

# Disclosure Brochure

March 17, 2023



**SANDERSON**

WEALTH MANAGEMENT

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Sanderson Wealth Management, LLC (hereinafter "Sanderson" or the "Firm"). If you have any questions about the contents of this brochure, please contact the Firm at (716) 566-2420. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Sanderson Wealth Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Sanderson Wealth Management, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

### **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since Sanderson's last annual update dated March 24, 2022. The Firm made changes to its minimum fees and account sizes, but those changes were not implemented for existing clients.

## Item 3. Table of Contents

Item 1. Cover Page .....	i
Item 2. Material Changes .....	ii
Item 3. Table of Contents .....	iii
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation .....	6
Item 6. Performance-Based Fees and Side-by-Side Management .....	9
Item 7. Types of Clients .....	9
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	10
Item 9. Disciplinary Information .....	12
Item 10. Other Financial Industry Activities and Affiliations .....	12
Item 11. Code of Ethics .....	13
Item 12. Brokerage Practices .....	13
Item 13. Review of Accounts .....	16
Item 14. Client Referrals and Other Compensation .....	17
Item 15. Custody .....	18
Item 16. Investment Discretion .....	19
Item 17. Voting Client Securities .....	19
Item 18. Financial Information .....	20

## Item 4. Advisory Business

Founded in June 2001 by principal John R. Sanderson (and providing advisory services since July 2001), Sanderson offers financial planning, investment consulting, and investment management services, focusing on developing asset allocations, performing due diligence, selecting managers, monitoring those managers, reviewing overall performance and performing periodic rebalancing.

As of December 31, 2022, Sanderson had \$898,736,639 in assets under management, of which \$116,855,610 was managed on a discretionary basis and \$781,881,029 was managed on a non-discretionary basis.

Prior to engaging Sanderson to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Sanderson setting forth the terms and conditions under which Sanderson renders its services (collectively the “*Agreement*”).

This Disclosure Brochure describes the business of Sanderson. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Sanderson’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Sanderson’s behalf and is subject to Sanderson’s supervision or control.

### Financial Planning Services

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Sanderson provides clients with a broad range of comprehensive financial planning and consulting services. These services generally include retirement planning, education planning, and goal planning, as well as other areas requested by the client. Sanderson’s financial planning services are generally offered as part of its overall wealth management services.

In performing its services, Sanderson is not required to verify any information received from the client or from the client’s other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Sanderson recommends the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Sanderson recommends its own services. The client is under no obligation to act upon any of the recommendations made by Sanderson under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Sanderson itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Sanderson’s recommendations. Clients are advised that it remains their responsibility to promptly notify Sanderson if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Sanderson’s previous recommendations and/or services.

## Investment Management Services

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Sanderson provides clients with wealth management services which generally include a broad range of comprehensive financial planning services as well as discretionary and/or non-discretionary management of investment portfolios. Sanderson primarily allocates clients' investment management assets among mutual funds, but may also utilize exchange-traded funds ("ETFs") and/or Independent Managers (as defined below). In addition, Sanderson also recommends that certain eligible clients invest in alternative investments such as individual and pooled privately placed securities (i.e. hedge funds, private equity funds, and venture capital funds) and other private placements (i.e. equity, credit or real estate investments) (together referred to as "Alternative Investments"). Sanderson may also provide advice about any type of investment held in clients' portfolios as necessary, but clients should not assume that these assets are being continuously monitored or otherwise advised on by the Firm unless specifically agreed upon.

Sanderson also renders non-discretionary investment management services to clients relative to variable life/annuity products that they own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that are not be held by the client's primary custodian. In so doing, Sanderson either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Sanderson tailors its advisory services to the individual needs of clients. Sanderson consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. Sanderson ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Sanderson if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Sanderson's management services. Clients may impose reasonable restrictions or mandates on the management of their account if, in Sanderson's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Use of Independent Managers

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As mentioned above, Sanderson recommends that certain clients authorize the active management of a portion of their assets by and/or among certain independent investment managers ("Independent Managers"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the Independent Managers are set forth in a separate written agreement between Sanderson or the client and the designated Independent Managers. Sanderson renders services to the client relative to the non-discretionary recommendation of Independent Managers. Sanderson also monitors and reviews the account performance and the client's investment objectives.

Sanderson receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated Independent Managers.

When recommending an Independent Manager for a client, Sanderson reviews information about the Independent Manager such as its disclosure brochure and/or material supplied by the Independent Manager or independent third parties for a description of the Independent Manager's investment strategies, past performance and risk results to the extent available. Factors that Sanderson considers in recommending an Independent Manager include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated Independent Managers, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, Sanderson's investment advisory fee. As discussed above, the client will incur additional fees than those charged by Sanderson, the designated Independent Managers, and corresponding broker-dealer and custodian.

In addition to Sanderson's written disclosure brochure, the client also receives the written disclosure brochure of the designated Independent Managers. Certain Independent Managers may impose more restrictive account requirements and varying billing practices than Sanderson. In such instances, Sanderson may alter its corresponding account requirements and/or billing practices to accommodate those of the Independent Managers.

### **Retirement Plan Consulting Services**

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Sanderson provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing and optimizing their corporate retirement plans. Each engagement is individually negotiated and customized, and includes any or all of the following services: plan design and strategy, plan review and evaluation, executive planning and benefits, investment selection, plan fee and cost analysis, plan committee consultation, fiduciary and compliance, and participant education. As disclosed in the Advisory Agreement, certain of the foregoing services are provided by Sanderson as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). In accordance with ERISA Section 408(b)(2), each plan sponsor is provided with a written description of Sanderson's fiduciary status, the specific services to be rendered and all direct and indirect compensation the Firm reasonably expects under the engagement.

## **Item 5. Fees and Compensation**

Sanderson offers its services for a fee based upon assets under management and/or advisement.

## Investment Management Fee

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Sanderson provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Sanderson. Sanderson's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Sanderson does not, however, receive any portion of these commissions, fees, and costs.

Sanderson's annual fee varies between 100 and 20 basis points (1.00% - 0.20%) on a tiered schedule.

Sanderson's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Sanderson on the last day of the previous quarter, as determined by an independent third-party. In valuing client assets, the independent-third party includes the value of accrued dividends, if any. This results in a higher ending market value for fee billing purposes, where applicable, which the Firm believes is fair. The values are determined by a third-party independent from the Firm which is typically the custodian of the assets or a third-party application. For privately placed securities, the Firm will rely upon the pricing provided by the issuer (which may also come from an administrator). These valuations may be unaudited. Furthermore, if the valuation is not available at the time that the Firm is billing the client account, it will take the most recent readily available pricing.

The Firm includes cash in a clients account in determining the valuation for billing purposes. The Firm may, in its sole discretion, not include cash in determining the fee, especially where a client has a high percentage of cash for reasons other than the Firm's investment management decision. As further disclosed in response to Item 7, Sanderson imposes a minimum annual fee of \$10,000.

Additionally, for asset management services the Firm provides with respect to certain client holdings (e.g., Alternative Investments, held-away assets, and reporting assets etc.), Sanderson may negotiate a fee rate that differs from the range set forth above. Clients are advised that a conflict of interest exists for the Firm to recommend that clients engage Sanderson for additional services for compensation, including rolling over retirement accounts or moving other assets to the Firm's management. Clients retain absolute discretion over all decisions regarding engaging the Firm and are under no obligation to act upon any of the recommendations.

Sanderson, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

## Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), Sanderson generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services and Fidelity Management

Trust Company (collectively "*Fidelity*"), although clients may have accounts with other broker-dealers or custodians.

Sanderson may only implement its investment management recommendations after the client has arranged for and furnished Sanderson with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, any other broker-dealer recommended by Sanderson, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients will incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers*, custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients will incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Sanderson's fee.

Sanderson's *Agreement* and the separate agreement with any *Financial Institutions* authorize Sanderson or *Independent Managers* to debit the client's account for the amount of Sanderson's fee and to directly remit that management fee to Sanderson or the *Independent Managers*. Any *Financial Institutions* recommended by Sanderson that allow for the debiting of the Firm's fees have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Sanderson. Alternatively, clients may elect to have Sanderson send an invoice for payment.

### **Fees for Management During Partial Quarters of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis. If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will generally not be adjusted or prorated based on the number of days remaining in the quarter. In limited circumstances, and as agreed to with the client, Sanderson may prorate its fees based on deposits or withdrawals.

The *Agreement* between Sanderson and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Sanderson's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Sanderson's right to terminate an account. Additions may be in cash or securities provided that Sanderson reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Sanderson, subject to the usual and customary securities settlement procedures. However, Sanderson designs its portfolios as long-term



investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Sanderson may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

### **Retirement Plan Consulting Fees**

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Sanderson charges an assets under management or advisement fee to provide clients with retirement plan consulting services. Each engagement is individually negotiated and tailored to accommodate the needs of the individual plan sponsor, as memorialized in the Agreement. These fees vary based on the scope of the services to be rendered and the amount of assets to be advised on.

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

Sanderson does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## **Item 7. Types of Clients**

Sanderson provides its services to individuals, retirement plans, trusts, estates, charitable organizations (including foundations and endowments), corporations and business entities.

### **Minimum Fee and Account Size**

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As a condition for starting and maintaining a relationship, Sanderson generally imposes a minimum portfolio size of \$1,000,000.. In addition, Sanderson imposes a minimum annual fee of \$10,000. Sanderson, in its sole discretion, may accept clients with smaller portfolios or waive its minimum fee based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. Sanderson only accepts clients with less than the minimum portfolio size if, in the sole opinion of Sanderson, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Sanderson may aggregate the portfolios of family members to meet the minimum portfolio size.

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

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

#### Methods of Analysis

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Sanderson's methods of analysis includes, both quantitative and qualitative analysis of data gathered from third-party sources such as Morningstar, Zephyr, public databases, as well as the investment manager itself. Due to regulatory requirements, both mutual funds and exchanged traded funds must publish their holdings on a regular basis and are priced daily. This provides a great deal of information that can be reviewed and analyzed when evaluating one fund vs. another.

#### Investment Strategies

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When designing asset allocation targets for clients, Sanderson spends a great deal of time developing capital market assumptions, performing risk budgeting analysis, and scenario analysis. Sanderson categorizes investments into three main categories: core bonds and cash, global stocks, and non-traditional assets. Each client's investment objective, time horizon, risk tolerance, cash flow needs and constraints will determine what portion of their investment portfolio will be invested in each of the three main categories mentioned above.

Over many years of practice in the investment industry, Sanderson has developed a preference for investments with transparency and daily liquidity. As such, Sanderson primarily utilizes mutual funds and exchange traded funds within clients' portfolios to implement the Firm's asset allocation targets.

#### Risks of Loss

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##### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Use of Independent Managers*

Sanderson may recommend the use of *Independent Managers* for certain clients. Sanderson will continue to do ongoing due diligence of such managers, but such recommendations rely, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, Sanderson does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by Sanderson in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to Sanderson will not be increased.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### Item 9. Disciplinary Information

Sanderson is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Sanderson does not have any required disclosures to this Item.

### Item 10. Other Financial Industry Activities and Affiliations

Sanderson is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

#### Related Certified Public Accountants

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Sanderson does not render accounting advice nor tax preparation services to its clients. Rather, to the extent that a client requires accounting advice and/or tax preparation services, Sanderson, if requested, will recommend the services of a certified public accountant, all of which services are rendered independent of Sanderson pursuant to a separate agreement between the client and the certified public accountant. Sanderson does not receive any of the fees charged by any recommended certified public accountant, referral or otherwise.

Specifically, the individual members of Sanderson, Messrs. Sanderson and Warner as well as certain of its *Supervised Persons* are also principals or employees of Sanderson Wealth Management CPAs, LLC ("*SWM*"), a certified public accounting firm located in Buffalo, New York. The place of business of *SWM* is the same as that of Sanderson. As discussed above, to the extent that *SWM* provides accounting and/or tax preparation services to any clients, including clients of Sanderson, all such services are performed by *SWM*, in its separate professional capacity, independent of Sanderson, for which services Sanderson does not receive any portion of the fees charged by *SWM*, referral or otherwise. Although Sanderson does not receive referral fees from *SWM*, the individual members of *SWM* are entitled to receive distributions relative to their respective ownership interests in *SWM*.

It is also expected that the members, solely incidental to their respective practices as certified public accountants with *SWM*, will recommend Sanderson's services to certain of *SWM*'s clients. Although *SWM* does not receive referral fees from Sanderson, these individual members of Sanderson are entitled to receive distributions relative to their respective ownership interests in Sanderson.

Irrespective of the foregoing, Sanderson may offer to offset all or a portion of the fees charged by *SWM* for its services for those clients that maintain at least one million dollars of assets under the management of Sanderson.

### Item 11. Code of Ethics

Sanderson and persons associated with Sanderson (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with Sanderson’s policies and procedures. Sanderson has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Sanderson or any of its associated persons. The *Code of Ethics* also requires that certain of Sanderson’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Sanderson’s *Code of Ethics*, none of Sanderson’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Sanderson’s clients.

When Sanderson is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Sanderson is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Sanderson to request a copy of its *Code of Ethics*.

### Item 12. Brokerage Practices

As discussed above, in Item 5, Sanderson generally recommends that clients utilize the brokerage and clearing services of the *Fidelity*. Factors which Sanderson considers in recommending *Fidelity* to clients include their respective financial strength, reputation, execution, pricing, research and service. *Fidelity* enables Sanderson to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by the *Fidelity* may be higher or lower than those charged by other broker-dealers.

The commissions paid by Sanderson's clients comply with Sanderson's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Sanderson determines that the commissions are reasonable in relation to the value of the brokerage and research services received. 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 *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Sanderson seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Sanderson periodically and systematically reviews its policies and procedures regarding its recommendation of *Fidelity* or other *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Sanderson in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Sanderson will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Sanderson (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Sanderson may decline a client's request to direct brokerage if, in Sanderson's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Sanderson decides to purchase or sell the same securities for several clients at approximately the same time. Sanderson may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Sanderson's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Sanderson's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Sanderson determines to aggregate client orders for the purchase or sale of securities, including securities in which Sanderson's *Supervised Persons* may invest, Sanderson generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Sanderson does not receive any additional compensation or remuneration as a result of the aggregation. In the event that Sanderson determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one

account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Sanderson may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

### **Software and Support Provided by Fidelity and/or Other Financial Institutions**

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Sanderson receives without cost from *Fidelity*, administrative support, computer software, related systems support, as well as other third party support as further described below (together "Support") which allow Sanderson to better monitor client accounts maintained at *Fidelity* and otherwise conduct its business. Sanderson receives the Support without cost because the Firm renders investment management services to clients that maintain assets at *Fidelity*. The Support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The Support benefits Sanderson, but not its clients directly. Clients should be aware that Sanderson's receipt of economic benefits such as the Support from a broker-dealer creates a conflict of interest since these benefits will influence the Firm's choice of broker-dealer over another that does not furnish similar software, systems support or services. In fulfilling its duties to its clients, Sanderson endeavors at all times to put the interests of its clients first and has determined that the recommendation of *Fidelity* is in the best interest of clients and satisfies the Firm's duty to seek best execution.

Specifically, Sanderson receives the following benefits from *Fidelity*: i) receipt of duplicate client confirmations and bundled duplicate statements; ii) access to a trading desk that exclusively services its institutional traders; iii) access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and iv) access to an electronic communication network for client order entry and account information.

These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain amount of the advisor's clients' assets are maintained in accounts at *Fidelity*. *Fidelity's* services include brokerage services that are related to the execution of securities transactions, custody, research, including that in the form of advice, analyses and reports, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For client accounts maintained in their custody, *Fidelity* generally does not charge separately for custody services but are compensated by account holders through commissions or other transaction-related or

asset-based fees for securities trades that are executed through *Fidelity* or that settle into *Fidelity's* accounts.

The *Financial Institutions*, including *Fidelity*, also make available to the Firm other products and services that benefit the Firm but may not benefit its clients' accounts. These benefits may include (depending on the *Financial Institution*) national, regional or Firm specific educational events organized and/or sponsored by the *Financial Institution*. Other potential benefits may include occasional business entertainment of personnel of Sanderson by the *Financial Institution's* personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist Sanderson in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of the Firm's fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of the Firm's accounts, including accounts not maintained at the *Financial Institution* providing the benefit. The *Financial Institutions* also make available to Sanderson other services intended to help the Firm manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance and marketing. In addition, the *Financial Institutions* may make available, arrange and/or pay vendors for these types of services rendered to the Firm by independent third parties. While, as a fiduciary, Sanderson endeavors to act in its clients' best interests, the Firm's recommendation that clients maintain their assets in accounts at a particular *Financial Institution* may be based in part on the benefits received and not solely on the nature, cost or quality of custody and brokerage services provided by that *Financial Institution*, which creates a conflict of interest.

### Item 13. Review of Accounts

For those clients to whom Sanderson provides investment management services, Sanderson monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Sanderson provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis. Such reviews are conducted by one of Sanderson's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Sanderson and to keep Sanderson informed of any changes thereto. Sanderson contacts ongoing investment advisory clients at least annually to review its



previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Sanderson provides investment advisory services will also receive a report from Sanderson that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from Sanderson.

Those clients to whom Sanderson provides financial planning and/or consulting services will receive reports from Sanderson summarizing its analysis and conclusions as requested by the client or as otherwise agreed to in writing by Sanderson.

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

Sanderson is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. Sanderson receives economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

In addition, Sanderson is required to disclose any direct or indirect compensation that it provides for client referrals. Sanderson has a relationship with an unaffiliated solicitor where Sanderson pays that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act. Any such referral fee is paid solely from Sanderson's investment management fee, and does not result in any additional charge to the client. If the client is introduced to Sanderson by an unaffiliated solicitor, the solicitor provides the client with a copy of Sanderson's written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of Sanderson discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of Sanderson's written disclosure brochure at the time of the solicitation.

#### **Other Compensation**

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The Firm receives economic benefits from *Fidelity*. The benefits, conflicts of interest and how they are addressed are discussed above in response to Item 12.

### Item 15. Custody

Sanderson's *Agreement* and/or the separate agreement with any *Financial Institution* authorizes Sanderson through such *Financial Institution* to debit the client's account for the amount of Sanderson's fee and to directly remit that management fee to Sanderson in accordance with applicable custody rules. The *Financial Institutions* recommended by Sanderson have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Sanderson. In addition, as discussed in Item 13, Sanderson also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Sanderson.

#### **Surprise Independent Examination**

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As Sanderson is deemed to have custody over clients' cash, bank accounts or securities for reasons other than withdrawing fees (including where the Firm has user names and passwords for certain client accounts and/or where the Firm or a related person acts as a trustee for a client account), the Firm is required to engage an independent accounting Firm to perform a surprise annual examination of those assets and accounts over which it maintains custody. Any related opinions issued by an independent accounting Firm are filed with the SEC and are publicly available on the SEC's Investment Adviser Public Disclosure website. Sanderson does not have direct access to client funds as they are maintained with an independent qualified custodian.

#### **Standing Letters of Authorization**

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Sanderson also has custody due to clients giving the Firm limited power of attorney in a standing letter of authorization ("SLOA") to disburse funds to one or more third parties as specifically designated by the client. In such circumstances, the Firm will implement the steps in the SEC's no-action letter on February 21, 2017 which includes (in summary): i) client will provide instruction for the SLOA to the custodian; ii) client will authorize the Firm to direct transfers to the specific third party; iii) the custodian will perform appropriate verification of the instruction and provide a transfer of funds notice to the client promptly after each transfer; iv) the client will have the ability to terminate or change the instruction; v) the Firm will have no authority or ability to designate or change the identity or any information about the third party; vi) the Firm will keep records showing that the third party is not a related party of the Firm or located at the same address as the Firm; and vii) the custodian will send the client an initial and annual notice confirming the SLOA instructions.

### Item 16. Investment Discretion

Sanderson is given the authority to exercise discretion on behalf of clients. Sanderson is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Sanderson is given this authority through a power-of-attorney included in the agreement between Sanderson and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Sanderson takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

### Item 17. Voting Client Securities

Sanderson accepts the authority to vote certain clients' securities (i.e., proxies) on their behalf. When Sanderson accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully-described in the Firm's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in Sanderson's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact Sanderson to request information about how the Firm voted proxies for that client's securities or to get a copy of Sanderson's Proxy Voting Policies and Procedures. A brief summary of Sanderson's Proxy Voting Policies and Procedures is as follows:

- Sanderson has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will vote proxies according to Sanderson's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since

corporate governance issues are diverse and continually evolving, the Firm devotes an appropriate amount of time and resources to monitor these changes.

The Firm has engaged Broadridge ProxyEdge (“BPE”) to act as administrator and advisor to its Proxy Voting Committee on behalf of clients. The Firm utilizes BPE as the administrative platform to execute voting and maintain records of its actions taken on behalf of clients. The Firm also subscribes to BPE’s Proxy Policy and Insights (“PPI”) for recommendations on voting options to help determine those that are in the best interest of the clients. The Firm remains responsible for voting decisions and reviews each vote independently while considering the PPI advice. All records of voting are stored on the ProxyEdge system.

In situations where there is a conflict of interest in the voting of proxies due to business or personal relationships that Sanderson maintains with persons having an interest in the outcome of certain votes, the Firm takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

Clients cannot direct Sanderson’s vote on a particular solicitation but can revoke the Firm’s authority to vote proxies.

### **Item 18. Financial Information**

Disclosure would be required if Sanderson requires or solicits the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Sanderson is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Sanderson has no disclosures pursuant to this Item.



Prepared by:



**MARKETCOUNSEL**<sup>®</sup>  
*The Adviser's Advisor<sup>®</sup>*