

# Goodman Financial Corporation

## FIRM BROCHURE – Form ADV Part 2A

This Brochure provides information about the qualifications and business practices of Goodman Financial Corporation. If you have any questions about the contents of this Brochure, please contact us at 713-599-1777. 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.

Goodman Financial Corporation is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you can determine to hire or retain an adviser.

Additional information about Goodman Financial Corporation is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Goodman Financial Corporation is 114637.

**Brochure prepared on March 22, 2023**

### Goodman Financial Corporation

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## Item 2 - Material Changes

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Since the last annual amendment filed March 24, 2022, the following are the material changes made to this Brochure:

- In August 2022:
  - Item 5 was updated to reflect a revised fee schedule for new clients effective August 10, 2022.
- In January 2023:
  - Items 10 and 11 were updated to disclose conflicts related to the GFC Quantified Alpha, LP, a private fund for which we serve as advisor.

Our Brochure may be requested from our office at 713-599-1777 or [info@goodmanfinancial.com](mailto:info@goodmanfinancial.com). Our Brochure is also available on our website [www.goodmanfinancial.com](http://www.goodmanfinancial.com) free of charge.

Additional information about Goodman Financial Corporation is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Goodman Financial Corporation who are registered, or are required to be registered, as investment adviser representatives of Goodman Financial Corporation.

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## Item 4 - Advisory Business

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Goodman Financial Corporation ("Goodman Financial," "the Firm," "our," or "we") is an independent investment management firm that provides investment advice and portfolio management services on a continuing basis, including the appropriate allocation of managed assets among cash, bonds, stocks, exchange-traded funds, and mutual funds and the selection of specific securities that will provide diversification and help meet the client's stated investment objectives.

Goodman Financial Corporation is a corporation controlled by Steve Goodman and has provided investment advice and portfolio management services since 1989. The primary shareholder of the Firm is Steve Goodman.

Though Goodman Financial provides investment advice regarding all types of securities, our focus is on building client investment portfolios through the purchase of individual bonds and equities in order to provide better tax efficiency and avoid the layering of fees. Clients can impose investment guidelines or restrictions on investing in certain securities or types of securities, thus limiting the scope of potential investments. When selecting securities and determining amounts to invest, we observe the investment guidelines and restrictions of the client.

In addition to investment advisory services, we also provide targeted financial advisory services on an as-needed basis. The financial advisory services include, but are not limited to, cash flow planning, retirement needs analysis, tax-efficient distribution strategies, gift and estate planning, employee benefits planning, annuity and insurance (life, disability, and long term care) reviews, and education planning.

As of December 31, 2022, we have \$580,100,442 in assets under management. All of these assets are managed on a discretionary basis.

## Item 5 - Fees and Compensation

The specific manner in which fees are charged by Goodman Financial is established in a client's written agreement. The annual fee for investment advisory services will be charged as a percentage of assets under management according to the schedule below.

Assets Under Management	Annual Fee
\$0 – \$1,999,999	1.25%
\$2,000,000 – \$2,999,999	1.00%
\$3,000,000 – \$4,999,999	0.85%
\$5,000,000 – \$9,999,999	0.75%
\$10,000,000 – \$19,999,999	0.70%
Over \$20 million	0.65%

Our fees are payable quarterly, in advance, within thirty (30) days following the beginning of the quarter for which said fees will be incurred. Our clients authorize the account custodian to debit their client account for the amount of our investment advisory fee. At the inception of the relationship and each quarter thereafter, we will notify your custodian of the amount of the fee due and payable to us based on our fee schedule and contract. The custodian does not validate or check our fee, its calculation, or the asset value on which the fee is based. They will deduct the fee from your account or, if you have more than one account, from the account(s) you have designated to pay our advisory fees. In limited situations we may provide an alternate payment method.

We charge advisory fees based upon the valuation of your account(s) as determined by our internal portfolio management system, which interfaces and is reconciled with the custodian daily. The total portfolio value on which fees are based may vary from the value on the custodian statement (the valuation may be higher or lower) due to such factors as the timing and posting of dividends, settlement dates for trades, and accrued interest. (This may not be an all-inclusive list.) The value of your account as of the last business day of the previous quarter (as shown in our internal portfolio management system on the date billed) is used to determine the fees charged.

Qualified custodians are relied upon to price the securities in your account(s). Whenever valuation information is not available from the custodian, we will attempt to obtain and document price information from at least one independent source such as a broker/dealer, bank, or pricing service. If valuation information is not available through these alternative sources, we will make a good faith determination of a security's fair and current market value based on the information available.

While we typically only recommend using margin to fund a large withdrawal from the account rather than to fund purchasing securities, to the extent that a client requests the use of margin, and margin is thereafter employed in the management of the client's portfolio, we will charge fees based on total assets under management which may differ from the net-of-margin market value of the client's account. Thus, the use of margin in an investment advisory account will likely increase a client's asset-based fee. If margin is used to purchase additional securities, the total value of eligible account assets increases, as does your asset-based fee. For example, if you have an account value and assets under management of \$1,000,000 and then use margin to purchase \$200,000 of securities, then the result is \$1,200,000 of assets in the account and under management offset by a margin loan of \$200,000 for a net account market value of \$1,000,000. In that situation, you would be billed based on the \$1,200,000 assets under management versus the \$1,000,000 account market value. Or, for example, if you have a \$1,000,000 account value and assets under management and decide to borrow \$300,000 from the account, then the result is that you still have \$1,000,000 of assets in the account and under management, but it is offset by a margin loan of \$300,000 for a net account market value of \$700,000. In that situation, you would be billed based on \$1,000,000 of assets under management versus the \$700,000 account market value. In addition, clients will be charged margin interest on the debit balance in their account by the custodian.

Each month you will receive a statement directly from your custodian showing all transactions, positions, and credits/debits into or out of your account; the statement after the quarter-end will reflect the advisory fee paid by you to us.

Advisory fees shall be pro-rated for capital contributions made during the applicable calendar quarter (with the exception of de minimis contributions). Accounts opened in mid-quarter will be assessed a pro-rated management fee.

Existing clients as of August 9, 2022 are charged under prior fee schedules that are different than that set out above. With regards to employee-related accounts and certain other accounts, it is in our discretion to charge fees less than those stated on the fee schedule depending upon a number of factors including portfolio size, length of employment, and relationship to the employee.

All fees are subject to negotiation. In our sole discretion, we may waive the minimum account size. We will not change our fees without thirty (30) days advance written notice.

### ***Additional Fees and Expenses***

Advisory fees payable to us do not include all the fees you will pay when we purchase or sell securities in your account(s). The following list of fees or expenses are what you pay directly to third parties whether a security is being purchased, sold, or held in your account(s) under our management. We do not receive, directly or indirectly, any of these fees charged to you. They are paid to your broker, custodian or the mutual fund or other investment you hold. These fees may include brokerage commissions, transaction fees, exchange fees, SEC fees, advisory fees and administrative fees charged by mutual funds ("MF"), exchange-traded funds ("ETFs"), money markets, or money market mutual funds, advisory fees charged by sub-advisers (if any are used for your account), custodial fees, deferred sales charges (on MF or annuities), early redemption fees (charged by MFs), transfer taxes, wire transfer and electronic fund processing fees, and commissions or mark-ups/mark-downs on security transactions. Please refer to Item 12 in this brochure for additional information about our Brokerage Practices.

In addition, we do not have or employ any employee that receives, directly or indirectly, any compensation from the sale of securities or investments that are purchased or sold for your account or to which we provide consulting expertise/services. As a result, we are a fee-only investment adviser. We do not have any potential conflicts of interest present that relate to any additional (and undisclosed) compensation from you or your assets that we manage.

**Consulting Services.** In rare instances, the Firm may be asked to provide services that are above and beyond the usual financial advisory services. Consulting services and fees will be mutually agreed to in advance. Fees for these consulting services will be billed on an hourly basis at rates ranging from \$100/hour to \$400/hour.

*Termination of Investment Management Services.* A client may terminate an agreement with us at any time upon 30 days written notice. In the event of a termination of our advisory services, the unearned portion of the prepaid advisory fee will be refunded to the client within 30 days of the date when all of the client's assets have been transferred out of accounts under our management. The pro-ration will be calculated using the actual number of days from the termination date until the end of the prepaid billing period.

*Termination of Consulting Services.* Consulting services may be immediately terminated upon written notice by either party.

## **Item 6 - Performance-Based Fees and Side-By-Side Management**

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We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client) or side-by-side management fees.



## Item 7 - Types of Clients

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We provide our services to a number of different types of clients.

- Individuals, including high net worth individuals
- Trusts and estates
- Endowments, foundations, and other charitable organizations
- Corporations and other business entities
- Pension and profit-sharing plans

The minimum initial investment is \$1,000,000 of total assets under management. Fees and investment minimums are subject to negotiation and may differ based on a number of factors including the amount of assets, number of accounts, level of contributions/distributions, and the number and range of supplemental advisory and client-related services.

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

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### ***METHODS OF ANALYSIS***

Goodman Financial understands that investing in securities involves risk of loss that clients should be prepared to bear. At the same time, we utilize methods of security analysis which are attentive to risk factors that may impact the value of a security.

Research information is generated both internally and obtained from external sources. We carefully study this information and evaluate it based on numerous quantitative and qualitative considerations. Our Chief Investment Officer manages the research and analysis function.

Below is a partial listing of external research sources we may utilize:

- Prospectuses and filings with the Securities and Exchange Commission including annual reports, 10Ks and 10Qs
- Corporate rating services
- Third-party data providers, including FactSet Research Systems
- Research materials prepared by others
- Company earnings announcements, news releases, and websites
- Financial newspapers, magazines, and industry publications
- Analyst conference calls
- Government and economic reports

We use both a top-down and bottom-up approach to investing which we supplement on a limited basis with technical analysis techniques. Subsequent to a comprehensive research and analysis process, securities are presented to our Investment Committee ("IC"), which meets as often as necessary. During these meetings, securities are subjected to further examination. The IC meetings include detailed discussions and presentations related to current economic, political, sector, industry, and company-specific issues. The IC determines the securities considered appropriate for inclusion in a client's portfolio.

Following is a description of fundamental bottom-up analysis, top-down analysis, and technical security analysis methods.

### ***Fundamental Analysis***

Goodman Financial employs a comprehensive, fundamental approach to security analysis. Fundamental analysis involves a bottom-up assessment of a company's potential for success in light of many factors including its financial condition, earnings outlook, strategy, management, industry position, and economic and market conditions. A decision to buy, sell, or hold a particular security in a client's portfolio is directly influenced by an equity's upside to our estimated price target and our expectations of how fundamental factors are anticipated to impact its long-term valuation. Under this approach, we routinely examine a company's financial statements and concurrently consider the impact that prevailing economic, political, and industry circumstances may have on its future value. After researching and analyzing relevant fundamental information, we develop a judgment of a security's investment potential.

### ***Top-Down Analysis***

Top-down analysis entails a broad and comprehensive survey of the domestic and international economic and financial landscapes, attempting to identify investment opportunities and areas to avoid. We examine the data to identify current and emerging trends, and then we use those observations to identify specific companies to research further for potential inclusion in our clients' portfolios. Top-down and bottom-up research are complementary methods of researching, identifying, and selecting securities.

### ***Technical Analysis***

Technical security analysis concentrates on historical trends and their relationships among and between various quantitative measures. These variables are typically displayed in charts and graphs and studied to determine if a particular pattern is repeating, ongoing, or non-existent. Minimal attention is given to a company's present earnings, strategy, products, services, or other pertinent qualitative issues. In sum, this is a data, statistical, or quantitative-only approach to security analysis. Examples of technical analysis factors include, but are not limited to, market trading volume, price levels, and price movements. Goodman Financial employs technical security analysis on a limited basis and as a supplement to top down and fundamental security analysis previously discussed.

## ***INVESTMENT STRATEGIES***

Goodman Financial employs an investment philosophy emphasizing portfolio management that is custom tailored to the needs of each client. We begin the investment process by carefully listening to the client and gaining a thorough understanding of the client's unique goals, risk tolerance, time horizon, and other circumstances. We then determine an appropriate investment strategy for the client based on that understanding. For most institutional clients, this would be memorialized in their investment policy statement. Further customization of the portfolio takes into consideration individual client preferences such as social investing, concentrated positions, existing holdings, taxes, and other considerations.

The investment strategy provides a framework for determining the asset allocation that properly balances risk and reward over a long-term time horizon. Asset allocation is the relative mix of cash, fixed income, and equity securities suitable for a client's investment portfolio. Goodman Financial believes investment risk is lessened when a portfolio is diversified. Diversification is a disciplined long-term investment strategy that helps prevent under or over-exposure to sectors or specific securities. We combine asset allocation with diversification to ensure a client's portfolio will be managed in a prudent manner. We then implement the strategy to achieve the client's investment objectives. Although strategies can be changed if necessary, adhering to the asset allocation over the pre-determined time horizon seeks to provide enhanced portfolio returns with reduced volatility.

We use a dynamic and disciplined investment approach in selecting individual equity and fixed income securities. This approach allows for greater flexibility, greater tax efficiencies, and lower expenses. With limited exceptions, Goodman Financial does not utilize mutual funds thereby avoiding inefficiencies and additional layers of fees.

Our security selection process seeks to provide long-term growth while remaining within the risk tolerance level of each client. Capital preservation, however, is also an important consideration of our investment philosophy. We believe it is inappropriate to take unwarranted risk in either portfolio structure or individual securities. Portfolio turnover is limited; however, we continuously review investment alternatives and implement changes when more appealing and suitable opportunities become available to potentially increase total return.

As appropriate, we will invest in public companies that are expected to benefit from movements in commodity prices without exposing a portfolio to the volatility of derivatives that is inherent with futures and options contracts. We will also invest in real estate via publicly traded real estate investment trusts ("REITs"), if appropriate. We believe these non-traditional asset classes further diversify the portfolio and reduce risk. In both cases, we select liquid publicly-traded investments.

### ***Description of Principal Security Types***

Equity securities represent an ownership interest, or the right to acquire an ownership interest, in an issuer. Different types of equity securities provide different voting and dividend rights and priority in the event of the bankruptcy of the issuer. Equity securities include common stocks, preferred stocks, REIT units, convertible securities, and warrants. Equity investments in client portfolios are substantially in common stocks.

Fixed income (debt) securities are used by issuers to borrow money. The issuer usually pays a fixed, variable, or floating rate of interest, and must repay the amount borrowed, usually at the maturity of the security. Some debt securities, such as zero-coupon bonds, do not pay current interest but are sold at a discount from their face values. Fixed income securities include corporate bonds, government securities, agency securities, and mortgage and other asset-backed securities.

### ***Equity - Principal Investment Strategy***

Client assets allocated to equities are primarily invested in a diversified portfolio of publicly-traded common stocks. We primarily invest in U.S. domestic companies and achieve international and global diversification through direct investment in foreign-based companies, by investing in U.S. corporations with an international scope, and by investing in non-U.S. international equity ETFs. We will also invest in publicly-traded REITs and exchange-traded funds (ETFs) if we feel those types of investments are appropriate for the client.

Investments in equity portfolios are intended to be long-term with an emphasis on capital appreciation and dividend income as a secondary consideration. We are not constrained by any particular investment style. This means we can invest in large, mid, or small cap stocks having value, blend, or growth qualities.

### ***Fixed Income – Principal Investment Strategy***

Client assets allocated to fixed income securities are primarily invested in a diversified portfolio of publicly-traded corporate bonds, government securities, agency securities and municipal bonds or ETFs investing in those types of fixed income securities. Fixed income investments are managed to generate income as well as add stability to our clients' portfolios with the key focus being safety. A substantial majority of fixed income investments are in domestic corporate securities rated investment-grade or better at the time of purchase by Standard and Poor's or Moody's. Investment-grade securities include all types of fixed income debt instruments that are considered to be of medium or higher quality. Diversification is enhanced by investing in a variety of issuers, in different sectors, and in different industries. To lessen the impact of changing interest rates and inflation, portfolios are comprised of holdings having assorted maturity dates usually ranging from 1 to 10 years. We plan to hold bonds until maturity, which results in lower turnover and costs to our clients and a more predictable income stream. We continually monitor our fixed income holdings, interest rates, and market conditions for circumstances which may require an action prior to a bond's maturity.

## ***RISK OF LOSS***

Investing in securities involves risk of loss that clients should be prepared to bear. Security markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. When securities are sold they may be worth more or less than what they were purchased for, which means that you could lose money.

In the normal course of managing client equity and fixed income portfolios, Goodman Financial does not:

1. buy or sell futures or options contracts,
2. conduct short-selling trading activities,
3. utilize market timing strategies,
4. directly own commodities, precious metals or natural resources, or
5. use any leveraging methods (unless margin is added to an account at the request of the client).

## **Principal Investment Risks**

Many factors affect portfolio performance. Portfolio values change daily based on changes in market conditions and interest rates and in response to other economic, political, or financial developments. A portfolio's reaction to these events will be influenced by the types of securities it holds, the issuer's underlying financial condition, industry and economic sector matters along with the geographic location of an issuer, and the relative level of an investment in the securities. The following factors can significantly affect a portfolio's performance.

**Market Volatility:** The value of equity and fixed income securities fluctuate in response to issuer, political, market, and economic developments. Fluctuations can be acute over the short as well as long term. Several parts of the market and different types of securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Events can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. The financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

**Interest Rate Changes:** Fixed income (debt) securities have varying levels of sensitivity to changes in interest rates. In general, the price of a debt security can fall when interest rates rise and can rise when interest rates fall. Securities with longer maturities and mortgage securities can be more sensitive to interest rate changes.

**Foreign Exposure:** Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

**Issuer-Specific Change:** Changes in the financial condition of an issuer, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer, which can affect a security's or instrument's credit quality or value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Lower-quality debt securities (those of less than investment-grade quality) and certain types of other securities tend to be particularly sensitive to these changes.

## **Other Risks**

**Management risk:** The risk that the investment techniques and risk analyses applied by the Firm may not produce the desired results and that legislative, regulatory, or tax developments, affect the investment techniques available to Goodman Financial. There is no guarantee that a client's investment objectives will be achieved.

**Cybersecurity risk:** The risk related to unauthorized access to the systems and networks of the Firm and its service providers. The computer systems, networks and devices used by the Firm and service providers to us and our clients to carry out routine business operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite the various protections utilized, systems, networks or devices potentially can be breached. A client could be negatively impacted as a result of a cybersecurity breach. Cybersecurity breaches can include unauthorized access to systems, networks or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow or otherwise disrupt operations, business processes or website access or functionality. Cybersecurity breaches cause disruptions and impact business operations, potentially resulting in financial losses to a client; impediments to trading; the inability by us and other service providers to transact business; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or other compliance costs; as well as the inadvertent release of confidential information. Similar adverse consequences could result from cybersecurity

breaches affecting issues of securities in which a client invests; governmental and other regulatory authorities; exchange and other financial market operators, banks, brokers, dealers and other financial institutions; and other parties. In addition, substantial costs may be incurred by those entities in order to prevent any cybersecurity breaches in the future.

Clients are advised that they should only commit assets for management that can be invested for the long term, that volatility from investing can occur, and that all investing is subject to risk. Goodman Financial does not guarantee the future performance of a client's portfolio, as investing in securities involves the risk of loss that clients should be prepared to bear.

Past performance of a security or a fund is not necessarily indicative of future performance or risk of loss.

## Item 9 - Disciplinary Information

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Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's evaluation of the adviser and the integrity of the adviser's management. Goodman has no information applicable to this Item.

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

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Goodman Financial is not engaged in any other financial industry activities other than giving investment and financial advisory advice. Goodman Financial does not sell products or services other than investment and financial advisory advice to its clients. Goodman Financial does not have any arrangements that are material to its advisory business or its clients with a related person who is a broker-dealer, investment company, other investment adviser, financial planning firm, futures commission merchant, commodity pool operator, commodity trading adviser, bank or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer or an entity that creates or packages limited partnerships.

A related entity of Goodman Financial, GFC Quantified Alpha GP, LLC is the general partner of the GFC Quantified Alpha, LP (the "Fund"). See Item 11 below for information regarding the Fund.



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

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Goodman Financial has adopted a Code of Ethics for all employees of the Firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures among other things. All employees at Goodman Financial must acknowledge the terms of the Code of Ethics annually, or as amended.

Goodman Financial anticipates that in appropriate circumstances consistent with clients' investment objectives, it will cause accounts over which Goodman Financial has management authority to effect, and may recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Goodman Financial, its affiliates and/or clients, directly or indirectly, may have a position of interest. Goodman Financial's employees and persons associated with Goodman Financial are required to follow the Firm's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Goodman Financial and its affiliates are allowed to trade for their own accounts in securities which are recommended to and/or purchased for the Firm's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Goodman Financial will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Goodman Financial's clients. In addition, the Code requires pre-clearance of many transactions and places restrictions on certain employee trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Goodman Financial and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Goodman Financial's obligation of best execution. Goodman Financial will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially-filled orders will be allocated fully to accounts by assignment based upon a random number generator. Any exceptions will be documented.

It is Goodman Financial's policy that the Firm will not affect any principal transactions for client accounts. Goodman Financial will also not cross trade between client accounts if any employee or other affiliate of the Company receives compensation from any source for acting as broker. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client.

Goodman Financial's clients or prospective clients may request a copy of the Firm's Code of Ethics by contacting the Firm.

A related entity of Goodman Financial, GFC Quantified Alpha GP, LLC is the general partner of the GFC Quantified Alpha, LP (the "Fund"), and certain personnel of Goodman Financial serve as officers of the Fund. GFC Quantified Alpha GP, LLC, as general partner of the Fund, has been designated with primary responsibility for investment management and administrative matters, such as accounting, tax and periodic reporting, pertaining to the Fund. Goodman Financial personnel will devote to the Fund as much time as determined necessary and appropriate to manage the Fund's business. Such activities could be viewed as creating a conflict of interest in that the time and effort of Goodman Financial personnel and employees will not be devoted exclusively to the business of Goodman Financial, but could be allocated between the business of Goodman Financial, the Fund and other of our business activities. Clients who invest in the Fund are subject to ongoing Fund operating expenses, an annual 1% management fee and a maximum annual performance fee of 10%.

Goodman Financial's status as general partner, as well as Goodman Financial personnel serving as officers of the Fund, presents a conflict of interest in that Goodman Financial personnel have an incentive to recommend that Goodman Financial clients invest in the Fund. Goodman Financial addresses this conflict through this disclosure and disclosure documents provided to Fund clients, and ensuring that investments in the Fund are recommended only to advisory clients for whom Goodman Financial determines that such an investment is suitable. The Fund is not required to register as an investment company under the Investment Company Act of 1940 in reliance upon an exemption available to funds whose securities are not publicly offered. We manage the Fund on a discretionary basis in accordance with the terms and conditions of the Fund's offering and organizational documents.

## Item 12 - Brokerage Practices

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We will supervise and direct the investments in the client accounts subject to such limitations as the client imposes in writing, if any. Goodman Financial Corporation, with respect to the client's account and without prior consultation with the client, will (a) direct the purchase, sale, exchange, conversion, and otherwise trade in stocks, bonds and other securities including money market instruments, (b) direct the amount of securities purchased, sold, exchanged, and otherwise traded; and (c) place orders for the execution of such securities transactions.

All client assets are held by third-party custodians. We do not maintain custody of client assets (although, as described more fully in Item 15 - Custody, we may be deemed to have custody of client assets if they give us standing authority to transfer assets from their account to a third party). Client assets must be maintained in an account at a "qualified custodian." Goodman Financial may recommend that clients use TD Ameritrade Institutional, Charles Schwab & Co., Inc. ("Schwab"), or Fidelity Investments ("Fidelity") as their qualified custodian. As detailed below, each qualified custodian provides certain services that may create an incentive for Goodman Financial to continue to use or expand the use of each custodian's services.

Schwab provides our clients and us with access to its institutional brokerage services—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. In addition, Schwab makes available investment research, both the custodians' own and that of third parties.

TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Some products or services may assist us in managing and administering client accounts while other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by us or our personnel do not depend on the amount of brokerage transactions directed to TD Ameritrade.

Fidelity provides us with Fidelity's "platform services". The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support us in conducting business and in serving the best interests of our clients. In addition, Fidelity will waive a platform fee for Goodman Financial subject to certain minimum asset requirements. As a result, Goodman Financial has an incentive to recommend Fidelity to maintain this fee waiver.

We are independently owned and operated and not affiliated with any of these custodians. We do not open accounts for clients. Rather, the client opens the account with the qualified custodian by entering into an account agreement directly with them. The custodians provide us with various services as described above. These services generally are available to independent investment advisors. Prospective clients are hereby advised that lower brokerage fees for comparable services may be available from other sources. We have a duty to get best execution for our clients. 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 as described above.

### ***Allocation of Investment Opportunities and Orders***

We have adopted the following policies and procedures related to the fair allocation of investment opportunities. These policies are designed to help ensure that each client receives fair and equitable treatment in the investment process.

- Investment ideas are equally disseminated among all appropriate investment professionals responsible for selecting investments.
- Transactions in the same security on behalf of more than one client are aggregated, when possible, to facilitate best execution. This results in all clients within the aggregate receiving the same average share price on the transaction.
- When orders cannot be aggregated, we employ a trading process that is fair among all clients, regardless of size.
- IPOs are only allocated to accounts when the issuer meets the investment objectives of participating accounts as well as a review process for allocations.
- We do not short sell securities.
- Accounts in which our employees or affiliates have a beneficial interest, or in which Goodman Financial Corporation has a conflict of interest, do not receive preferential treatment.

- All clients receive fair and equitable treatment for investment opportunities that are too limited to be effectively allocated among all accounts.

When orders are generated, the decision on which accounts should participate, and in what amount, is based on the type of security or other asset, the present or desired structure of the various portfolios and the nature of the account's goals. Other factors include risk tolerance, tax status, permitted investment techniques and, for fixed-income accounts, the size of the account and other practical considerations. As a result, we may have different price limits for buying or selling a security in different accounts. Portfolio information systems, portfolio reports and quality control reports permit us to consider these factors as appropriate.

When our investment professionals decide to sell a security regardless of tax considerations, both taxable and tax-deferred accounts are eligible for sale simultaneously. In situations where capital gains influence the sale, securities in the tax-deferred accounts may be placed for sale first, as additional time is needed to consider the tax implications for each taxable account. Conversely, when capital losses influence the sale, Goodman Financial Corporation may prioritize taxable clients first, as the loss has a specific impact in a given year. In any event, the prioritization process is applied consistently over time.

### ***Research Services/Soft Dollars***

The custodians provide access to research and trade execution services to other investment advisors. As such, this access is not predicated on the execution of client securities transactions (ie. not "soft dollars"). Goodman Financial Corporation has not entered into any formal "soft dollar" arrangements with any custodian.

### ***Directed Brokerage***

With regard to client-directed brokerage, we are required to disclose that we may be unable to negotiate commissions, block or batch client orders or otherwise achieve the benefits described above, including best execution, if you limit our brokerage discretion. Directed brokerage commission rates may be higher than the rates you might pay for transactions in non-directed accounts. Also, clients that restrict our brokerage discretion may be disadvantaged in obtaining allocations of new issues of securities that we purchase or recommend for purchase in other clients' accounts. It is our policy that such accounts not participate in allocations of new issues of securities obtained through brokers and dealers other than those designated by the client. As a general rule, we encourage each client to compare the possible costs or disadvantages of directed brokerage against the value of the custodial or other services provided by the broker to the client in exchange for the directed broker designation.

### ***Rollover Recommendations***

When GFC provides investment advice to you regarding your retirement plan account or individual retirement account, GFC is a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way GFC makes money creates some conflicts with your interests, so GFC operates under a special rule that requires GFC to act in your best interest and not put our interest ahead of yours.

### ***Step-Out Relationships***

Occasionally the Company will work with other broker-dealers if it believes that it will lead to a better execution than what can be achieved through its primary custodian. When an outside broker-dealer is used, the commission rate is a function of the size of the order, the price of the security, the Company's transaction volume with that broker, and whether the receipt of products or services is involved. The Company's policy, however, is to realize the most favorable results for clients regardless of the products or services received, if any.

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## Item 13 - Review of Accounts

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We regularly review client accounts. While the nature and frequency of the review is different for different components of the review, they are purposefully designed to ensure each account is maintained in accordance with a client's goals and objectives or investment policy. These reviews effectively identify any issues that may require attention. Appropriate actions are taken when necessary. Accounts are reviewed by staff under the direction and oversight of those serving in the capacity of Senior Financial Advisors.

Multiple employees review and monitor custodial alerts for items including, but not limited to, deposits, distributions, new accounts, changes of address, and certain trading activity and corporate actions. Further investigation into these alerts and/or action will be taken if necessary. Custodial balances of accounts are reconciled to the balances in the Company's portfolio management software, BlackDiamond.

The Company uses its trade order management software, RedBlack, to monitor actual-to-target variances that are outside the usual rebalancing parameters for asset allocation and security weighting, as well as cash levels. Asset allocation and security drift is evaluated on an ongoing basis. On a quarterly basis, a client's performance is evaluated versus aggregate client performance and against relevant benchmarks. Material deviations (positive or negative) are investigated, and, as appropriate, portfolio changes are implemented when necessary.

### Reports:

Reports are furnished to our clients on a quarterly basis by Goodman Financial. These reports include performance for the most recent quarter, YTD, trailing 12 months, 3 year, 5 year and since inception periods (as applicable). For comparison purposes, performance is reported along with relevant and appropriate benchmarks. Additionally, the reports include current data regarding client accounts as of the report date – asset allocation, diversification metrics, fixed income ratings, asset balances per account and in the aggregate, and aggregate quarterly account activity. In addition to the quarterly report received from Goodman Financial, all clients receive separate monthly and/or quarterly statements from their portfolio custodian detailing all cash and asset transactions and activity as well as the asset balances for each security as of the report date.

## Item 14 - Client Referrals and Other Compensation

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We are not presently participating in any referral programs; however, from 2003 through 2006 we participated in a fee sharing arrangement where our Firm compensated TD Ameritrade AdvisorDirect for clients that were referred to us. This was for a small number of our clients. Regarding the existing relationship, TD Ameritrade still receives a trailing referral fee as long as the clients referred by that program remain with Goodman Financial.

Supervised persons are eligible to receive compensation via a bonus structure based on a percentage of fees generated on assets under management added by new clients obtained by the firm and in some cases existing clients. The bonus creates a conflict of interest since the supervised person has an incentive to encourage you to transfer your assets to the firm.

## Item 15 - Custody

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### Account Custodian

We do not serve, and have no intention to serve, as custodian of client accounts. Each client must select a custodian and will be required to pay any related custodian fees. Also, clients will incur brokerage and other transaction costs in the course of our management of their accounts. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. We urge you to carefully review such statements and compare such official custodial records to the account statements that we provide to you. The account values on our statements may vary from the values shown on custodial statements due to such factors as the timing and posting of dividends, settlement dates for trades, and accrued interest. (This may not be an all-inclusive list.) For example, in accounts which contain individual bonds, we would expect the value on our statement to be higher due to accrued interest on individual bonds being shown on our statements but not on custodian statements.

### Standing Letters of Authority

Goodman Financial has been deemed to have custody as a result of some clients providing us with Standing Letters of Authorization ("SLOA(s)") to transfer funds from their account to third parties. In such instances where we act under such a SLOA, it is our internal policy to only initiate the withdrawal when directed by the client to a third party they designate for a designated amount and at a designated time, all of their choosing. Although having custody would typically result in us being required to have a surprise examination, a surprise examination is not required in this circumstance where we are deemed to have custody due to SLOAs as we are relying on the conditions set forth in the No-Action letter issued by the Securities and Exchange Commission on February 21, 2017. Pursuant to the conditions set forth in the No-Action Letter, Goodman Financial confirms that in those situations (1) you provide an instruction to the qualified custodian, in writing, that includes your signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed; (2) you authorize us, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time; (3) the qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify your authorization, and the qualified custodian provides a transfer of funds notice to you promptly after each transfer; (4) you have the ability to terminate or change the instruction to the qualified custodian; (5) we have no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the your instruction; (6) we maintain records showing that the third party is not a related party of Goodman Financial or located at the same address as Goodman Financial; and (7) the qualified custodian sends you, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction. Most all of Goodman Financial's clients currently have TD Ameritrade, Charles Schwab, or Fidelity Investments serving as their qualified account custodian.

## Item 16 - Investment Discretion

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### ***Discretionary Management***

We receive discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. Such authority is provided in our contract with each client. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. Clients can impose investment guidelines or restrictions on investing in certain securities or types of securities, thus limiting the scope of potential investments. When selecting securities and determining amounts to invest, we observe the investment guidelines and restrictions of the client.

### ***Wrap Account Management***

We do not participate in wrap account management programs.



## Item 17 - Voting Client Securities

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Goodman Financial votes proxies on behalf of our clients who have provided us with written authorization to do so. Clients may, however, choose to retain proxy voting responsibility and will receive proxies from their custodian.

Goodman Financial has adopted proxy voting policies, procedures and guidelines designed to vote proxies efficiently and in the best interest of its clients. We seek to identify any material conflicts of interest and to ensure that any such conflicts do not interfere with voting in clients' best interests. Goodman Financial has retained a third-party service provider, Broadridge Investor Communication Solutions, Inc. ("Broadridge"), to provide access to proxy vote recommendations based on the Glass Lewis guidelines and assist with the voting and record-keeping of clients' proxy ballots through the Broadridge ProxyEdge® platform. It is our policy to vote proxies in accordance with Glass Lewis recommendations except in those cases where we believe a different vote would be in the best interest of our clients.

Clients may obtain a copy of Goodman Financial's proxy voting policies and information about how Goodman Financial voted a client's proxies by contacting us.

## Item 18 - Financial Information

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Goodman Financial Corporation does not have any financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding. In addition, we do not require or solicit pre-payment of advisory fees for more than \$1,200 per client, six months or more in advance.