withdrawals will also be provided on the above pro rata basis.

Compensation for our services will be calculated as set forth in the advisory agreement between us. We may modify the terms of any agreement by providing written changes to you for signature. While we strive to maintain

competitive fees, the same or similar services may be available from other firms at higher or lower fees.

For purposes of determining value of separately managed accounts, we rely on the values provided by the account custodian. The custodian provides information about its pricing services in direct communications with its clients.

#### **Fees for Pooled Investment Vehicles**

Fees associated with the Fund include an annual management fee of .70%, as well as a performance based fee or allocation. Sheppard or the General Partner deducts those fees and/or allocations directly from the Fund. In addition, the Fund pays all operating expenses and other costs of the Fund, including Fund formation costs, due diligence costs and expenses, custodial fees, brokerage commissions, fees and expenses charged by mutual funds and exchange-traded funds (if any), clearing fees, interest and taxes incurred in connection with or related to its investments. If the Fund invests into a private fund not managed by our affiliate or Sheppard, or if one of the Fund enters into a managed account or other arrangement in which an unaffiliated third-party provides investment advisory or other services to the Fund, then an investor in the Fund could effectively will incur two levels of advisory fees: (1) the Fund's management fee and performance-based fee or allocation; and (2) any management fee or performance-based fee or allocation paid by the Fund to the unaffiliated third party.

The types of expenses borne and paid by the Fund is much broader than the types of expenses advisory clients bear and pay as managed account clients. For example, among others, the Fund will pay: all investment related expenses (including legal fees and the fees of other advisors); due diligence costs; travel and entertainment expenses related to the Fund and its current or potential investments; tax preparation costs and filing fees; expenses associated with preparing and distributing financial, tax and performance reports; insurance and bonding costs (including any costs associated with errors and omissions insurance that covers us and our employees and principals); costs related to compliance with applicable laws (including costs we incur in complying with laws and regulations that apply to us as a result of our services to the Fund).

The Fund's organizational and offering documents include details regarding the fees, costs and expenses associated with the Fund, and the provisions of the Fund's organizational and offering documents govern an investment in the Fund, including with respect to fees, operating expenses and other costs of the Fund. Any investor in the Fund must read and understand the Fund's organizational and offering documents.

#### **Investment Consulting**

Fees for investment consulting services are based on a rate of \$250 per hour. Special arrangements can be made for clients wishing on-going investment consulting services. These arrangements will be defined and agreed upon by both parties via our investment consulting agreement. Hourly fees are due at the time of service. Special arrangements may be made with clients wishing ongoing investment consulting services.

#### **5.d.1: Termination**

Either Sheppard or you can terminate our agreement upon receipt of written notice to the other party. When an agreement is terminated, we will refund any pre-paid, unearned fees based on the number of days remaining in the quarter after termination. Refunds will be made within 30 calendar days of the effective date of termination. Any fees earned, but unpaid, will be billed to you.

When an agreement is terminated, all assets may need to be transferred from the current custodian. You will be responsible for paying all fees including full quarterly custodial administrative fees, account closure fees, mutual fund

fees and all trading costs due to the termination. The custodian may assess additional fees for transfer of illiquid investments. If there is insufficient cash in the account, the liquidation of some securities may be used to pay the fees. Prior to termination of an agreement, we can provide a good-faith estimate of these fees.

#### **5c: Third Party Fees – Separate Account Management**

You are responsible for the payment of all third-party fees (i.e. custodian fees, mutual fund fees, transaction fees, etc.) as well as fees charged by unaffiliated investment managers we may engage. Those fees are separate and distinct from the fees we charge.

All brokerage commissions, stock transfer fees, and other similar charges incurred in connection with transactions for the account will be paid out of the assets in the account and are in addition to the investment management fees paid to us. While we take measures to ensure the advisory fees we charge are accurate, it is your responsibility to ensure the amount of fee charged is correct. In addition to statements sent by us, you will receive statements directly from these brokers, custodians or mutual funds or other investments you hold. We strongly urge you to compare these statements for accuracy.

#### **5e: Other Investment Compensation**

Sheppard does not accept commission for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

As described in Item 5 above, Sheppard and/or its affiliate, OSO Management LLC, receives performance-based fees from the Fund. The Fund's organizational and offering documents describe in detail such performance-based fee arrangements.

Because we manage both separate account strategies and a private Fund, a conflict of interest is created given we charge advisory clients an asset-based fee for the advisory service we provide, but we (or our affiliate), in addition to management fees paid by the Fund, are entitled to receive performance-based compensation from the Fund. As a result, we may have an incentive to recommend that an advisory client invest in the Fund, as opposed to holding assets only in separate accounts and allocating those assets to investment strategies through which we (or our affiliate) would not be entitled to receive performance based fees.

We seek to address these conflicts of interest by emphasizing our duty to place the interests our clients first, and only recommend our Fund to those clients for which we believe it is a suitable and appropriate investment for a portion of their investible assets based on a thorough review of each client's financial situation, goals, expectations, liquidity needs and risk tolerance.

In addition, because we receive performance based fees from the Fund, this may create an incentive to place more risky investments in the Fund in pursuit of higher returns. We address this conflict by emphasizing our duty to place the interests of the Fund, also our client, first. We also regularly monitor Fund assets and trades to ensure the Fund is being managed in the best interests of the client.



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**ITEM 7 – TYPES OF CLIENTS**

Sheppard generally provides asset management and investment consulting services to the following types of clients:

- Individuals
- High-Net-Worth Individuals
- Pension and Profit Sharing Plans
- Trusts
- Estates
- Charitable Organizations
- Corporations

We also serve as investment manager to the Fund. The minimum investment amount and other qualification requirements related to an investment in our private Fund is set forth in the Fund's offering documents.

**Minimum Account Size**

Sheppard does not have an account minimum. However, as indicated in Item 5 above, our minimum annual fee for separate account management is \$2,500. We may decline to accept clients with smaller portfolios.

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**ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS****Analysis**

Sheppard uses multiple sources of information to obtain analysis and strategies. They include sources such as financial newspapers, financial magazines, research prepared by others, corporate rating services, prospectuses, company press releases, annual reports and filings with the SEC.

**Investment Strategies****Separate Account Management**

Sheppard utilizes multiple investment strategies and investment solutions to meet your investment objectives. These methodologies are formulated based on a comprehensive review and assessment of your expectations, investment time horizon, risk tolerance level, present investment allocation, and current and projected financial requirements.

Ultimately, each strategy must maximize return within reasonable and prudent levels of risk. Also, the approach taken must provide exposure to a wide range of investment opportunities in various markets while limiting risk exposure through prudent diversification. Finally, the costs of administering and managing the investments related to the strategy cannot be, in our view, excessive.

**Private Fund**

Opal Sheppard Opportunities Fund I LP was formed with the intent to capitalize on opportunistic investments that may include public and private debt and equity securities, derivatives, such as put and call options on various securities and interest rates, money market funds, US Treasuries and other such liquid investments. The Fund may also employ leverage not to exceed 50% of the balance of any Fund brokerage account.

We do not tailor the strategy of our Fund to the needs of individual investors in the Fund and the strategy may not be suitable for all investors. Please refer to the offering documents for full details related to the strategy and risks

associated with an investment in our Fund.

### **Risk of Loss**

All investments include a risk of loss. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets we manage that

may be out of our control. We use our best efforts and expertise to manage your assets. However, we cannot guarantee any level of performance or that you will not experience financial loss.

Sheppard will use our best judgment and good faith efforts in rendering services to you. We cannot warrant or guarantee any particular level of account or Fund performance, or that your investment(s) will be profitable over time. Not every investment decision or recommendation made by us will be profitable. You assume all market risk and understand that investment decisions are subject to various market, currency, economic, political and business risks. Except as may otherwise be provided by law, we will not be liable to you for (a) any loss that you may suffer by reason of any investment decision made or other action taken or omitted in good faith by Sheppard with that degree of care, skill, prudence and diligence under the circumstances that a prudent person acting in a fiduciary capacity would use; (b) any loss arising from our adherence to your instructions; or (c) any unauthorized act or failure to act by a custodian of your account. Nothing in this document shall relieve us from any responsibility or liability we may have under state or federal statutes.

**General Risk of Loss; Liquidity.** Investing in securities involves risk of loss, including the possibility of losing all of your initial investment as well as any unrealized gains on investments. In addition, securities held in your account may underperform in comparison to the general securities markets or other asset classes. A clear understanding of your tolerance for risk is essential before choosing to work with us. We do not guarantee returns and cannot eliminate risk. In addition, we cannot offer any guarantees or promises that your personal vision or financial goals and objectives will be met. General economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barriers, currency fluctuations and controls, and national and international political circumstances can materially affect the investments in your account(s). For example, any of these factors may affect price volatility and the liquidity of instruments held. Even an instrument that generally is, or recently was, liquid may unexpectedly and suddenly become illiquid. Such volatility or illiquidity could result in substantial losses.

**Small- and Mid-Capitalization Companies.** We may invest in smaller and less established companies (i.e., small-capitalization and mid-capitalization companies). These smaller companies may present greater opportunities for capital appreciation, but typically are more volatile and involve greater risk than companies that are larger and more established. Such smaller companies may have limited product lines, markets or financial resources and their securities may trade less frequently and in more limited volumes than the securities of larger, more mature companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of the securities of other issuers and these companies may be more likely to fail, which could result in substantial losses.

**Valuation.** Account or Fund assets may, at any given time, include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to accurately value any such investments.

**Management.** Our judgments regarding the attractiveness, value or potential appreciation of a particular asset class or investment may be incorrect and there is no guarantee that any asset class or instrument will perform as we expect. We may fail to implement a strategy as we intended or we may not identify all risks associated with a strategy or a shift in strategy, all of which may cause substantial losses.

**Extraordinary Events.** Global terrorist activity and armed conflicts may negatively affect general economic conditions, including sales, profits and production, and may materially affect prices and/or impair our trading facilities and infrastructure or the trading facilities and infrastructure of the exchanges or markets on which we trade.

**Regulatory Developments.** The legal, tax and regulatory environment worldwide in the financial industry is evolving, and changes in regulations affecting the financial industry, including Sheppard and the issuers of financial instruments held in your account may have a material adverse effect on our ability to pursue the investment strategies described above or the value of the instruments held in your account. There has been an increase in scrutiny of the financial industry by governmental agencies and self-regulatory organizations. Various national governments have expressed concern regarding the disruptive effects of speculative trading and the need to regulate the financial markets in general. New laws and regulations or actions taken by regulators that restrict our ability to pursue our investment strategies or conduct business with broker-dealers and other counterparties could adversely affect your account.

**Concentration.** Your account or the Fund may hold highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.

**Private Fund Risk.** In addition to the above risks, the Fund and its strategy include additional risks, including:

- The Fund may use derivatives, short sales and/or leverage, and the risks associated with those instruments and investment practices are much greater in a fund format than in advisory client accounts.
- The Fund is exempt from SEC registration and only available to “accredited investors” and/or “qualified purchasers” who are assumed to be sophisticated purchasers who have little or no need for liquidity from such investments and are able to withstand the loss of some or all of their investment.
- Limited withdrawal rights after a 3 year lock up and restrictions on transfer create higher liquidity risk and investors should view an investment in the Fund as a long-term investment.
- Fund fees and expenses may be a higher percentage of net assets than the traditional investment strategies, and investors will also be subject to a performance or incentive fee in addition to management fees.
- Fund investments may be more sensitive to interest rates and include the possibility of more volatility than other investments.
- Certain Fund investments may be valued by the general partner to the Fund.

The various risks briefly summarized above are not the only potential or actual risks associated with investments in the market and nothing stated in the above risks should be interpreted to limit or modify our fiduciary duty to you as an client or waive any right or remedy you may have under federal or state securities laws. Federal and state securities laws impose liabilities under certain circumstances on person who act in good faith.

Before making any investment decision regarding our Fund, you must carefully review and evaluate all of the applicable Fund documents, including the Fund’s private offering memorandum, and the specific disclosures

regarding risk factors and conflicts of interest applicable to the Fund.

**Private Placements and Illiquid Investments - General.** Sheppard will, as appropriate, recommends investments in private placements (unregistered securities) or illiquid securities other than the Fund. Clients may choose to invest in these securities on their own, or specific offerings may arise that Sheppard believes are appropriate for some clients. These investments involve substantial risk and are not suitable for clients who do not have adequate liquid assets to allow them to bear either long-term illiquidity or the total loss of the private investment. Unregistered securities are offered through a private placement memorandum or other offering materials and related subscription materials, as determined by the issuer. They are available only to accredited investors, as that term is defined in Regulation D of the Securities Act of 1933. In many cases, additional qualification standards also apply.

The offering materials typically contain important information about the substantial risks of investing in these securities, as well as details concerning fees, compensation, and conflicts of interest. They also assume the prospective investor is sophisticated and capable of evaluating the risks and seeking additional information where warranted. We urge clients to review these materials carefully and to discuss any questions or concerns with the firm or their individual advisor.

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#### **ITEM 9 – DISCIPLINARY INFORMATION**

We are required to disclose legal or disciplinary events that are material to a client’s or prospective client’s evaluation of our advisory business or the integrity of our management. We do not have any information to disclose in response to this Item.

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

OSO Management LLC, (“OSO Management”), our affiliate and general partner of the Fund, is not currently required to be registered with the US Commodity Futures Trading Commission. OSO Management, as general partner to the Fund, has the right to receive a performance-based fee from the Fund and has the power to determine who will serve as the investment manager to the Fund. Because of this, OSO Management may be considered to be acting as an investment adviser. To the extent that is true, OSO Management is registered with the SEC as an investment adviser through our filing of a joint Form ADV, in which OSO Management is indicated as a “relying adviser”. We have disclosed in the Miscellaneous Section of Schedule D of Part 1A of our Form ADV that OSO Management and Sheppard are together filing a single Form ADV in reliance upon guidance expressed in a SEC no-action letter. We share resources with the OSO Management, including offices and staff.

As indicated above, our affiliate, OSO Management, is general partner to the Fund. In addition we provide investment advisory services to approximately 150 advisory clients and serve as investment manager to the Fund. Sheppard and our affiliate may participate in or sponsor other investment vehicles and service additional advisory clients in the future.

James Hua, an IAR of Sheppard and manager of OSO Management, joined the Board of Directors of Emergent Capital, Inc. and is currently the Audit Chair of the company. Mr. Hua expects to receive compensation in his role as Audit Chair. His role with Emergent creates a conflict in that Mr. Hua may be restricted from buying or selling Emergent stock held by the Fund due to blackout periods as proscribed by Emergent Capital’s internal Code of Ethics. Mr. Hua intends to manage the Fund with this in mind and will act in accordance with his fiduciary duty to the Fund

and its underlying investors. Please refer to Mr. Hua's Form ADV 2B for additional information related to his role with Emergent Capital, Inc.

Mr. Swanson, Sheppard's Managing Member, has a minority ownership in and receives compensation from The Ridge Equity Fund, LLC, a single purpose California Limited Liability Company ("Ridge"), and from Forge Partners, LLC, ("Forge"), a private real estate investment and development company based in California. Forge offers interests of Ridge and is unaffiliated with Mr. Swanson or Sheppard.

Neither Sheppard nor Mr. Swanson solicits or recommends purchase of an interest in Ridge, but with prior approval, Mr. Swanson will provide contact information about accredited investors to Ridge. This will allow interested potential investors to communicate directly with Ridge, and make an informed decision about whether they wish to receive further information about Ridge directly from Ridge or Forge. Mr. Swanson's agreement with Ridge and with Forge provides for a fund ownership interest of 2.5% as well as set draw payments based on his ownership. These payments constitute compensation for Mr. Swanson outside of any advisory fees paid to Sheppard. While the payments are not dependent on Sheppard clients' investing in Ridge, additional investment in Ridge does increase the size of the fund and the size of the fees available for distribution to owners.

The receipt of additional compensation creates a conflict of interest in our sharing client information with Ridge. We address this by disclosing the conflict; seeking prior informed consent for Mr. Swanson to share prospective investor names with Ridge; emphasizing that no client is obligated to invest in Ridge; and disclosing that neither Sheppard nor Mr. Swanson is able to provide guidance as to the suitability or viability of an investment in Ridge. The firm is able to advise generally on the pros and cons of investing in private placements and other illiquid investments, including the substantial risk of loss inherent in this type of investing.

In some cases, a particular investment opportunity is desirable and appropriate for all or some of our advisory clients and the Fund, but the amount of capital that may be allocated to the investment is limited. Those situations create the potential for a conflict of interest between and among the advisory clients and the Fund. It is our intent to allocate such investments among our advisory clients and the Fund in a manner we believe is fair and equitable over time. Please see Item 12 below for additional details related to allocation of investments.

In addition, we may recommend that advisory clients invest in the Fund. Because Sheppard and our affiliate serve as investment manager and general partner of the Fund, we and/or our affiliate is entitled to receive a management fee and a performance-based fee. This creates a conflict of interest because we have an incentive to recommend an investment in the Fund based on our own financial interests, rather than solely based on the interests of our clients. Please see Item 11 – Code of Ethics below for additional discussion of this and other conflicts of interest and how we seek to address them.

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

### **Code of Ethics**

Sheppard has adopted a Code of Ethics (the "Code") that governs a number of potential conflicts of interest we have when providing our advisory services to you. This Code is designed to ensure we meet our fiduciary obligation to you

and to stress the importance of a culture of compliance within our firm that imposes a high standard of business conduct on us and our employees and emphasizes our fiduciary duty to our clients.

The Code includes provisions regarding prohibitions on insider trading, personal trading activity in employee and employee related accounts, and compliance with laws. Our Code emphasizes that employees have a duty to place the interests of our clients first. A copy of our Code of Ethics is available to current or prospective clients by contacting our Chief Compliance Officer.

#### **Participation or Interest in Client Transactions and Personal Trading**

Sheppard, or its employees, may buy and sell some of the same securities for our own accounts (including an interest in the Fund) that we buy and sell for our clients. For our separately managed account strategies, we will always buy or sell employee accounts either at the same time (if a block transaction) as clients or after all trading in client accounts is completed for the day. In some cases Sheppard, or its employees, may buy or sell securities for our own accounts and not for clients' accounts, as it may not meet the objectives or plans for the client.

Although we may allocate on a pro-rata basis, we will not always do so. There are instances where, in our judgment, allocating an order on a pro-rata basis is not desirable or appropriate for clients. For example, filling a relatively small or large percentage of an order may result in the potential for clients to receive multiple statements and/or trade confirmations reflecting the allocation of a relatively small number of shares over the course of multiple days. In that case, we may allocate the partially filled order on a random and full basis. Our order management system randomly will select a portion of the participating client accounts and fill the order in full for each of those accounts, based on an algorithm we do not control. Typically, we seek to fill the remaining portion of the order during subsequent trading days. However, it is possible that the security will not trade at a price that is desirable for future buys or sales, as the case may be, in which case clients that were not filled in full will not trade any amount of the security. In addition, a partially filled buy order may cause or contribute to an increase in the price of the security during subsequent trading days, and a partially filled sell order may cause or contribute to a decrease in the price of the security during subsequent trading days. In addition to the foregoing, we may allocate orders on a basis different from that specified in the order allocation statement if all client accounts receive fair and equitable treatment.

Mr. Swanson, Sheppard's Managing Member, has an ownership interest in and compensation arrangement with Ridge. Neither Mr. Swanson nor Sheppard recommends that clients invest in Ridge, but Mr. Swanson may, with prior consent, provide names of likely accredited investors. This creates a conflict of interest that is described more fully in Item 10, above. Sheppard has evaluated this arrangement in light of the firm's Code of Ethics and believes the activity is consistent with our fiduciary duty, given the disclosure provided, consent obtained, and the limited role of both Sheppard and Mr. Swanson in prospective Ridge investments.

We require all employees to act in accordance with applicable federal and state laws, rules and regulations governing investment advisory practices, and in accordance with our fiduciary duty. Employees who fail to observe our policies are subject to remedial measures and/or termination.

Sheppard provides full disclosure to our clients so that you can make informed decisions. We evaluate our activity from the view of our clients to ensure that all material disclosures are made. For example, we will disclose anything that would cause you to be unfairly influenced to make any decision regarding actions or inactions in your account.

#### **ITEM 12 – BROKERAGE PRACTICES**

Sheppard does not maintain custody of the separate account assets we manage, though we may be deemed to have custody if you give us authority to withdraw assets from your separate account under certain circumstances (see

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

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

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

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

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

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

Schwab generally does not charge clients separate for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Schwab is also compensated by earning interest on the uninvested cash in Schwab’s Cash Features Program or on any margin balance maintained in Schwab accounts, and from other ancillary services.

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

trades for your account.

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

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

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

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

Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment 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. These services generally benefit you and your account.

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

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

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

#### ***Services that Generally Benefit Only Sheppard***

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

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession



- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support
- Occasional business entertainment of our personnel

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

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

The availability of these services from Schwab benefits us because we do not have to produce or purchase them, and we don't have to pay Schwab for them. This creates an incentive for us to recommend that clients maintain their accounts with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on clients' interest in receiving the best value in custody services and the most favorable execution of their transactions. While this incentive creates a conflict of interest, we believe that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How We Select Brokers/Custodians") and not Schwab's services that benefit only us.

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

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

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

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

#### **Aggregation**

Sheppard is authorized to aggregate purchases and sales and other transactions made for your account with purchases and sales and other transactions in the same or similar securities or instruments for other clients of ours. When we aggregate transactions, the actual prices applicable to the aggregated transactions will be averaged, and the account will be deemed to have purchased or sold its proportionate share of the securities or instruments involved at the average price obtained. Any aggregation of trades will be consistent with our duty to seek best execution. Stock exchange regulations may in certain instances prevent the executing broker-dealer from delivering to the account a confirmation slip with respect to its participation in the aggregated transaction and, in such event, we will advise you in writing of any purchase or disposition of instruments for the account with respect to any such aggregated transaction. We will direct that confirmations of any transactions effected for the account will be sent, in conformity with applicable law, to you.

**Trade Errors**

If a trade error occurs in a client account, it is our policy to correct the error at no cost to the client, and to restore the client account to the position it should have been in had the error not occurred. We do not use soft dollars, nor do we use the promise of future brokerage commissions to compensate a broker-dealer for absorbing the cost of a trade error. If a trade error results in a loss, we will absorb the loss so it will not be borne by the client. If the error results in a gain, we will retain it and at the end of each year, any positive amounts attributable to trade errors will be donated to a charitable organization of our choice. Such charitable organization will NOT have any affiliation with Sheppard or any of its IARs.

**Directed Brokerage**

Because we recommend Schwab and then execute transactions through that custodian on a discretionary basis, we are effectively requiring that clients “direct” brokerage to Schwab, absent other specific instructions as discussed below. Because we are not choosing brokers on a trade-by-trade basis, we may not be able to achieve the most favorable executions for clients and this may ultimately cost clients more money. Not all investment advisers require directed brokerage.

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

Sheppard does not generally permit clients to direct us to use brokers other than the custodian. If we agree to accommodate a request to do this, we will likely have little or no ability to negotiate commissions or influence execution price, and the client will also not benefit from the savings afforded by the occasional trade aggregation we may implement for other clients. This may result in greater costs.

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**ITEM 13 – REVIEW OF ACCOUNTS**

Accounts are reviewed by Mr. Swanson or qualified staff members. All reviews are conducted or supervised by Mr. Swanson. The frequency of reviews is based on your investment objectives, but no less than annually.

More frequent reviews are triggered by a change in your investment objectives; tax considerations; large deposits or withdrawals; large sales or purchases; loss of confidence in corporate management; or, changes in economic climate.

Your account custodian sends brokerage statements to advisory clients no less frequently than quarterly. These statements list the account positions and activity in the account over the covered period, as well as other related information. The custodian also sends trade confirmations to advisory clients following each transaction or on a consolidated basis as requested by the client. In addition to the statements and confirmations that advisory clients receive for their custodian, we provide quarterly written reports that include details regarding investment holdings and portfolio performance. Financial planning clients do not normally receive investment reports.

**Pooled Vehicles**

We review the Fund portfolio at least monthly. This review consists of an analysis of the portfolio holdings (when available) and performance to-date in light of the Fund’s investment objective, portfolio risk exposure, and as well as an evaluation of any appropriate changes to be implemented with respect to the portfolio. Investors in the Fund will receive from Sheppard the Fund’s annual audited financial statements. In addition, we generally provide written reports to Fund investors that may include, among other things, unaudited values, performance data, information

regarding the status of the investor's account and certain tax reporting information on an interim basis. The organizational and offering documents for the Fund describes the nature and frequency for which Fund investors receive information from us.

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**ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. You do not pay more for assets maintained at Schwab as a result of these products and services. However, we benefit because the costs of these products and 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 (see Item 12 – Brokerage Practices).

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

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**ITEM 15 – CUSTODY**

To comply with the requirements of the SEC's custody rule, we have arranged for advisory clients to receive at least quarterly account statements from their custodian (typically Charles Schwab). Sheppard urges advisory clients to carefully review those statements and compare the official custodial records to the account statements provided by us, as described in above in Item 13 - Review of Accounts. Our statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities. Clients should contact us immediately if they do not receive account statements from their custodian on at least a quarterly basis.

We are also subject to the SEC's custody rule in respect of the Fund. However, we are not required to comply with certain requirements of the custody rule with respect to the Fund because we comply with the provisions of the so-called "audit exception" for pooled investment vehicles. Among other things, the exception requires that a private fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that the private fund distribute its audited financial statements to all investors within 120 days after the end of its fiscal year. Investors in the Fund receive periodic reports from us or our affiliates, as described in Item 13 - Review of Accounts. We urge investors in the Fund to carefully review those reports and compare the audited financial statements of the Fund to the reports provided by Sheppard

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**ITEM 16 – INVESTMENT DISCRETION**

For separate account management, Sheppard asks our clients to give us discretionary authority to execute transactions without our client's prior approval. These transactions may include the purchase and selling of securities, arranging for payments or generally acting on behalf of our clients in most matters necessary to the handling of the account.

In certain circumstances, we will request non-discretionary authority over our clients' accounts. Non-discretionary authority requires us to obtain your prior approval of each specific transaction prior to executing investment recommendations.

For a private fund, we invest its assets in accordance with the private fund's organizational and offering documents.

We only make recommendations to advisory clients regarding investing in the private funds on a non-discretionary basis, meaning that an advisory client must decide on a case-by-case basis whether to accept or reject our recommendations regarding making an investment in the Fund.

We have discretionary authority to invest and reinvest the assets of the private funds, subject to the control of the Fund's general partner, which is an affiliate of ours.

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**ITEM 17 – VOTING CLIENT SECURITIES**

Sheppard does not vote proxies on behalf of separate account clients. Separate account clients retain the authority to vote all proxies for securities held in their account and will continue to do so until we otherwise may agree in writing. You should ensure that proxy ballots are mailed directly to you by selecting this option on your custodial application forms. You are welcome to delegate said proxy voting authority to a third-party representative (non-advisory personnel) by filing the appropriate custodial form.

For the Fund, we have the authority to vote securities held in the Fund, which we exercise in accordance with our written proxy voting policies and procedures. In general, we cast proxy votes in favor of proposals that increase shareholder value and generally cast against proposals that have the opposite effect.

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**ITEM 18 – FINANCIAL INFORMATION**

We do not require or solicit prepayment of fees six months or more in advance. We are not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients. We have never been the subject of any bankruptcy petition.