



## SECURITY CAPITAL MANAGEMENT

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An SEC Registered Investment Advisor  
*A Division of Hazlett, Burt & Watson, Inc.*

### **Managed Account Solutions Client Disclosure Brochure (Wrap Fee Program)** (Part 2A Appendix 1 of Form ADV)

This brochure provides information about the qualifications and business practices of Security Capital Management. If you have any questions about the contents of this brochure, please contact us at: 1-800-537-8985. 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. Investment advisor registration does not imply a certain level of skill or training.

Additional information about Security Capital Management is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

#### Branch locations:

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179 East Main Street  
Barnesville, OH 43713  
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## Material Changes

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### **Material Changes since last update**

This section identifies and discusses material changes to the ADV Brochure since the previous release of the Firm Brochure filed May 2022.

There have been no material changes in this brochure since the previous release.

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### **Full Brochure Available**

If you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 1-800-537-8985.

# Table of Contents

<b>Material Changes.....</b>	<b>i</b>
Material Changes since last update .....	i
Full Brochure Available .....	i
<b>Advisory Business.....</b>	<b>1</b>
Firm Description.....	1
Types of Advisory Services.....	1
Advisory Program Descriptions (“The Programs”) .....	3
Termination of Agreement .....	4
<b>Fees and Compensation.....</b>	<b>5</b>
Program Fee .....	5
Other Fees and Compensation .....	7
<b>Performance-Based Fees .....</b>	<b>8</b>
Sharing of Capital Gains .....	8
<b>Types of Clients.....</b>	<b>8</b>
Description .....	8
Account Minimums.....	8
Discretionary Authority for Trading.....	9
<b>Methods of Analysis, Investment Strategies and Evaluation .....</b>	<b>9</b>
Client Investment Process .....	9
Research Methods.....	11
Asset Manager Evaluation .....	11
Reasonable Restrictions .....	12
Risk of Loss .....	13
Voting Client Securities .....	14
<b>Disciplinary Information .....</b>	<b>15</b>
Legal and Disciplinary.....	15
<b>Additional Information .....</b>	<b>15</b>
Code of Ethics.....	15
Potential Conflicts .....	16
Account Statements.....	17

Review of Accounts .....	17
Client Referrals .....	18
SEC “Custody” .....	19
Financial Condition .....	19
Information Security/Privacy Notice .....	19

# **Advisory Business**

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## **Firm Description**

Security Capital Management (“SCM”) is a Division of Hazlett Burt & Watson, Inc (“Hazlett”), and is an investment adviser registered with the Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940. Hazlett is also a broker-dealer registered with the SEC under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”).

Hazlett Burt & Watson, Inc is a wholly owned subsidiary of our parent company HB&W, Inc. Hazlett, Burt & Watson Inc. was founded in 1883 and has provided quality Investment Services for many generations. We believe complex decisions regarding investment opportunities should be based on knowledgeable and experienced advice. Through our holding company, HB&W Inc., our Financial Services Group, including Hazlett, Burt & Watson, Inc., Security Capital Management and Security National Trust Company, we are able to provide a broad array of investment and planning solutions to assist you and your family in achieving and maintaining your goals. We provide expertise in traditional investment brokerage, professional investment portfolio and money management advisory services, insurance and comprehensive trust services

The terms “Client,” “you,” and “your” are used throughout this document to refer to the person(s) or organization(s) who contract with us for the services described here. “SCM,” “we,” “our,” and “us” refer to SCM together with our Affiliates, including but not limited to, Hazlett Burt & Watson, Inc and its agents with respect to any services provided by those agents. “Affiliate” means any entity that is controlled by, controls or is under common control with SCM. Each Affiliate is a separate legal entity, none of which is responsible for the obligations of the other.

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## **Types of Advisory Services**

SCM’s financial planning services may extend to one or more of the following areas:

- Investment Planning
- Retirement Planning
- Insurance Planning
- College Planning
- Estate Planning
- Charitable Contributions
- Personal Finance Analysis
- Assessment of the Client’s investment needs and objectives

- Development of an asset allocation strategy designed to meet the Client's objectives
- Recommendations on suitable style allocations
- Identification of appropriate investment vehicles suitable to the Client's goals
- Evaluation of asset management and investment vehicles meeting style and allocation criteria
- Engagement of selected asset managers and investment vehicles on behalf of the Client
- Ongoing monitoring of asset managers' performance and management
- Review of Client accounts to ensure adherence to policy guidelines and asset allocation
- Recommendations for account rebalancing, if necessary
- Reporting of Client account(s) performance and progress

SCM sponsors a number of wrap fee advisory programs that are designed to help you meet your investment objectives and goals. They include our MAS Separately Managed Account Program, MAS Advisor-Directed Unified Managed Account Program, MAS Model Management (Rep as Manager), MAS Strategic Advisers Portfolio Program and our Direct Managed Advisory Program. This Disclosure Document is being provided pursuant to Section 204 of the Investment Advisers Act of 1940 and deals solely with our MAS Separately Managed Account Program, our MAS Advisor-Directed Unified Managed Account Program, MAS Model Management (Rep as Manager), and our MAS Strategic Advisers Portfolio Program. Descriptions of the services and fees for our Direct Managed Advisory Program can be found in a separate disclosure document, copies of which can be obtained from your Financial Advisor, or by calling (800) 537-8985.

Hazlett, a registered broker/dealer, can provide a variety of execution and other brokerage services. When Hazlett is appointed as broker, relevant factors considered by SCM and the Client, are the execution capabilities, third-party research and other services, and the value of an ongoing relationship provided by Hazlett, which is expected to enhance the Client's general portfolio management relationship with SCM. Certain advisors of SCM may act, on occasion, as registered representatives of Hazlett, these advisors may receive additional compensation as registered representatives.

It is the general policy of SCM that investment management accounts maintained for its Clients have minimum initial equity requirements as detailed in the account minimum section of this brochure. SCM may, at its discretion, allow a lower limit upon review of Client's current and anticipated needs and situation.

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## **Advisory Program Descriptions (“The Programs”)**

### MAS Separately Managed Account Program (“SMA Program”)

For Clients in the SMA Program, the Client is offered access to an actively managed investment vehicle chosen from a roster of independent asset managers from a variety of disciplines. Unlike a mutual fund, where the funds are commingled, a separately managed account is a portfolio of individually owned securities that can be tailored to fit the Client’s investing preferences. Under the SMA Program, SCM will recommend individual asset managers and investment vehicles, from a database provided through a third party vendor (Envestnet) that corresponds to the proposed asset classes and styles; such third party independent asset managers are referred to as “Managers.” For a further description of Approved and Available Managers, please see the “Manager Evaluation” section below. SCM evaluates managers specializing in each of the asset categories listed, including equities (both domestic and foreign); corporate debt; commercial paper; certificates of deposit; municipal securities; mutual funds; real estate investment trusts; government securities; options; and futures. The program minimum investment is \$250,000, and includes performance reporting, associated services and support.

### MAS Advisor-Directed Unified Managed Account Program (“UMA Program”)

For Clients in the UMA Program, the Client is offered a single portfolio that accesses multiple asset managers representing various asset classes, customized by the Client’s SCM Financial Advisor. This investment model delivers the benefits of a traditional separately managed account in a single broadly-diversified portfolio for a minimum investment of \$250,000. The asset allocation models for the UMA Program are defined by Envestnet, a third-party vendor; however, the Client’s SCM Advisor customizes the portfolio by selecting the specific, underlying investment vehicles in the appropriate model to meet the Client’s needs. Envestnet provides overlay management services for UMA Program accounts and Client directly owns the underlying securities in the portfolio. This program includes quarterly performance reporting, associated services and support.

### MAS Model Management (Rep as Manager)

Rep as Manager is a wrap account where the advisor (rep) manages the Client’s account and creates, monitors, and adjusts model portfolios. For Clients under this program, SCM will recommend investment vehicles that correspond to the proposed asset classes and styles. The Client is provided with an initial allocation that corresponds to the individual Client’s goals and objectives. Once the Client’s assets are invested, SCM may add, remove or replace investments at its discretion. The program minimum investment is \$50,000, and includes a risk questionnaire, rebalancing, drift controls, system alerts and multiple reporting capabilities.

## MAS Strategic Advisers Mutual Fund Portfolio ("Strategic WRAP Program")

The Strategic WRAP Program is a mutual fund wrap program, based on the Client's risk/needs profile. One or more mutual funds are selected and monitored based on the recommendations of Strategic Advisers Inc., a wholly owned subsidiary of Fidelity Investments. The Strategic WRAP Program is a fully discretionary, mutual fund wrap program offering a series of model portfolios positioned at various points along the risk/return spectrum. The Client is provided with an initial allocation that corresponds to his/her goals and objectives. Once the Client's assets are invested, Strategic Advisers may add, remove or replace mutual funds at its discretion. The program minimum investment is \$100,000, and includes quarterly performance reporting, associated services and support.

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### **Termination of Agreement**

Should an advisory Agreement be terminated by the Client within twelve (12) months from the date of inception, the Client agrees that SCM has incurred initial administrative and clerical expenses in establishing this account, and will incur additional administrative and clerical expenses in removing this account from SCM's record keeping system, and Client further agrees to compensate SCM in an amount equal to the balance of the annual fee which would have otherwise been due and payable to SCM applying the advisory services Program Fees (see schedule) to the value of Client's account for the most recent calendar quarter end or the billable market value from the inception of the Client's account, if the account has not passed a calendar quarter end. Any such termination fee may be negotiable.

Termination of any advisory agreement will not affect the Client's liability or responsibility with regard to transactions initiated prior to or after such termination, and the Client is responsible for any commissions, fees or other expenses prior to or after termination.

After twelve (12) months, Clients may terminate an advisory agreement with SCM upon thirty days' notice. SCM will prorate any fees paid in advance, and return the un-earned portion.

If you choose to terminate your Agreement with any of our investment advisory Programs, we can liquidate your Account if you instruct us to do so. If so instructed we will liquidate your Account in an orderly and efficient manner. We do not charge for such redemption; however, you should be aware that certain mutual funds impose redemption fees as stated in their fund prospectus. You should also keep in mind that the decision to liquidate security issues or mutual funds may result in tax consequences that should be discussed with your tax advisor.

We will not be responsible for market fluctuations in your Account from the time of written notice until complete liquidation. All efforts will be made to process the termination in an efficient and timely manner. Factors that may affect the orderly and



efficient liquidation of an Account might be size and types of issues, liquidity of the markets, and market makers' abilities. Should the necessary securities' markets be unavailable and trading suspended, efforts to trade will be done as soon as possible following their reopening. Due to the administrative processing time needed to terminate an advisory Account, termination orders cannot be considered market orders. It may take several business days under normal market conditions to process your request.

If the Client does not receive SCM's disclosure Form ADV Part 2 at least 48 hours prior to entering into any advisory agreement, the Client is entitled to cancel such agreement within five business days with a full refund of advisory fees paid (if any). Processing fees paid to Hazlett are not subject to refund. All fees due under any agreement at termination will be deducted from the Client's account before assets are delivered from the account.

## **Fees and Compensation**

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### **Program Fee**

Clients in the Program pay an asset-based Program Fee to SCM (the "SCM Fee"), which covers investment management services comprised of Client profiling, strategic asset allocation and/or replacement, style allocation, research and evaluation of asset management, ongoing monitoring of management and account performance, account rebalancing, account reporting, other operational and administrative services as well as compensation to your Financial Advisor. This is a wrap fee. However, any Independent Asset Manager fees are separate from (and in addition to) the SCM Fee. The Asset Manager fees will vary depending on the Asset Manager and the investment strategy of the Asset Manager. The Asset Manager fees will be disclosed in each separate Asset Manager's disclosure brochure.

There is a minimum annual SCM Fee charged per Asset Manager or particular investment vehicle selected within each Program Account. There are other costs that may be assessed that are not part of the SCM Fee. These costs may include fees for portfolio transactions executed away from broker/dealer, mark-ups, electronic fund and wire transfers and exchange fees, among others (see Other Fees and Compensation section). The SCM Fee does not include certain fees charged by a broker or custodian used by that Client's advisor. In that case, those fees will be disclosed separately.

For all programs, the SCM Fee is charged per account on a calendar quarter basis in advance and prorated to the end of the quarter upon inception of the account. The level of the SCM Fee will vary with the amount of assets under management and the particular investment styles and investment options chosen or recommended. Clients may receive comparable services from other sources for fees that are lower or higher

than those charged by Envestnet. There are no adjustments made to the billing for SCM Fees during the quarter unless there is an additional deposit of \$10,000.00 or more. Accounts with subsequent deposits during a quarter of \$10,000.00 or more are adjusted for the deposit and billed the following month.

If there is insufficient cash in the Account(s) at the time the SCM Fee is to be debited from the Account(s), the Client understands and acknowledges that SCM, Envestnet or its Asset Managers may sell an amount of Program Assets to generate sufficient cash to pay any Program Fees. This may create a taxable gain or tax loss for the Client. If Program Assets are illiquid and Envestnet or a designated Asset Manager determines that the sale of Program Assets to pay any Program Fees is not feasible, SCM may send the Client an invoice for any Program Fees for the quarter. The Client agrees to pay this invoice within ten (10) days of receipt.

Hazlett and NFS are appointed by the Client as the sole and exclusive broker with respect to the account for custody and the execution of purchase and sale transactions. For SMA and UMA programs, any Asset Manager Fees are separate from (and in addition to) the above SCM Fee schedule. The Asset Manager fees will vary depending on the Asset Manager and the investment strategy of the Asset Manager. The Asset Manager fees will be disclosed in each separate Asset Manager's disclosure brochure.

Clients may receive comparable services from other sources for fees that are lower or higher than those charged by SCM. The advisory fee may be more or less costly than paying for the services separately, depending upon the investment advisory fees charged, the number of transactions for the account, the level of brokerage and other fees that would be payable if the Client obtained the services available under the program individually.

### **Standard Fee Schedule ("SCM Fee")**

The standard fee schedules for the SCM Fee is as follows, but may be negotiable in individual cases:

	<u>SMA</u>	<u>UMA*</u>	<u>Rep as Manager</u>	<u>Strategic WRAP</u>
First \$250,000	1.97%	2.14%	1.95%	1.87%
Next \$250,000	1.77%	2.14%	1.75%	1.62%
Next \$500,000	1.52%	1.84%	1.58%	1.49%
Next \$1,000,000	1.29%	1.61%	1.47%	1.26%
Next \$3,000,000	1.01%	1.22%	1.28%	1.09%
Over \$5,000,000	.93%	.94%	.93%	.93%
Minimum SCM Fee**:	\$1,575	\$1,250	\$920	\$750

\* The above Standard Fee Schedule reflects the selection of one Asset Manager within a UMA Program Account. Each additional Asset Manager selected will increase the SCM Fee .02% per Asset Manager.

\*\* The Minimum SCM Fee for the SMA and UMA Programs is charged per Asset Manager or particular investment vehicle selected within each SMA/UMA Program Account. Asset Manager fees are separate from (and in addition to) the SCM Fee. The Asset Manager fees will vary depending on the Asset Manager selected and the investment strategy of the Asset Manager. The Asset Manager fees will be disclosed in each separate Asset Manager's disclosure brochure.

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### **Other Fees and Compensation**

Notwithstanding any applicable Program Fees based on the size of the Client's pool of managed assets, a Client may incur fees for portfolio transactions executed away from Hazlett, electronic fund and wire transfers, spreads paid to market-makers, dealer mark-ups, exchange fees, custody, IRA, safekeeping and reorganization fees, as well as transfer fees, and other services. Also, Client may be charged certain additional and/or minimum broker/custodian fees, which shall be disclosed separately.

In addition to paying SCM's Program Fees, Clients holding mutual funds in their portfolio will also bear a proportionate amount of the fund expenses of the various funds in which they are invested. In those instances where mutual funds are recommended for Clients, SCM will endeavor to recommend those share classes offering the lowest internal cost to the Client available to SCM. Please see the prospectus or related disclosure document for information regarding these fees. In the event SCM receives 12b-1 payments from mutual fund companies, SCM has made arrangements with its clearing and execution provider to automatically rebate these fees back to the Client.

SCM's Advisors receive compensation as a result of a Client's participation in Program Accounts. This compensation generally ranges from 35% to 62% of the total management fees charged to Clients. Such compensation may be more or less than what the Advisor would receive if the Client paid separately for investment advice, brokerage, and other services. Therefore, the Advisor may have a financial incentive to recommend participation in Program Accounts over other programs and services.

The cost of investment advisory services provided through the Programs may be more or less than the cost of purchasing similar services separately. Among the factors impacting the relative cost of the program to a particular Client include the size of the account; the type of account (*i.e.*, equity or fixed income); the size of the assets devoted to a particular strategy; and the managers selected.

## Performance-Based Fees

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### Sharing of Capital Gains

Program Fees are NOT based on a share of the capital gains or capital appreciation of managed securities.

SCM does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create a greater incentive for the advisor to recommend an investment that may carry a higher degree of risk to the Client.

## Types of Clients

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### Description

SCM provides financial planning and investment management services to individual, corporate and institutional investors. Our Clients include individuals, financial institutions, retirement plans, trusts, estates, corporations, and not-for-profit organizations. These services are provided by SCM Advisors and through a partnership with Envestnet Asset Management, Inc. ("Envestnet") and independently contracted asset managers under the Managed Account Solutions Program (Program). All advisors and asset managers of SCM must be registered as investment advisers with the SEC or with appropriate state authorities.

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### Account Minimums

The minimum initial account size for the SMA and UMA programs is \$250,000 of assets under management. For the Rep as Manager Program, the minimum initial account size is \$50,000. For the Strategic WRAP program, the minimum initial account size is \$100,000.

When an account falls below its' initial value, the minimum annual fee listed in the Fees and Compensation section of this brochure may apply and is charged in lieu of the standard fee schedule. Clients with assets below the minimum account size may pay a higher percentage rate on their annual fees than the fees paid by Clients with greater assets under management.

SCM, in its sole discretion, reserves the right to remove an account from the program if it determines that the size of the account and nature of the relationship are no longer appropriate for the Managed Account Solutions program.

SCM has the discretion to waive the initial account minimum. An example of when the account minimum might be waived for an Account of less than \$250,000 is when the Client and the advisor anticipate additional funds to be added to the account bringing the total to \$250,000 within a reasonable time.

Additionally, certain Asset Managers may impose more restrictive account requirements and varying billing practices than SCM. In such instances, SCM may alter its corresponding account requirements and/or billing practices to accommodate those of the Asset Manager.

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### **Discretionary Authority for Trading**

Clients that participate in the Program are required to grant full discretionary investment authority to SCM and Envestnet to invest, reinvest, sell, exchange, and otherwise deal with Program assets, including, without limitation, the authority to select, allocate and reallocate the Program Assets in Client's accounts to different Asset Managers and to delegate such discretion to such Asset Managers. SCM and Envestnet will generally limit the exercise of this authority to the following circumstances.

- For the SMA Program, SCM and Envestnet generally will only use this grant of discretion to replace investment vehicles, including asset managers, when it deems such a change is necessary; to rebalance a Client's account as agreed between the Client and SCM; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable. However, there may be situations in which SCM and Envestnet will fully utilize this grant of discretion, such as to liquidate a position.
- For the Rep as Manager and Strategic Wrap Program, SCM and Envestnet will generally use this grant of discretion to invest in, hold and sell shares in various mutual funds and/or exchange traded funds (ETFs); to liquidate any "in kind" assets that are transferred into the programs; and to liquidate sufficient assets to pay the Program Fee when necessary and advisable.
- Discretion includes the authority to affect the transaction of securities such as mutual funds, equities, bonds without the prior consent of or notice to the Client.

## **Methods of Analysis, Investment Strategies and Evaluation**

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### **Client Investment Process**

SCM provides discretionary portfolio management services where the investment advice provided is tailored to meet the needs and investment objectives of the Client. Financial planning is not the primary focus of SCM's business model; however SCM

generally provides financial planning related services incidental to the portfolio management services. A certain level of financial planning is utilized in order to set appropriate goals and customize strategy. Information obtained is used to identify risk tolerance, objectives, and appropriate asset allocation.

Financial plans are prepared for Clients who have retained SCM for this purpose. Upon completion of the plan, the Advisor will deliver the plan to the Client and answer any questions regarding the implementation of the plan. After the initial review, there will not be a requirement to conduct subsequent reviews, however, at the discretion of the Advisor, or at the request of the Client, additional financial plans may be produced.

SCM has contracted with Envestnet to utilize the Envestnet technology platform to support performance reporting, fee calculation and billing, and to generate rebalancing trades for the asset allocation models managed by SCM, as well as to provide SCM's Clients with access to Asset Managers as part of the MAS SMA program. For Clients in the MAS SMA Program, SCM will recommend Asset Managers and investment vehicles that correspond to the proposed asset class and styles after reviewing a proposal generated via the Envestnet platform. Envestnet has established relationships with various Asset Managers and may establish relationships with new Asset Managers from time to time. Envestnet evaluates Asset Managers specializing in asset categories which include equities (both domestic and foreign), corporate debt; commercial paper, certificates of deposit, municipal securities, mutual funds, real estate investment trusts, government securities, options, and futures. Investors acknowledge that Envestnet and SCM cannot guarantee the continued availability of Asset Managers under the program.

All Client contact and communications regarding participation in the Programs will occur through SCM. SCM will forward the completed Client applications and investment information to Envestnet and Envestnet will forward the applications and Client account information, including any investment restrictions, to applicable Asset Managers for processing. SCM will promptly advise Envestnet of changes to Client's investment objectives and financial situation. Envestnet will promptly communicate any changes to the Asset Managers. SCM may ask Asset Managers to attend meetings with SCM and Clients, however, Asset Managers are under no obligation to attend any such meeting.

Clients participating in the Programs are required to authorize SCM and Envestnet to designate National Financial Services, LLC ("NFS") to provide trade execution, trade clearing and custodial services with respect to Program Assets. National Financial Services reviews and validates the accuracy of the calculation of the performance information, and ensures that the standard under which the performance information is calculated is sufficient.

In addition to Envestnet's proprietary investment models, Envestnet may retain other Asset Managers for the purposes of creating asset allocation model portfolios ("Model Portfolios") for the Programs. Envestnet may, from time to time, replace existing asset allocation managers or hire others to create Model Portfolios for the Programs.

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## **Research Methods**

Envestnet's research team has responsibility for two primary areas pertaining to investment advice: (i) asset allocation and portfolio construction and (ii) asset manager and investment vehicle evaluation.

With respect to asset allocation and portfolio construction, Envestnet uses demographic and financial information provided by the Client and advisor to assess the Client's risk profile and investment objectives in determining an appropriate plan for the Client's assets. The research team uses proprietary analytical tools and commercially available optimization software applications to develop its asset allocation strategies. Factors used as inputs in the asset allocation process include historical rates of risk and return on various asset classes, correlation across asset classes, and risk premiums, among others.

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## **Asset Manager Evaluation**

Regarding asset management and investment vehicle evaluation, SCM primarily utilizes information gathered by Envestnet through their initial and ongoing research and due diligence process. Envestnet employs a rigorous multi-phase approach to researching and selecting managers suitable for participation in its investment programs ("Approved Managers"). Approved Managers are evaluated using data and information from several sources, including the manager and independent databases. Among the types of information analyzed are historical performance, investment philosophy, investment style, historical volatility and correlation across asset classes. Also reviewed are the manager's Form ADV Part 2, as well as portfolio holdings reports that help demonstrate the manager's securities selection process. To ensure accuracy Envestnet attempts to verify all information by comparing it to publicly available sources.

The investment professionals at the investment management firms are a primary source of information to Envestnet, providing quantitative and qualitative information. In addition, Envestnet employs several publicly available databases from independent sources, including but not limited to Nelson's Directory of Investment Managers, the Mobius M-Search database, Morningstar's Principia application, Bloomberg and Russell Mellon. These databases are used to verify the information provided by the managers.

Before offering services provided by independent Asset Managers to Clients, SCM reviews Envestnet's evaluations of these managers, the Asset Manager's Form ADV Part 1 and Part 2, and may request additional information from Envestnet or the managers to evaluate their competence and experience before offering their services to SCM's Clients. At least annually, SCM will review any updates to this information to determine if the Asset Manager is still suitable for SCM's Clients.

Additionally, Envestnet provides alerts to SCM through an automated system based on quantitative information for Asset Managers that report to a third-party investment database, which SCM uses in its assessment of a particular Asset Manager (the “Alerts”). SCM will continuously monitor and conduct a monthly review of the Alerts and SCM’s Investment Policy Committee will identify any situation which may warrant SCM to cease offering the Asset Manager’s services to new Clients, and recommend a replacement Asset Manager(s) to existing Clients. In these situations, SCM will review each Client situation based upon tax implications and other considerations involved in replacing the Asset Manager and advise the Client of options available in light of the circumstances.

In rare instances, Envestnet may terminate the contractual relationship with an Asset Manager, and SCM will remove the Asset Manager from Client portfolios and cease to offer the Asset Manager to new Clients. This will typically occur with Asset Managers who have encountered material regulatory or compliance related problems.

SCM recommends Asset Managers to Clients with a variety of investment strategies in an effort to make a wide range of investment strategies available. Some strategies may be high-risk strategies. Such strategies usually have the potential for substantial returns; however, there are correspondingly significant risks involved in the strategies. Such strategies are not intended for all investors. Clients who choose to follow high-risk strategies should be aware that there is the possibility of significant losses up to and including the possibility of the loss of all assets placed in the strategies. SCM recommends that Clients diversify their investments and do not place all of their investments in high-risk investment strategies.

In addition to Approved Managers, Envestnet also makes available certain Asset Managers with respect to whom Envestnet has not performed Due Diligence. These Asset Managers are categorized as “Available Managers” and Envestnet makes no recommendations concerning Available Managers. SCM is responsible for determining that it has sufficient information about an Available Manager to select such manager to provide services to the advisor and Clients.

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### **Reasonable Restrictions**

You may impose Reasonable Restrictions on the management of your SCM Managed Account Solutions Account(s) by completing and signing the appropriate document. You understand that any Reasonable Restrictions imposed on the management of your Account(s) may cause the Asset Manager to deviate from investment decisions the Asset Manager would otherwise make in managing your Account(s) and accordingly, may negatively impact or otherwise affect performance. You understand and agree that if your SCM Managed Account Solutions Asset Manager determines that restrictions you wish to impose are unreasonable or otherwise prevent the Asset Manager from implementing the investment strategy in question the Asset Manager may choose not to accept your Account(s). You agree to inform SCM promptly, in writing, of any change in



your Client Profile, Reasonable Restrictions and/or other information in your Account Application(s). SCM will inform the Asset Manager(s) promptly of any change in your Reasonable Restrictions. Any change to your Reasonable Restrictions will not be effective until accepted by the Asset Manager.

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## **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

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## **Voting Client Securities**

### **SMA and UMA Programs**

SCM delegates proxy voting to the asset managers to whom it allocates Client assets. Envestnet shall maintain copies of the asset managers' proxy voting procedures on file for so long as SCM has Clients whose assets are being managed by such asset managers.

Depending on the program selected, Envestnet or a sub-manager, as applicable, will vote proxies in accordance to their own proxy voting policies. Envestnet has developed appropriate principles, policies and procedures to ensure that such proxies are voted in the best interests of SCM's Clients. These principles, policies and procedures are relatively general in nature to allow Envestnet the flexibility and discretion to use its business judgment in making appropriate decisions with respect to Client proxies.

Envestnet acknowledges and agrees that it has a fiduciary obligation to SCM and its Clients to ensure that any proxies for which it has voting authority are voted solely in the best interests and for the exclusive benefit of its Clients. The policies are intended to guide Envestnet and its personnel in ensuring that proxies are voted in such manner without limiting Envestnet or its personnel in specific situations to vote in a pre-determined manner. These policies are designed to assist Envestnet in identifying and resolving any conflicts of interest it may have in voting SCM Client proxies.

A copy of SCM's Client Proxy Voting Policies and Procedures can be obtained by contacting the following individual at SCM:

Timothy M. Bidwell  
Chief Compliance Officer  
1300 Chapline Street  
Wheeling, WV 26003  
(304) 233-3312

A copy of Envestnet's Client Proxy Voting Policies and Procedures can be obtained by contacting the following individual at Envestnet:

George L. Alvin  
Chief Compliance Officer  
35 E. Wacker Drive, Suite 1600  
Chicago, Illinois 60601  
(312) 827-3965

### **Rep as Manager Program**

SCM does NOT vote Client proxies for any Client positions held in a Rep as Manager Program account. Any Client proxy materials received are forwarded to the Client.

## Disciplinary Information

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### Legal and Disciplinary

In February 2018, the Securities and Exchange Commission (“SEC”) announced the creation of the Share Class Selection Disclosure Initiative (“SCSD Initiative”). The central issue identified by the SEC was that, in many cases, investment advisers bought for, or recommended to their clients, mutual fund share classes that had distribution or service fees (commonly known as 12b-1 fees) paid out of fund assets to the advisers when lower-cost share classes were available to those clients, and the investment advisers did not adequately disclose their receipt of 12b-1 fees and/or the conflict of interest associated with the receipt of these fees. Many firms voluntarily participated in the SCSD Initiative, where these firms could consent to an Order Instituting Administrative and Cease-And-Desist Proceedings (“Order”), where without admitting or denying the SEC’s findings contained in the Order, participating firms could make payments to affected clients.<sup>1</sup> In March 2019, SCM, along with many participating firms, agreed to the Order entered by the SEC.

By voluntarily self-reporting, SCM agreed to a censure and to cease and desist from committing or causing any violations and future violations of Sections 206(2) and 207 of the Investment Advisers Act of 1940. Moreover, in the Order SCM agreed to establish a distribution fund and to deposit into that fund disgorgement of the improperly disclosed 12b-1 fees, plus prejudgment interest, for payment to affected clients. Once the calculations and distribution amounts were determined and approved by the SEC for each affected client, SCM made the distributions to affected clients and submitted to the SEC a final accounting and certification regarding the disposition of the distribution fund. More information about the Order is contained in SCM’s Form ADV, which is available on the SEC’s Investment Advisory Public Disclosure website at <https://www.adviserinfo.sec.gov/IAPD/Default.aspx> or in the SEC’s press release about the SCSD Initiative at <https://www.sec.gov/news/press-release/2019-28>.

1 The term “affected clients” includes current and former SCM investment advisory clients who purchased and held in their investment advisory accounts at SCM from January 1, 2017 through June 30, 2018 (the “relevant period”) mutual fund share classes that paid 12b-1 fees that were retained by SCM. Affected clients specifically include persons who held money market mutual fund shares in advisory accounts through SCM’s core sweep program during the relevant period, subject to a *de minimis* exception..

## Additional Information

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### Code of Ethics

The employees of SCM have committed to a Code of Ethics that is available for review by Clients and prospective Clients upon request. The firm will provide a copy of the Code of Ethics to any Client or prospective Client upon request.

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## Potential Conflicts

SCM has arrangements that are material to its advisory business or its Clients with a related entity, Hazlett, Burt & Watson, Inc., a registered broker/dealer (Hazlett). Hazlett provides trade execution services for SCM through a clearing and execution arrangement with National Financial Services (NFS). Hazlett is also an insurance agency.

As part of SCM's other business activities, the firm's Advisors may affect securities transactions for or sell insurance products to Clients. SCM may be receiving a fee for investment advice in advisory account and representatives may be receiving a separate, yet customary, commission for any transactions affected in Hazlett brokerage accounts.

SCM and its representative may engage in personal securities transactions. The personal securities transactions of SCM and its representatives may raise potential conflicts of interest when such persons trade in a security that is i) owned by a Client or ii) considered for purchase or sale for a Client. SCM has adopted policies and procedures that are intended to ensure that transactions are affected for Clients in a manner that is consistent with its fiduciary duty and in accordance with applicable law. Persons who wish to purchase or sell securities of the same types purchased or sold for Clients may do so only in a manner consistent with SCM policies and procedures.

SCM's Advisors may recommend program accounts to current and/or prospective Clients and as a result of such person's participation in these programs may receive all or a portion of the fee charged by SCM. Such payments may be made for the duration of the Client's participation in the program and may be greater than other forms of compensation had such person paid separately for investment advice, brokerage and other services provided to Client as part of a wrap fee program. As a result, SCM Advisors may have a financial incentive to recommend certain SCM programs over other programs or services offered by SCM.

In those instances where mutual funds are recommended for Clients, SCM will endeavor to recommend those share classes offering the lowest internal cost to the Client available to SCM. Certain mutual funds pay a periodic fee (i.e. "Rule 12b-1 fee") to the broker-dealer of record on the account. Such payments may be distributed pursuant to a 12b-1 distribution plan or pursuant to another arrangement as compensation for distribution or administrative services and may be paid out of the fund's assets, and therefore, indirectly paid by the Client. In the event SCM receives 12b-1 payments from mutual fund companies, SCM had made arrangements with its clearing and execution provider to automatically rebate these fees back to the Client.

On occasion, SCM may offer securities on a principal basis to its Clients through Hazlett. Such offerings will not be executed without disclosing inherent conflicts of interest, such as additional compensation, or without the written consent of the Client. Any such consent may be withheld by the Client, or revoked at any time prior to the

settlement of the trade. When proprietary offerings are purchased after the opening of an SCM account, these securities may be excluded for nine to thirty six months, respectively, from the calculation of advisory fees. Such exclusions at the discretion of SCM and are negotiable. Also, SCM may effect “cross” transactions between Clients in which one Client will purchase securities held by another Client. Such transactions are only entered into with the written authorization of both Clients, when SCM deems the transaction to be in the best interests of both Clients, and at a price that has been determined to be fair to both parties in light of prevailing market conditions.

Hazlett may own interests in certain fixed income, equities or other investments, which may be recommended to SCM Clients. Such recommendations shall be made solely on the investment merit, and without consideration to the value of the holdings of Hazlett. On occasion, associated persons or employees of SCM may buy or sell securities for their own accounts that have also been recommended to Clients. Such transactions are subject to SCM’s Code of Ethics.

HBW receives a Business Development Credit from National Financial Services (NFS) as part of HBW’s clearing and custody agreement with NFS. Because of this arrangement, HBW has an incentive to direct trades to NFS, which incentives represent a conflict of interest. This arrangement has been entered into for the purposes of the efficiency of operation and the reliability of the custody and trading services NFS provides HBW clients.

SCM endeavors to be civic minded, and generally makes charitable contributions to various organizations within the markets we serve. Such gifting is at the will and discretion of SCM’s management, and such gifting may either directly or indirectly benefit individuals who are also Clients of SCM.

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### **Account Statements**

All assets are held at qualified custodians, which means the custodians provide account statements directly to Clients at their address of record at least quarterly. The custodian’s statement will provide a detailed list of holdings with valuations and account activity.

SCM Clients will also receive quarterly MAS performance reports, showing the allocation of the assets in the account as well as the performance of the account during the previous quarter. Clients are urged to report any discrepancies when comparing the account statements received directly from their custodian to the performance reports provided by SCM.

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### **Review of Accounts**

SCM provides account reviews (either on an individual basis or in aggregate) to all accounts participating in its Asset Management Programs. Reviews are conducted to ensure conformity to investment policy guidelines, established asset allocation strategies and the stated needs and objectives of the individual Client. SCM requires advisors to complete an annual Client review form. The information on this form is reviewed to ensure the Client's profile is in line with the program's portfolio models. SCM's Compliance Officer will review performance information provided by Asset Managers for model portfolios but will not verify the accuracy of the information provided. SCM utilizes the performance reporting service provided by Envestnet to monitor individual account performance for custom managed accounts and model portfolio performance for the Programs in aggregate. Performance reporting provided by Envestnet is calculated according to industry standards and is applied to each account or combination of several related accounts for a household's or family's assets or to groups of accounts in each asset allocation model for internal composite purposes. SCM will generally communicate with its Clients via letters, newsletters and/or other SCM generated literature.

The Managed Account Solutions Program is intended to comply with Rule 3a-4 under the Investment Company Act of 1940. Each Client's account is managed on the basis of the Client's individual financial situation. Each Client has the opportunity to select the account's investment objective and impose reasonable restrictions on the management of assets in the account. In addition, Clients will be contacted annually with a written request asking them to confirm the accuracy of their information.

SCM's Chief Compliance Officer, Timothy M. Bidwell, is responsible for the account review process, and is supervised by the firm's CEO, Mark S Prince.

Clients may request to consult directly with their Advisor by calling (800) 537-8985.

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### **Client Referrals**

SCM has been fortunate to receive many Client referrals over the years. The referrals have come from current Clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm does not compensate referring parties for these referrals.

From time to time, we initiate and maintain incentive programs for our financial advisors. These programs may compensate them for referring business when appropriate to our affiliate, Security National Trust Company (SNTC). The referral compensation takes the form of a payment to the financial advisor of a percentage of the normal SNTC account fees and results in no additional fees to you or other Clients.

In addition, SCM has a referral arrangement in place with an unaffiliated Investment Banker. SCM may when appropriate refer an existing SCM Client for investment banking services and receive compensation for such referral. The referral compensation takes the form of a payment to the financial advisor of a percentage of the normal investment banking fees and results in no additional fees to you or other Clients.

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### **SEC “Custody”**

From time to time, SCM may be considered to have custody of certain types of accounts, such as when an employee acts as a trustee of an unrelated trust and the firm acts as the investment advisor to that trust. When the firm has such custody, an annual surprise audit of those accounts is performed by an independent CPA firm in compliance with SEC requirements.

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### **Financial Condition**

SCM does not have any financial impairment that will preclude the firm from meeting contractual commitments to Clients.

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### **Information Security/Privacy Notice**

SCM maintains an information security program to reduce the risk that your personal and confidential information may be breached.

SCM is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information that we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and information from consumer reporting agencies, e.g., credit reports. We use this information to help you meet your personal financial goals.

With your permission, we disclose limited information to attorneys, accountants, and other third parties with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure that your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We do not provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a Client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Notice* to you annually, in writing.

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### **Trade Error Policy**

When an error is discovered, or brought to the attention of SCM, such errors shall be promptly brought to the attention of SCM's trading desk. Error corrections may need to be delayed for review purposes and/or consultation with the client. SCM will use its best efforts to resolve all trading errors in a timely manner. When trading errors result in a loss, the party, or client, responsible for the error shall bear the cost of the error. In those instances where a client error results in a gain, the client shall be given the option of retaining the transaction (by adding additional funds if necessary, otherwise all errors resulting in a gain, such gains are retained by SCM. The SCM Financial Advisor does not participate in any resulting gains.