

## *Form ADV Part 2A Brochure*

**November 2, 2021**

### **Stack Financial Management, Inc.**

625 Wisconsin Avenue  
Whitefish, Montana 59937-2129  
(406) 862-8000  
[www.StackFinancialManagement.com](http://www.StackFinancialManagement.com)

Contact: Jeanine L. Morreim, Chief Compliance Officer

This brochure provides information about the qualifications and business practices of Stack Financial Management, Inc. If you have any questions about the contents of this brochure, please contact us at (406) 862-8000 or [compliance@StackFinancialManagement.com](mailto:compliance@StackFinancialManagement.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Stack Financial Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Stack Financial Management, Inc. is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training. The oral and written communication we provide to you is information you may use to evaluate us and our services.

### Item 2 Material Changes

There have been no material changes to this Brochure since our last amended filing dated July 28, 2021. We have made certain disclosure enhancements, including that we continue to charge a fee on cash balances.

ANY QUESTIONS: Stack Financial Management's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions regarding the above changes, or any other issues pertaining to this Brochure.

Consistent with current regulations, we will ensure that all clients of Stack Financial Management receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide all clients with other interim disclosures about material changes as necessary. These documents are provided to clients, without charge, and may be requested at any time by contacting us at (406) 862-8000 or [compliance@StackFinancialManagement.com](mailto:compliance@StackFinancialManagement.com).

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## **Item 4 Advisory Business**

Stack Financial Management, Inc. (“SFM” or the “Firm”) is a corporation that was formed in the State of Montana on January 19, 1994. SFM was registered with the SEC as an Investment Adviser Firm in February 1994. SFM is principally owned by James B. Stack, and Mr. Stack is the Firm’s President.

### **Investment Advisory Services**

Stack Financial Management offers investment advisory services on a fee-only basis to its clients, which include individuals, pension and profit-sharing plans, business entities, trusts, estates and charitable organizations, etc. SFM may also serve as sub-advisor to clients of another registered advisor.

Investment advisory services offered by SFM primarily focus on the management of equity (stock-based) portfolios, with an analytical emphasis on adjusting allocation based on the measured or perceived level of risk in the stock market, as described in Item 8 below.

Stack Financial Management provides investment advisory services specific to the needs of each client, but within management guidelines and objectives established by SFM, which shall include, but not be limited to, Capital Appreciation Portfolios and Value & Dividend Portfolios. Individual clients may select an objective for each account based on his/her needs or preference. Prior to providing investment advisory services, an investment adviser representative will ascertain each client’s investment objective(s). Thereafter, SFM shall allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on our services or the types of securities to be held in their account.

Although SFM does not hold itself out as a financial planner, we will provide limited financial planning consulting services, the scope of which will depend upon the specific needs and requests of the client. In the event that a client’s situation changes, it is the client’s obligation to advise SFM that he/she/it desires follow-up planning/consulting services. See Limitations of Financial Planning and Non-Investment Consulting/Implementation Services below.

### **Wrap Fee Programs**

Stack Financial Management does not participate in any wrap fee programs.

### **Assets Under Management**

As of December 31, 2020, Stack Financial Management had \$1,482,939,958 in assets under management on a discretionary basis.

### **Other Business**

Stack Financial Management’s Principal, James B. Stack, is also the founder and owner of InvesTech Research, LLC (“InvesTech”), which conducts stock market research and publishes a general circulation investment newsletter and website known as “InvesTech Research.”

James and Lisa Stack (Mr. Stack’s wife and SFM’s Secretary/Treasurer) are co-owners of Last Best Place Investments, LLC, which is the owner of an office building that is leased by Stack Financial Management.

## Miscellaneous

### Limitations of Financial Planning and Non-Investment Consulting/Implementation Services

To the extent requested by the client, SFM will generally provide (inclusive of its advisory fee set forth at Item 5 below) limited financial planning and related consulting services regarding non-investment related matters, such as tax and estate planning, insurance, etc. In the event that a client's situation changes, it is the client's obligation to advise SFM that it desires follow-up planning/consulting services. **Please Note:** SFM **does not** serve as an attorney, accountant, or insurance agency, and no portion of our services should be construed as same. Accordingly, SFM **does not** prepare legal documents, prepare tax returns, or sell insurance products. To the extent requested by a client, we may recommend the services of other professionals for certain non-investment implementation purposes (i.e., attorneys, accountants, insurance, etc.). The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation that we make. If the client engages any professional (i.e., attorney, accountant, insurance agent, etc.), recommended or otherwise, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. At all times, the engaged licensed professional[s] (i.e., attorney, accountant, insurance agent, etc.), and **not** SFM, shall be responsible for the quality and competency of the services provided.

### Trustee Directed ERISA Plans

SFM may be engaged to provide discretionary investment advisory services to The Employee Retirement Income Security Act of 1974 ("ERISA") retirement plans, whereby the Firm shall manage Plan assets consistent with the investment objective designated by the Plan trustees. In such engagements, SFM will serve as an investment fiduciary as that term is defined under ERISA. SFM will generally provide services on an "assets under management" fee basis per the terms and conditions of an *Investment Advisory Agreement* between the Plan and the Firm.

### Retirement Rollovers-Potential for Conflict of Interest

A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted; (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted; (iii) roll over to an Individual Retirement Account ("IRA"); or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If Stack Financial Management recommends that a client roll over their retirement plan assets into an account to be managed by the Firm, such a recommendation creates a conflict of interest if SFM will earn new (or increase its current) compensation as a result of the rollover. **No client is under any obligation to roll over retirement plan assets to an account managed by Stack Financial Management.** SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation.

### Sub-Advisory Engagements

SFM may also serve as a sub-adviser to unaffiliated registered investment advisers per the terms and conditions of a written Sub-Advisory Agreement. With respect to its sub-advisory services, the unaffiliated investment advisers that engage SFM's sub-advisory services maintain both the initial and ongoing day-to-day relationship with the underlying client, including initial and ongoing determination of client suitability for SFM's designated investment strategies.

## Inverse Market Strategies

SFM may utilize long and short mutual funds and/or exchange traded funds that are designed to perform in an inverse relationship to certain market indices (at a rate of 1 time the inverse [opposite] result of the corresponding index) as an investment strategy and/or for the purpose of hedging against downside market risk. There can be **no assurance** that such strategy will prove profitable or successful. In light of this risk/reward, a client may direct SFM, in writing, not to employ such strategy for his/her/their/its accounts. **SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding the above.**

## Client Obligations

In performing our services, SFM shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, it remains each client's responsibility to promptly notify us if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

## Investment Risk

Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by SFM) will be profitable or equal any specific performance level(s).

## Item 5 Fees and Compensation

The client can determine to engage Stack Financial Management to provide discretionary investment advisory services on a *fee-only* basis.

If a client determines to engage SFM to provide investment advisory services, our annual investment advisory fee shall be based upon a percentage (%) of the market value of assets placed under SFM's management as follows:

<u>Total Value of Account(s)</u>	<u>Annual Fee</u>
Less than \$1,250,000	1.20%
\$1,250,000 - \$2,999,999	1.00%
\$3,000,000 - \$4,999,999	0.85%
\$5,000,000 - \$10,000,000	0.75%
Over \$10,000,000	Negotiable

- Fees are calculated based on the total value of all related accounts (based on immediate family or household relationship) under management for an individual client.
- Account minimum asset level for investment advisory services is \$750,000, except as noted in Item 7 below.
- If an account is established above a particular fee schedule breakpoint or appreciates above a breakpoint to receive a lower management fee, then that lower fee shall apply even if the account drops below the breakpoint, unless the reduction in assets under management is primarily due to withdrawals.
- Fee Differentials: Although we price our advisory services based upon the client's assets under management as stated above, similarly situated clients could pay different fees based upon a combination of factors (see Item 7 below).



### Cash Positions

SFM continues to treat cash as an asset class. As such, unless determined to the contrary by SFM, all cash positions (money markets, etc.) shall continue to be included as part of assets under management for purposes of calculating SFM's advisory fee. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), SFM may maintain cash positions for defensive purposes. In addition, while assets are maintained in cash, such amounts could miss market advances. Depending upon current yields, SFM's advisory fee could exceed the interest paid by the client's money market fund.

Stack Financial Management may choose, at its exclusive discretion, to waive a portion of the quarterly investment advisory fee for any billing period in which an average of thirty percent (30%) or more of our total assets under management is held in or allocated to cash or cash-equivalent investments such as Treasury Bills or Money Market Funds. Any percentage waiver shall apply equally to each account managed by SFM.

### Billing Practices

Stack Financial Management's annual investment advisory fee shall be prorated and billed quarterly, in advance, based upon the market value of the assets on the last business day of the previous quarter. For new clients, unless otherwise specified, the initial quarterly fee is due beginning with the first full quarter following acceptance of the *Investment Advisory Agreement* and establishment of the account. Clients may elect to have our advisory fees deducted from their custodial account. Both SFM's *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of our investment advisory fee and to directly remit that management fee to SFM in compliance with regulatory procedures. In the limited event that SFM bills the client directly, payment is due upon receipt of our invoice.

### Custodian Charges and Other Fees or Expenses

As discussed in Item 12 below, when requested to recommend a broker-dealer/custodian for client accounts, Stack Financial Management recommends that Charles Schwab and Co., Inc. ("Schwab") serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as Schwab may charge brokerage commissions, transaction, and/or other type fees for effecting certain securities transactions (e.g., transaction fees for certain no-load mutual funds). The types of securities for which transaction fees, commissions, and/or other type fees (as well as the amount of those fees) shall differ depending upon the broker-dealer/custodian (while certain custodians, including Schwab, do not currently charge fees on individual equity transactions, others do). These fees/charges are in addition to SFM's investment advisory fee described above. SFM does not receive any portion of these fees/charges. The broker-dealer/custodian may also charge a fee for special client requested services such as wire transfers, overnight mail, etc.

SFM may also utilize mutual funds and exchange traded funds for its client portfolios. In addition to SFM's investment advisory fee described above, and transaction and/or custodial fees discussed above, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g., management fees and other fund expenses).

### Cancellation or Termination of Advisory Services

The *Investment Advisory Agreement* between SFM and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, SFM shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter. A new client shall also have five business days subsequent to executing the *Investment Advisory Agreement* to terminate SFM's services without penalty.

### Other Compensation

Neither Stack Financial Management, nor its representatives accept compensation from the sale of securities or other investment products.

**SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding the above fees, billing practices, or cancellation policy.**

### Additional Information

#### Trade Error Policy

If Stack Financial Management makes an error when submitting a trade order on a client's behalf, it is SFM policy that the error be corrected as soon as possible and in such a manner that the affected client is not disadvantaged and bears no loss. Immediately upon recognition of an error, we will contact the broker-dealer (i.e., Schwab), to initiate any correcting action necessary to rectify the error. If a correcting trade would result in a loss or gain within a client's account, the following will apply:

- If a loss of \$100 or more occurs, Stack Financial Management is responsible for the cost of correcting the trade.
- If an investment gain of \$100 or more occurs, the gain will remain in the client's account unless: a) the same error involved another client's account(s) that should have received the gain; or b) it is not permissible for the client to retain the gain; or c) the client decides to forego the gain (e.g., due to tax reasons). If the gain does not remain in the client's account, Schwab will donate any portion that is equal to or greater than \$100 to charity.
- If the loss or gain is less than \$100, then Schwab will be directed to correct the trade at its expense, and at no cost or benefit to the client's account or to Stack Financial Management.

### Item 6 Performance-Based Fees and Side-by-Side Management

Neither Stack Financial Management nor any supervised person of SFM accepts performance-based fees.

### Item 7 Types of Clients

Clients of Stack Financial Management shall generally include individuals, pension and profit-sharing plans, business entities, trusts, estates, and charitable organizations. In addition, SFM may agree to serve as a sub-advisor for similar clients of another advisor pursuant to a Sub-Advisory Agreement.

Stack Financial Management generally requires a \$750,000 minimum asset level in a single account for investment advisory services, or \$1,000,000 in two accounts provided neither account is less than \$250,000. Existing clients may open additional related accounts, based on family or household relationship, with a minimum asset level of \$250,000 each. SFM, in its discretion, may charge a lesser investment advisory fee, charge a flat fee, waive its minimum asset requirement, waive its fee entirely, or charge a fee on a different interval, based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, complexity of the engagement, anticipated services to be rendered, grandfathered fee schedules, employees and family members, courtesy accounts, competition, negotiations with client, etc.). **Please Note:** As a result of the above, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees. **SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding advisory fees.**



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

### **Methods of Analysis**

Stack Financial Management utilizes historical, macroeconomic, and technical analysis to assess the degree of risk in the market and determine investment allocation based on that measured or perceived level of risk. This analysis includes indicators developed internally at InvesTech Research or published by other research firms and government agencies.

Sector studies, based on historical data and relative sector performance in past economic cycles or similar market climate, are also utilized in determining optimal sector allocation or weighting based on market conditions and economic outlook.

In addition, SFM employs fundamental analysis of corporate reports, balance sheets, income statements, and historical valuation metrics in the selection of individual securities for client portfolios.

### **Investment Strategies**

Stack Financial Management strives to meet the investment objectives of clients through two broad categories: Capital Appreciation Portfolios and Value & Dividend Portfolios, as described below.

#### **Capital Appreciation Portfolios**

Designed for clients whose primary objective is conservative growth and where income is not a primary consideration. These portfolios are particularly well suited for value-oriented investors seeking to maximize their retirement or long-term savings, and who have over 10 years until retirement or anticipated capital withdrawals. This strategy selects companies with strong internal growth characteristics in revenue and earnings, which typically are market leaders in their core business. While valuation is an important consideration, the emphasis is on growth at a reasonable price.

#### **Value & Dividend Portfolios**

Designed for clients who desire capital gain potential, but with a consistent and relatively high level of dividend income. This option is most suitable for conservative clients, who want more stable returns and a potentially lower level of price volatility, or retired clients seeking current income from their portfolio. This strategy identifies quality companies that are undervalued or temporarily out of favor, but offer solid earnings and attractive dividend yields.

Investments in both *Capital Appreciation Portfolios* and *Value & Dividend Portfolios* may include:

- Predominantly large-cap and mid-cap stocks, with some small-cap stocks.
- Exchange traded funds (“ETF”), sector funds, or mutual funds.
- International stocks (ADRs) or funds.
- Defensive positions in an inverse-index ETF or mutual fund if conditions warrant.
- Limited positions in bonds or bond funds under special circumstances.
- Money market funds, certificates of deposit or T-bills.

### **Risk of Loss**

Investing in the stock market and in individual securities involves risk of loss. It should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Stack Financial Management) will be profitable or equal any specific performance level.

## Material Risks

As part of our investment strategy, Stack Financial Management allocates client investment assets among various individual stocks, exchange traded funds and/or mutual funds, bonds and other fixed income securities, or cash on a discretionary basis in accordance with the client's designated investment objective(s), as outlined above. Our methods of analysis and investment strategies do not present any unusual risks; however, every method of analysis or investment strategy has its own inherent risks.

To perform an accurate market analysis SFM must have access to current/new market information. We have no control over the timeliness or accuracy of market information; therefore, certain analyses may be based on market information that is outdated or inaccurate, thereby limiting the value of resulting analysis. Furthermore, an accurate market analysis can only produce a forecast of the level of market risk or direction of market values. There can be no assurances that such forecasts will materialize into actionable and/or profitable investment opportunities, or that SFM will correctly measure and adequately protect against the level of market risk.

At any specific point in time, depending upon perceived or anticipated market conditions/events, Stack Financial Management may maintain substantial cash positions for defensive purposes. There is no guarantee that such anticipated market conditions/events will occur, in which case the cash level of the account may reduce the potential gain from what it otherwise may have been.

Also, SFM may utilize long and short mutual funds and/or ETFs that perform in an inverse relationship to certain market indices and reduce overall market exposure in the portfolio when there is significant risk of a severe market correction or bear market. There is, however, no guarantee that such a correction or bear market will occur, in which case potential gains in the portfolio will be reduced from what they might otherwise have been.

Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Stack Financial Management) will be profitable or equal any specific performance level.

## Item 9 Disciplinary Information

We are required to disclose any 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. Neither Stack Financial Management nor any of our management personnel has ever been the subject of any legal or disciplinary events.

## Item 10 Other Financial Industry Activities and Affiliations

Neither Stack Financial Management, nor our representatives, are registered or have an application pending to register as a securities broker-dealer or a registered representative of a broker-dealer.

Neither Stack Financial Management, nor our representatives, are registered or have an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.

Stack Financial Management's Principal and founder, James Stack, owns InvesTech, an investment research firm and newsletter publisher. SFM purchases an InvesTech newsletter subscription for each of its clients and advertises in the InvesTech newsletter on a periodic basis.

Stack Financial Management does not receive, directly or indirectly, compensation from other investment advisors that we may recommend for our clients.

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

Stack Financial Management has adopted and maintains an investment policy relative to personal securities transactions. This investment policy is part of our overall Code of Ethics, which serves to establish a standard of business conduct for all of our representatives that is based upon fundamental principles of openness, integrity, honesty and trust – a copy of which is available upon request.

In accordance with Section 204A-1 of the Investment Advisers Act of 1940, we also maintain and enforce written policies reasonably designed to prevent the misuse of material non-public information by SFM or any person associated with SFM.

Neither Stack Financial Management nor any related person of SFM recommends, buys, or sells for client accounts, securities in which SFM or any related person of the Firm has a material financial interest.

Stack Financial Management and/or representatives of SFM *may* buy or sell securities that are also recommended to clients. This situation could present a potential conflict of interest which is addressed in our policies and procedures. For instance, this creates a situation where the Firm and/or its representatives are in a position to materially benefit from the sale or purchase of those securities. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if SFM did not have adequate policies in place to detect such activities. In addition, adequate policies can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of our clients) and other potentially abusive practices.

Stack Financial Management has a personal securities transaction policy in place to address and monitor the personal securities transactions and securities holdings of each of our “Access Persons.” Under that policy, Access Persons and their immediate families are restricted from purchasing or selling any security (other than open-end mutual funds, government-issued securities, annuities, certificates of deposit and money market funds) which SFM or its representatives are actively contemplating trading for clients’ accounts until after the transaction has been executed for all clients. Our personal securities transaction policy requires that each Access Person of SFM must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date that SFM selects; as well as quarterly reports of securities transactions executed during the previous three months. At any time that Stack Financial Management has only one Access Person, he or she shall not be required to submit any securities report described above. Intentional violation of this policy is punishable by, but not limited to, suspension or termination of employment.

Stack Financial Management and/or representatives of SFM *may* buy or sell securities at, or around, the same time as those securities are recommended to clients. This practice creates a situation where SFM and/or representatives of SFM are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above, SFM has a personal securities transaction policy in place to avoid potential conflicts of interest and to monitor the personal securities transactions and securities holdings of each of our Access Persons.

### Item 12 Brokerage Practices

In the event that the client requests that SFM recommend a broker-dealer/custodian for execution and/or custodial services, SFM generally recommends that investment advisory accounts be maintained at Schwab. Prior to engaging SFM to provide investment advisory services, the client will be required to enter into a formal *Investment Advisory Agreement* with SFM setting forth the terms and conditions under which SFM shall advise on the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that SFM considers in recommending Schwab (or any other broker-dealer/custodian to clients) include historical relationship with SFM, financial strength, reputation, execution capabilities, pricing, research, and service. Broker-dealers such as Schwab can charge transaction fees for effecting certain securities transactions (See Item 5 above). To the extent that a transaction fee will be payable by the client to Schwab, the transaction fee shall be in addition to SFM's investment advisory fee referenced in Item 5 above.

To the extent that a transaction fee is payable, SFM shall have a duty to obtain best execution for such transaction. However, that does not mean that the client will not pay a transaction fee that is higher than another qualified broker-dealer might charge to effect the same transaction where SFM determines, in good faith, that the transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, transaction rates, and responsiveness. Accordingly, although SFM will seek competitive rates, it may not necessarily obtain the lowest possible rates for client account transactions.

#### **Research and Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, SFM may receive from Schwab (or another broker-dealer/custodian, investment manager, platform sponsor, mutual fund sponsor, or vendor) without cost (and/or at a discount) support services and/or products, certain of which assist SFM to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by SFM may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support-including client events, computer hardware and/or software and/or other products used by SFM in furtherance of its investment advisory business operations.

SFM's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as the result of this arrangement. There is no corresponding commitment made by SFM to Schwab, or any other entity, to invest any specific amount or percentage of client assets in any specific mutual funds, securities, or other investment products as a result of the above arrangement.

**SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding the above arrangements and the corresponding conflict of interest presented by such arrangements.**

### Directed Brokerage

SFM recommends that its clients utilize the brokerage and custodial services provided by Schwab. SFM generally does not accept directed brokerage arrangements (but could make exceptions). A directed brokerage arrangement arises when a client requires that account transactions be effected through a specific broker-dealer/custodian, other than one generally recommended by SFM (i.e., Schwab). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and SFM will not seek better execution services or prices from other broker-dealers or be able to “batch” the client’s transactions for execution through other broker-dealers with orders for other accounts managed by SFM. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. **Please Note:** In the event that the client directs SFM to effect securities transactions for the client’s accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through SFM. **Please Also Note:** Higher transaction costs adversely impact account performance. **Please Further Note:** Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts.

### Order Aggregation

Transactions for each client account generally will be effected independently, unless SFM decides to purchase or sell the same securities for several clients at approximately the same time. SFM may (but is not obligated to) combine or “batch” such orders for individual equity transactions (including ETFs) with the intention to obtain better price execution or to allocate more equitably among SFM’s clients differences in prices and transaction costs that might have occurred 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. SFM shall not receive any additional compensation or remuneration as a result of such aggregation.

## Item 13 Review of Accounts

Stack Financial Management has a fiduciary duty to provide services consistent with the client’s best interest. SFM’s portfolio managers review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including, but not limited to, investment performance, market conditions, fund manager tenure, account additions/withdrawals, and/or a change in the client’s investment objective. Based upon these factors, there may be extended periods of time when SFM determines that changes to a client’s portfolio are neither necessary, nor prudent. All investment advisory clients are advised that it remains their responsibility to promptly notify us of any changes in their investment objectives and/or financial situation. All clients (in person, via telephone or via email) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with us on an annual basis.

Clients are provided, at least monthly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian for the client accounts. Stack Financial Management also provides a written quarterly report summarizing account activity and performance.

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

As referenced in Item 12 above, SFM may receive from Schwab, without cost (and/or at a discount), support services and/or products. SFM's clients do not pay more for investment transactions effected and/or assets maintained at Schwab as a result of this arrangement. There is no corresponding commitment made by SFM to Schwab or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangements. **SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding the above arrangement and the corresponding conflict of interest presented by such arrangement.**

SFM does not maintain solicitor arrangements or pay referral fee compensation to non-employees for new client introductions.

## **Item 15 Custody**

Stack Financial Management shall have the ability to deduct its advisory fee from the client's custodial account. Clients are provided with written transaction confirmation notices and a written summary account statement directly from the custodian (i.e., Schwab) at least quarterly. **Please Note:** To the extent that Stack Financial Management provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by SFM with the account statements received from the account custodian. **Please Also Note:** The account custodian does not verify the accuracy of SFM's advisory fee calculation.

In addition, certain clients have established asset transfer authorizations that permit the qualified custodian to rely upon instructions from Stack Financial Management to transfer client funds or securities to third parties. These arrangements are disclosed at ADV Part 1, Item 9, but in accordance with the guidance provided in the SEC's February 21, 2017 *Investment Adviser Association* No-Action Letter, the affected accounts are not subject to an annual surprise CPA examination.

**SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding custody-related issues.**

## **Item 16 Investment Discretion**

The client can determine to engage Stack Financial Management to provide investment advisory services on a discretionary basis. Prior to SFM assuming discretionary authority over a client's account, the client shall be required to execute an SFM *Investment Advisory Agreement* and a separate Schwab Limited Power of Attorney form, naming SFM as the client's attorney and agent in fact, granting SFM full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage us on a discretionary basis may, at any time, impose restrictions in writing on our discretionary authority (i.e., limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to market indices, etc.).



### Item 17 Voting Client Securities

Unless the client directs otherwise in writing, Stack Financial Management is responsible for voting client proxies (**However**, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the account assets, including, but not limited to, class action lawsuits.). SFM shall vote proxies in accordance with our Proxy Voting Policy, a copy of which is available upon request. SFM shall monitor corporate actions of individual issuers and investment companies consistent with our fiduciary duty to vote proxies in the best interests of our clients. Although the factors which SFM will consider when determining how we will vote differ on a case-by-case basis, they may include, but are not limited to, the following: a review of recommendations from issuer management, shareholder proposals, cost effects of such proposals, effect on employees and executive and director compensation. With respect to individual issuers, SFM may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), we may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. SFM does not envision any situation or proposal in which it would face a conflict of interest in deciding proxy votes in the best interest of the client.

Stack Financial Management shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2(c)(2) under the Investment Advisers Act of 1940. A copy of SFM's proxy voting policy or information pertaining to how we voted on any specific proxy issue is also available upon written request. Requests should be made by contacting SFM's Chief Compliance Officer, Jeanine Morreim.

### Item 18 Financial Information

Stack Financial Management has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients and has not been the subject of bankruptcy proceedings.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

**SFM's Chief Compliance Officer, Jeanine Morreim, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**