

**Part 2A of Form ADV  
Firm Brochure**

March 31, 2023

**Phillips Financial Management, LLC**

SEC File No. 801-63343

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This brochure provides information about the qualifications and business practices of Phillips Financial Management, LLC. If you have any questions about the contents of this brochure, please contact us at 260-420-7732. 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. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

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

## Item 2: Material Changes

This Firm Brochure ("Brochure") is our disclosure document prepared according to regulatory requirements and rules. This Brochure dated 3/31/2023, replaces our last version dated 8/30/2022. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

The following material changes have been made to this Brochure since our last annual amendment dated 3/31/2022:

Item 4 – Advisory Business: This section was updated to provide clarification of PFM's participation in the Betterment wrap program and to reflect PFM's assets under management as of December 31, 2022.

Item 5 – Fees and Compensation: This section was updated to reflect PFM's minimum account fee and to clarify the fees, costs and compensation associated with the Betterment wrap program.

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## **Item 4: Advisory Business**

### **A. Description of Your Advisory Firm**

Phillips Financial Management, LLC ("PFM" and/or "the firm") is an Indiana limited liability company and has been in business as an SEC-registered investment adviser since July 23, 2004. Richard L. Phillips, Jr. and Shannon H. Hardiek are the principal owners of PFM.

This Disclosure Brochure describes the business of PFM. Certain sections will also describe the activities of Supervised Persons. Supervised Persons are any of PFM'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 PFM's behalf and is subject to PFM's supervision or control.

### **B. Description of Advisory Services Offered**

PFM provides financial planning and consulting, investment management services, an automated investment strategy, retirement plan services, educational services, private capital services and engages a sub-advisor on certain accounts. Prior to engaging PFM to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with the Firm setting forth the terms and conditions under which PFM renders its services (collectively the "Agreement").

#### **B.1. Financial Planning and Consulting Services**

PFM may provide its clients with a broad range of comprehensive financial planning and consulting services. These services include business planning, retirement planning, financial education, estate planning, pension consulting, and cash flow planning.

In performing its services, PFM 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. PFM may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if PFM recommends its own services. The client is under no obligation to act upon any of the recommendations made by PFM under a financial planning or consulting engagement or to engage the services of any such recommended professional, including PFM itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of PFM's recommendations. Clients are advised that it remains their responsibility to promptly notify PFM if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising PFM's previous recommendations and/or current services.

#### **B.2. Investment Management Services**

Clients can engage PFM to manage all or a portion of their assets on a discretionary basis.

PFM primarily allocates clients' investment management assets among mutual funds and exchange-traded funds ("ETFs"). On a more limited basis, PFM allocates clients' assets to

individual debt securities. Occasionally, PFM will advise clients regarding certain types of options as well as the securities components of variable annuities in accordance with the investment objectives of the client.

PFM also may render investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, or other products that may not be held by the client's primary custodian. In so doing, PFM 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.

PFM tailors its advisory services to the individual needs of clients. PFM 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. PFM seeks to ensure that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

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

### **B.3. Automated Investment Strategy**

PFM offers an Automated Investment Strategy through a trading platform provided by Betterment, LLC, a financial services provider that is independent of PFM. Through the platform, clients will establish an investment account with Betterment and determine which portfolios their account assets will be allocated among through the risk-identification methods provided on the platform. Automated Investment Strategy uses a strategic investment allocation which is diversified in US stocks, foreign stocks, and bonds with an allocation that is based on the risk level chosen. This program is designed for smaller accounts and clients looking for a lower cost passive investment approach. Clients will enroll, transact, and receive all reports through Betterment's online portal/website. As provided in a separate agreement with Betterment, Betterment will provide clients with custodial and execution services necessary to effect trades in their account according to the level of the account assets they assign to each portfolio.

PFM does not construct the portfolios; instead, PFM recommends which allocation options a client can use for management of their account based on the specific investment objectives or limitations of the client and PFM's determination of the appropriate mix of portfolio components to achieve each portfolio's objectives described on the platform. Through the advisory contract, clients will give Betterment the authority to buy or sell portfolio components directly for the client's account. Betterment will periodically rebalance the portfolios, and clients will determine how much of their assets are allocated to each portfolio via the platform's functionality.

In addition to providing PFM with information regarding their personal financial circumstances,

investment objectives and tolerance for risk, clients are required to provide the Firm with any reasonable investment restrictions that should be imposed on the management of their portfolio and to promptly notify the Firm of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. PFM will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

#### **B.4. Retirement Plan Services**

PFM provides its retirement plan sponsor clients with a broad range of services related to sponsoring an employee retirement plan. These services may be performed by PFM as both fiduciary services and non-fiduciary services.

Fiduciary services may include:

- Non-discretionary investment advice to the plan sponsor about asset classes and investment alternatives available for the plan sponsor in accordance with the plan's investment policies and objectives.
- Assisting the plan sponsor with the selection of a broad range of investment options consistent with ERISA section 404(c).
- Assisting the plan sponsor in the development of an investment policy statement (IPS).
- Assisting in monitoring investment options by preparing periodic investment reports that document investment performance, consistency of fund management and conformance to the guidelines set forth in the IPS and making recommendations to maintain or remove and replace investment options.
- Meeting with the plan sponsor on a periodic basis to discuss the reports and the investment recommendations.
- PFM's investment adviser representatives may provide non-discretionary investment advice to participants in the plan. This advice may include assistance in completing and scoring the investor questionnaire and recommending an asset allocation based on that score. The participant will have final decision-making authority regarding the asset allocation model to be used.
- As it relates to Market Index Solution™ (MIS™) created and sponsored by PFM for the purpose of delivering asset allocation models to its retirement plan clients, PFM will have discretionary authority over the actual index fund used for each asset class. Each fund will be selected based on the guidelines set forth in the IPS adopted for the plan. In addition, PFM's investment adviser representatives will have discretionary authority over the percentage of each asset class used in each model. These percentages will be determined based upon generally accepted asset allocation theories within the industry. PFM's investment adviser representatives may periodically replace an index fund within a model and/or make slight adjustments to the percentage held in each asset class. Each MIS™ Model in the plan will be automatically rebalanced each year within a specified date range agreed upon by the plan. PFM will provide discretionary investment advice to the plan sponsor with respect to the selection of a qualified default investment alternative ("QDIA") for participants who are automatically enrolled in the plan or who

otherwise fail to make an investment election.

Non-Fiduciary services may include:

- Assisting with the education of the participants in the plan about general retirement saving topics and investment principles.
- Monitoring plan demographics and participation levels for the purpose of structuring education programs and periodically adjusting those programs to improve the effectiveness of the plan.
- Assisting in the group enrollment meetings designed to increase retirement plan participation among employees and investment and financial understanding by the employees.
- Assisting with plan design and consulting regarding design options.
- Assisting with the review of basic compliance reports on an annual basis and discussing annual test results with the client.
- Serving as the client/plan advocate to the various vendors servicing the plan.
- Monitoring the service level and plan satisfaction with the various vendors and periodically, as needed, conducting market searches for alternative vendors.
- Periodically performing benchmarking analyses to assist in measuring the total cost and performance of the plan.

PFM may provide these services or, alternatively, may arrange for the plan's other providers to offer these services, as agreed upon between PFM and the client.

### **B.5. Educational Services**

PFM may provide non-personalized investment-related training to certain individuals as part of its educational services. PFM's educational services generally address issues involving general financial education. These services may be provided to local universities, community centers, employees participating in an employer-sponsored retirement plan, and other target audiences.

PFM may charge a fixed and/or hourly fee for these services. Should any of the participants later engage PFM to render additional services, such work shall be done pursuant to a separate written agreement between the participant and PFM.

### **B.6. Private Capital**

PFM provides access to a lineup of alternative or private investment opportunities to certain accredited or qualified investors. These assets are managed through a non-discretionary advisory agreement. This and other arrangements are described further in Item 5.

Prior to engaging our Firm to provide non-discretionary investment management services for alternative or private investments, the client is required to complete the Non-Discretionary Private Capital Agreement setting forth the terms and conditions of the engagement (including termination options) and describing the scope of the services to be provided. The non-discretionary investment management services will be rendered in accordance with the relevant offering documents of the alternative or private investment. Clients interested in an alternative or



private investment should refer to the respective offering documents for important information regarding the investment objectives, risks, fees and additional disclosures for a complete understanding of the terms and conditions for investing in the alternative or private investment.

Non-Discretionary Private Capital clients are not required to use any of the firm's other services and retain full discretion over the alternative or private investments they choose to utilize.

### **B.7. Engagement of Sub-Advisor**

For certain client assets, PFM may outsource all or a portion of the portfolio management to an investment adviser not affiliated with PFM, who serves as Sub-Advisor. The Sub-Advisor is granted limited discretionary investment authority over assets assigned to it by PFM. For the assets directed to Sub-Advisor for services, its responsibility includes the authority to:

- exercise discretion to determine the types of securities bought and sold, along with the percentage allocation
- apply its discretion as to when to buy and sell
- apply its discretion as to the timing of transactions
- select the broker-dealer for execution of securities transactions, if appropriate
- take other portfolio management actions the advisor delegates or deems appropriate
- deduct Sub-Advisor fees directly from the custodian account, for which the Sub-Advisor is managing assets

Any authority of the Sub-Advisor only applies to the specific assets, within the Client's custodial account, for which the Sub-Advisor has been appointed as the discretionary manager. Sub-Advisor shall not provide investment advice, or have any advisory responsibility to the Client, beyond the assets for which it is appointed as Sub-Advisor. The terms of services provided by Sub-Advisor are directed in accordance with a separate written agreement entered into between PFM and the Client.

We may choose to engage a variety of institutional investment managers to serve as a Sub-Advisor for certain portfolios or client assets. We evaluate a variety of information about Sub-Advisors which may include the independent managers' public disclosure documents, materials supplied by the independent managers themselves, as well as other third-party analyses we believe to be reputable. Clients are typically required to maintain a minimum account size to be eligible for these services, and certain investment managers require a higher asset-level to invest in their program. While utilizing a Sub-Advisor, PFM continues to provide investment advisory services to the client relative to ongoing investment monitoring, asset allocation, and client objectives.

Sub-Advisors invest on behalf of accounts in accordance with the strategies set forth in their own disclosure documents which are available to our clients prior to employing their strategies. The Sub-Advisor typically assumes discretionary authority over an account, and most programs are available for clients who prefer an account to be managed under a non-discretionary engagement or whom may have other unique account restrictions. At least annually thereafter, a review will be

performed by our firm from both a compliance and performance perspective to determine whether the selected investment manager remains an appropriate fit for the client's portfolio.

When utilizing a Sub-Advisor, PFM's fees may be collected either in advance or in arrears, depending on the specific Sub-Advisor relationship and will be disclosed to the client at the point of entering into the advisory relationship.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

PFM acts as a portfolio manager for the Betterment wrap fee program in which the client pays one fee to the wrap program sponsor for all services associated with the management and execution of their account. PFM does not sponsor any wrap fee program. There are differences between how PFM manages wrap fee accounts and other accounts. One of the primary differences is the trading of a wrap fee account is directed to the sponsor (or an affiliate of the sponsor) of the wrap program. PFM receives a portion of the total wrap fee the client pays to the wrap program sponsor. PFM does not provide client statements or reporting.

### **E. Client Assets Under Management**

As of December 31, 2022, PFM had \$1,743,392,135 of discretionary assets under management and \$6,251,081 of non-discretionary assets under management totaling \$1,749,643,216 in total assets.

## **Item 5: Fees and Compensation**

### **A. Methods of Compensation and Fee Schedule**

PFM offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management. Additionally, certain of PFM's Supervised Persons, in their individual capacities, may offer insurance products under a commission arrangement.

#### **A.1. Financial Planning and Consulting Fees**

PFM may charge a fixed fee and/or hourly fee for financial planning and consulting services. These fees are negotiable, but generally range from \$1,500 to \$30,000 on a fixed fee basis and/or from \$100 to \$300 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial planning and/or the consulting services.

Prior to engaging PFM to provide financial planning and/or consulting services, the client is

required to enter into a written agreement with PFM setting forth the terms and conditions of the engagement. Generally, PFM requires one-half of the financial planning and/or consulting fee (estimated hourly or fixed) payable upon entering the written agreement.

Clients are never required to pay \$1,200 or more, six months or more in advance. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services. For certain clients, PFM will have inflationary adjustments made annually.

Clients seeking to terminate this service must do so in writing. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

## **A.2. Investment Management Fees**

PFM's annual fees for Investment Management services are calculated as a percentage (%) of the market value of the assets under management. Those percentages are tiered based on assets under management and generally range from .37% – 1.25% as set forth in the fee schedule in the client's advisory agreement. PFM generally charges a minimum fee of \$500 per quarter.

Certain legacy clients may be subject to a different fee schedule than those set forth above. In addition, PFM may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.).

Asset-based fees are always subject to the investment advisory agreement between the client and PFM. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. The fee is calculated by multiplying the quotient by the applicable number of basis points (one basis point equals 1/100 of one percent). The result is then multiplied by the number of days in the quarter and divided by 365 (or 366 in the case of a Leap Year) to determine the quarterly fee.

Clients may make additions to, and withdrawals from, their account at any time, subject to PFM's right to terminate an account. Additions may be in cash or securities provided that PFM 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 PFM, subject to the usual and customary securities settlement procedures. However, PFM designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. PFM 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.

If assets are deposited into an account after the inception of a quarter that exceed \$50,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter. For partial withdrawals in excess of \$50,000 in an account within a billing period, the unearned fee with respect to such assets will be adjusted based on the number of days remaining in the quarter, and refunded to the client's account. However, additions or withdrawals occurring on or after the 15th day of the final month of a quarter (i.e., the final 15 or 16 days of any given quarter, as applicable) will not be subject to being adjusted or prorated. For example, if a client withdraws \$45,000, and within the same week withdraws an additional \$45,000 from the same

account, the client is refunded the fee for the total \$90,000 withdrawn. This credit (or debit) is per account, per transaction.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due. Such payments will be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. PFM may modify the fee at any time upon written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

A client investment advisory agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any unearned, prepaid fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

### **A.3. Automated Investment Strategy Fees**

Clients are charged based on a percentage of assets under management with PFM. The maximum annual fee for this service is 1.00%. This fee is negotiable.

#### **A.3.c. Important Disclosure – Custodian Investment Programs**

Please be advised that under an arrangement with Betterment, LLC, PFM can access certain investment programs that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware.

Please note the following:

**Limitation on Mutual Fund Universe for Custodian Investment Programs:** Please note that as a matter of policy we prohibit the receipt of revenue share fees from any mutual funds utilized for our advisory clients' portfolios. Nonetheless, if the firm decides to take these 12b-1 fees in the future, please note the following: There are certain programs offered by our custodian in which the firm participates that limit the types of mutual funds and mutual fund share classes to those in which our custodian has negotiated the receipt of 12b-1 and/or other revenue sharing fee payments from the mutual fund issuer or sponsor. As such, a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client. Such fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees create conflicts of interest in instances (i) where our adviser representative is also licensed as a registered representative of a broker-dealer and receives a portion of 12b-1 and or revenue sharing fees as compensation – such compensation

creates an incentive for the investment adviser representative to use programs which utilize funds that pay such additional compensation; and (ii) where the broker-dealer receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

**Additional Disclosure Concerning Wrap Programs:** In addition, our custodian offers certain wrap fee programs that (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I- Shares," depending on the mutual fund sponsor). Our wrap fee programs offer investment services and related transaction services for one all-inclusive fee (except as may be described elsewhere in this Brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees borne by the client. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Should a client prefer an A-Share class or mutual fund share class that has embedded 12b-1 and/or revenue sharing fees, then the utilization of such funds within the wrap fee program requires specific written client consent acknowledging the conflict. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

#### **A.4. Retirement Plan Services Fees**

PFM provides retirement plan services for an annual fee based upon a percentage of the market value of the assets being managed by PFM. The annual fee varies depending upon the market value of the assets under management, as follows:

<u>Portfolio Value</u>	<u>Annual Fee</u>
Up to \$5,000,000	0.40%
Next \$5,000,000	0.30%
Next \$10,000,000	0.20%
Next \$30,000,000	0.15%
Above \$50,000,000	0.10%

Certain legacy clients may be subject to a different fee schedule than those set forth above. In addition, PFM may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future additional assets, dollar amount of assets to be managed, related accounts,

account composition, pre-existing client, account retention, pro bono activities, etc.).

Asset-based fees are always subject to the investment advisory agreement between the client and PFM. Such fees are payable quarterly in advance, either directly by the plan sponsor or charged against plan assets, allocated proportionately among plan participants prorated by the participant's balance.

The fee is calculated at the beginning of each quarter based on the included assets in the plan at the end of the previous quarter. For plans transitioning to PFM, the initial fee will be calculated based on the date assets were received. If this results in a partial quarter, the fee will be prorated over the remaining days in the quarter assets were received.

A minimum annual fee of \$4,000 will apply. If the fee charged to plan assets is less than the quarterly minimum fee (\$1,000), the plan sponsor will be balanced billed each quarter for the difference between the minimum quarterly fee (\$1,000) and fees collected from plan assets based on the above schedule. The plan sponsor agrees to pay the balance billed from the general assets of the company.

Either party may terminate the agreement upon 30 days' prior written notice to the other party, unless another termination date is mutually agreed upon by the parties. In the event the client terminates the services, the final fee will be prorated based on the date of termination.

#### **A.5. Private Capital Services Fees**

PFM's annual fees for Private Capital services are calculated as a percentage (%) of the market value of the assets under management. Those percentages are asset-based and generally range from .37% - 1.25% as set forth in the fee schedule in the client's advisory agreement.

Certain legacy clients may be subject to a different fee schedule than those set forth above. In addition, PFM may negotiate to charge a lesser management fee based upon certain criteria (i.e., high net worth clients, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, pro bono activities, etc.)

An alternative or private investment is an investment that is more complex in nature than simply owning stocks, bonds, or shares that you can buy and sell based on their current price. Alternative or private investments generally have greater risks, higher fees, and less liquidity than those available through widely accessible public markets. PFM provides access to certain accredited investors or qualified purchasers to a curated lineup of alternative or private investment opportunities through the Private Capital platform.

Our intent is to pair our clients up with alternative or private investment opportunities that best meet the client's individual objectives. Due to the extra risks of the alternative or private markets, we do not provide discretionary investment management services and therefore clients must be involved anytime we direct assets toward alternative or private investments.

Alternative or private investments have additional risks beyond the traditional equities markets that

are further described in Item 8. PFM has conflicts of interest as it arises to these markets as described in Item 10. Working on behalf of clients in the alternative investment markets causes additional costs and risks to PFM including conducting ongoing due diligence on the selection of offerings, providing additional administrative and operational support, generating subscription documents, monitoring funds frequently and maintaining knowledge of current and new offerings.

In order to compensate for additional costs and risks of the alternative investment markets, PFM or its affiliated companies or personnel are compensated for participation in these markets in the following way:

- PFM Private Capital Non-Discretionary Advisory platform - In cases where no direct compensation is provided from a portfolio company and no commission is received from a broker/dealer, we charge a non-discretionary advisory fee for alternative and private investments. Prior to engaging our Firm to provide these services, the client is required to complete the PFM Private Capital Non- Discretionary Advisory Agreement setting forth the terms and conditions of the engagement (including termination options) and describing the scope of the services to be provided. Through this engagement, clients are assessed an annualized asset-based fee that is paid quarterly, in advance, as indicated above or paid as soon as possible after the normal billing cycle if being paid directly through the capital call structure of an underlying investment. The fee is calculated by multiplying the quotient by the applicable number of basis points (one basis point equals 1/100 of one percent). The result is then multiplied by the number of days in the quarter and divided by 365 (or 366 in the case of a Leap Year) to determine the quarterly fee.

Because billing can often be challenging with alternative or private investments where no commission is received, where necessary, we will assign a percentage cost to an entire capital commitment while giving you the benefit of any fee reduction thresholds crossed in acquiring that investment.

Advisory fees and reported values will be determined by the reporting account value as of the last market day of each quarter, and in consonance with the statement you will receive from your custodian(s) of record for the purpose of verifying the computation of our advisory fee. In the absence of a reportable market value (which is frequently the case with alternative or private investments) at our discretion, our firm may rely on the reported value of the underlying portfolio company or private fund, seek a third-party opinion from a recognized industry source (e.g., unaffiliated public accounting firm), or utilize the original deposit amount provided the investment continues to be a going concern. If the reportable value reflects the original deposit(s) made for the investment, or a value estimate from a previous date, the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original deposit. If our clients disagree with our selected approach, they may choose to separately seek such an opinion at their own expense as to the valuation of "hard-to-price" securities if necessary and we will utilize that value for the purpose of determining our fee.

The first billing cycle will begin once the client agreement is executed, and account assets have settled in the account held by the custodian(s) of record. Fees for partial quarters will be



prorated based on the remaining days in the reporting period in which the firm services the account. Fee payments will generally be assessed within the first 10 calendar days of each billing cycle. For some private investments, fees will not be assessed until a capital call has been satisfied. In those instances, our Firm may be compensated by a portion of the capital call sufficient to cover any delayed billing.

The client's written authorization is required in order for any custodian(s) of record to deduct our advisory fee from an account. By signing our firm's engagement agreement, as well as the custodian(s) account opening or subscription documents, the client will be authorizing the custodian(s) to withdraw our advisory fees from the account. The custodian(s) will remit our advisory fees directly to our firm. Fees deducted from the account will be noted on statements that the client receives directly from the custodian(s) of record.

**RISKS:** Alternative and private investments generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective investor will be required to complete a subscription agreement (or equivalent), pursuant to which the client will establish that he/she is eligible for investment in the fund and acknowledges and accepts the various risk factors that are associated with such an investment.

## **B. Client Payment of Fees**

PFM requires clients to authorize the direct debit of fees from their accounts. Exceptions may be granted subject to the firm's consent for clients to be billed directly for our fees. For directly debited fees, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

PFM will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

## **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, private placement, pooled investment vehicles, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, each private placement or pooled investment vehicle's confidential offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client



may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using PFM may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

#### **D. Prepayment of Client Fees**

PFM generally requires fees to be prepaid on a quarterly basis. PFM's fees will either be paid directly by the client or disbursed to PFM by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account. A client investment advisory agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any unearned, prepaid fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

#### **E. External Compensation for the Sale of Securities to Clients**

PFM's advisory professionals are compensated primarily through a share of the fees collected for planning and/or advisory services. PFM's advisory professionals may receive commission-based compensation for the sale of insurance products. Please see Item 10.C. for detailed information and conflicts of interest.

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

PFM does not provide any services for performance-based fees, nor does PFM engage in side-by-side management. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client. Side-by-side management refers to situations where the same fund manager simultaneously manages mutual funds and hedge funds.

### **Item 7: Types of Clients**

PFM provides its services to individuals and high-net-worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations and endowment funds, corporations and business entities, and other investment advisors.

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

#### **A. Methods of Analysis and Investment Strategies**

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

### **A.1. Investment Selection Process**

PFM's Chief Investment Officer, in conjunction with PFM's Investment Committee, is responsible for monitoring investment research and initiating discussion on topics that may cause PFM to review its philosophy and strategy. For example, PFM periodically reviews the asset classes that are included in its model portfolios. As a result, over the years PFM has added some sub-asset classes for consideration in certain types of portfolios.

PFM's Investment Committee also reviews market and industry trends to determine if any other types of changes should be made to PFM's strategies. In general, PFM does not advocate making large changes in the client allocation and rebalancing process because of current market volatility. However, PFM is conscious of the potential impact of current and projected market conditions on client portfolios and determines how to manage client expectations and modify holdings where appropriate.

In addition, PFM periodically reviews the acceptable indices to be used to assess the performance of the market, such as S&P, MSCI, Wilshire, etc. PFM reviews literature discussing the pros and cons of various index construction methods to determine which indices most appropriately reflect the performance of the market.

PFM also reviews the specific fund companies and funds to be used. As a result, PFM has developed a list of funds that are generally (but not exclusively) selected for client portfolios. PFM's review of funds is based on various factors, such as quality and expertise of the fund company, expense ratio, consistency in tracking the index, stated objective of the fund (especially for non-index funds), tenure of the fund, and the index being tracked. PFM allows its investment adviser representatives to choose the specific funds for each account.

In conducting research, PFM utilizes industry publications, websites, prospectuses, and research papers. However, PFM does not attempt to forecast the direction of security prices through the study of past market data, as this is not consistent with PFM's philosophy.

### **A.2. Investment Philosophy**

PFM follows an investment philosophy of passive investing using primarily ETFs and mutual funds that track a specific index. PFM also occasionally utilizes individual bonds and certificates of deposit for larger portfolios, as well as low-cost bond mutual funds that are structured similar to a buy-and-hold ladder bond portfolio.

PFM's review of studies and research indicates that achieving returns that are better than market performance (i.e., "beating" the market) occurs infrequently and unsystematically. Furthermore, such attempts to "beat" the market often result in performance that is below the average market return. Therefore, PFM strives to achieve average market performance (as measured by widely recognized indices) through consistent exposure to broad market indices. This approach allows for low-cost investing, as there are lower expenses associated with research, administration and transaction fees (due to less frequent trading). This approach also can be more tax efficient than active management approaches.

### **A.3. Management Process**

Through the use of a Risk Tolerance Questionnaire, review of a client's financial situation, and

discussions with the client, PFM and the client select the model portfolio that most closely matches the client's needs. Many client portfolios are managed very similarly to one of the models. However, PFM may make adjustments to the model portfolio based on the client's specific needs.

In managing client portfolios, PFM starts with a group of model portfolios developed and redesigned over time. The model portfolios specify target percentages for broad asset classes (such as U.S. stocks, international and emerging markets stocks, and fixed income). PFM does not allocate according to narrow sectors or highly specified regions. However, PFM does utilize sub-asset classes, such as small and mid-cap stocks, real estate, high-yield bonds, inflationprotected bonds, and bonds of varying maturity lengths.

The types of securities used in client portfolios include mutual funds, ETFs and individual bonds and certificates of deposit. Occasionally, a variable annuity is used if the specific features of the annuity will address a particular need in the client's portfolio. Occasionally, PFM may permit individual stocks to be held in managed accounts, but will generally only provide advice to the extent of assisting the client to diversify out of the positions over time. Generally, such stocks are maintained in a non-managed account. PFM does not provide research or due diligence on individual company stocks. The decision to sell the individual stock is ultimately the client's decision.

PFM manages client portfolios within acceptable tolerance levels. Generally, if a particular asset class becomes more than 25% out of range of the target percentage, it will be rebalanced. However, this is not an automatic process. Meetings are held at least annually with each client, at which time accounts are rebalanced as appropriate. In addition, accounts are reviewed quarterly. Tax consequences may be considered when initiating transactions in client accounts, depending on the client's particular needs and circumstances. In some accounts, there are concentrated individual stock positions at the client's request, which may skew allocations.

Although PFM may utilize model portfolios as a starting point for developing an appropriate strategy for the client, PFM does not take an automated, one-size-fits-all, approach to managing accounts. Client accounts are managed individually by specific investment adviser representatives in the firm. As such, no promises are made that accounts of similarly situated individuals are managed in "the same" manner. Investment adviser representatives have the freedom to choose among a variety of funds. PFM is committed to using low-cost funds, while not necessarily the cheapest fund, in every category. While preferences for different funds and indices change and evolve over time, PFM does not automatically sell a particular security because of a change in preference. PFM does not trade in blocks.

#### **A.4. Management Through Similarly Managed Accounts**

PFM manages portfolios by allocating portfolio assets among various securities using one or more of its proprietary investment strategies (collectively referred to as "investment strategy"). In so doing, PFM buys, sells, exchanges and/or transfers securities based upon the investment strategy.

PFM's management using the investment strategy complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed

accounts, such as the investment strategy, with a safe harbor from the definition of an investment company.

Tax consequences may be considered when initiating transactions in client accounts, depending on the client's particular needs and circumstances.

### **A.5. Material Risks of Investment Instruments**

PFM may invest in index-based open-end mutual funds and exchange-traded funds for the vast majority of its clients. In addition, for certain clients, PFM may effect transactions in any of the following types of securities:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities, including corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Government and agency mortgage-backed securities
- Mortgage-backed securities
- Variable annuities
- Private Placements
- Alternative and Private Investments

#### **A.5.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.5.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid

market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.5.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.5.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>") iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employing the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.5.e. Fixed Income Securities, including Corporate Debt, Commercial Paper and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing

bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.5.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.5.g. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.5.h. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities.

Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.5.i. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, the firm may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated

payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.5.j. Variable Annuities**

Variable Annuities are long-term financial products designed for retirement purposes. In essence, annuities are contractual agreements in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. There are contract limitations and fees and charges associated with annuities, administrative fees, and charges for optional benefits. They also may carry early withdrawal penalties and surrender charges, and carry additional risks such as the insurance carrier's ability to pay claims. Moreover, variable annuities carry investment risk similar to mutual funds. Investors should carefully review the terms of the variable annuity contract before investing.

#### **A.5.k. Private Placements**

Private placements (aka private investments or private investment funds) are unregistered securities and generally involve various risk factors, including, but not limited to: Potential for complete loss of principal, liquidity constraints and lack of transparency. A discussion of these risks is stated in each private placement offering document, which will be provided in advance to the client for review and consideration. Unlike liquid investments, private investment funds do not provide daily liquidity or pricing. In the event that the firm references private investment funds owned by the client in any supplemental reports prepared by the firm, the values for private investment funds will reflect either the initial purchase and/or the most recent valuation provided by the private fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value, to the extent ascertainable, could be **significantly more or less** than the original purchase price.

The firm and its principals or affiliates do not solicit purchases of shares it/they may directly own (e.g., selling out of its "inventory"). The Firm's role relative to private placements is limited to initial and ongoing due diligence and investment monitoring.



Clients are under no obligation to consider or make an investment in any private placement we recommend.

#### **A.5.I. Alternative and Private Investments**

Alternative and private investments generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective investor will be required to complete a subscription agreement (or equivalent), pursuant to which the client will establish that he/she is eligible for investment in the fund and acknowledges and accepts the various risk factors that are associated with such an investment.

### **B. Security-Specific Material Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Neither PFM nor its affiliates, employees, or independent contractors are registered broker-dealers and do not have an application to register pending.



## **B. Futures or Commodity Registration**

Neither PFM nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

## **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

### **C.1. Receipt of Insurance Commission**

PFM is under common control with Phillips Financial Services, Inc. and Phillips Benefits Advisors, LLC, duly licensed insurance agencies. Certain of PFM's professionals, in their individual capacities, are also licensed insurance agents with Phillips Financial Services, Inc. and Phillips Benefits Advisors, LLC, as well as other insurance companies, and in such capacity, recommend, on a fully-disclosed commission basis, the purchase of certain insurance products. Please be advised there is a conflict of interest in that there is an economic incentive to recommend insurance and other investment products of such carriers. Please also be advised that PFM strives to put its clients' interests first and foremost, and clients may utilize any insurance carrier or insurance agency they desire.

### **C.2. Fiduciary Training Program**

PFM may provide non-personalized fiduciary training seminars to certain clients and potential referral sources. PFM's fiduciary training seminars generally address best practices for properly meeting the fiduciary standard of care. PFM will charge a fixed fee for these seminars and may offer these services to its investment advisory clients. A conflict of interest exists to the extent that clients may select PFM based solely on its status as an instructor on the fiduciary standard of care rather than other criteria. PFM may accept referrals of advisory clients from those persons engaging PFM for fiduciary training seminars.

### **C.3. Relationship with Other Investment Advisers**

PFM serves as a non-exclusive sub-adviser for Cedar Brook Financial Partners, LLC. ("Cedar Brook"). Other than advisory fees PFM receives for its investment management services, there is no referral or solicitor compensation arrangements with Cedar Brook.

### **C.4. Advisory Services Regarding Private Investments**

PFM provides non-discretionary advisory services regarding private investments offered through the iCapital Platform to certain Clients meeting suitability and risk tolerance criteria. PFM has an incentive to recommend these private investments, as the firm will receive a management fee, as described in Item 5 above. However, Clients are able to invest in private investments offered through iCapital's platform on their own, without engaging PFM.

## **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

PFM does not recommend separate account managers or other investment products in which it receives any form of referral or solicitor compensation from the separate account manager or client.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, PFM has adopted policies and procedures designed to detect and prevent insider trading. In addition, PFM has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of PFM's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of PFM. PFM will send clients a copy of its Code of Ethics upon written request.

PFM has policies and procedures in place to ensure that the interests of its clients are given preference over those of PFM, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

PFM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, PFM does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

PFM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it, may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which PFM specifically prohibits. PFM has adopted policies and procedures that are intended to address

these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

PFM will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Advisory representatives and employees must follow PFM's procedures when purchasing or selling the same securities purchased or sold for the client.

## **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

PFM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it, may effect securities transactions for their own accounts that differ from those recommended or effected for other PFM clients. PFM will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts.

## **Item 12: Brokerage Practices**

### **A. Factors Used to Select Broker-Dealers for Client Transactions**

#### **A.1. Custodian Recommendations**

PFM may recommend that clients establish brokerage accounts with Fidelity Institutional Wealth Services ("Fidelity" and/or "custodian"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although PFM may recommend that clients establish accounts at the custodian, it is the client's decision to custody assets with the custodian. PFM is independently owned and operated and not affiliated with custodian. For PFM client accounts maintained in its custody, the custodian generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into custodian accounts.

PFM considers the financial strength, reputation, operational efficiency, cost, execution capability, level of customer service, and related factors in recommending broker-dealers or custodians to advisory clients.

In certain instances, and subject to approval by PFM, PFM will recommend to clients certain other broker-dealers and/or custodians based on the needs of the individual client, and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by PFM will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

#### **A.1.a. Soft Dollar Arrangements**

PFM does not utilize soft dollar arrangements. PFM does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **A.1.b. Institutional Trading and Custody Services**

The custodian provides PFM with access to its institutional trading and custody services, which are typically not available to the custodian's retail investors. These services are not contingent upon PFM committing to a custodian any specific amount of business (assets in custody or trading commissions). The custodian's brokerage services include the execution of securities transactions, custody, research, 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.

#### **A.1.c. Other Products and Services**

Custodian also makes available to PFM other products and services that benefit PFM but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of PFM's accounts, including accounts not maintained at custodian. The custodian may also make available to PFM software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of PFM's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

The custodian may also offer other services intended to help PFM manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

The custodian may also provide other benefits such as educational events or occasional business entertainment of PFM personnel. In evaluating whether to recommend that clients

custody their assets at the custodian, PFM may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost or quality of custody and brokerage services provided by the custodian, which may create a potential conflict of interest.

#### **A.1.d. Independent Third Parties**

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to PFM. The custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to PFM.

#### **A.1.e. Additional Compensation Received from Custodians**

PFM may participate in institutional customer programs sponsored by broker-dealers or custodians. PFM may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between PFM's participation in such programs and the investment advice it gives to its clients, although PFM receives economic benefits through its participation in the programs that are typically not available to retail investors.

These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving PFM participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to PFM by third-party vendors

The custodian may also pay for business consulting and professional services received by PFM's related persons, and may pay or reimburse expenses (including travel, lodging, meals and entertainment expenses for PFM's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit PFM but may not benefit its client accounts. These products or services may assist PFM in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help PFM manage and further develop its business enterprise. The benefits received by PFM or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

As part of its fiduciary duties to clients, PFM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by PFM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence PFM's recommendation of broker-dealers for custody and brokerage services.

## **A.2. Brokerage for Client Referrals**

PFM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **A.3. Directed Brokerage**

### **A.3.a. PFM Recommendations**

PFM typically recommends Fidelity as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct PFM to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage PFM derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. PFM loses the ability to aggregate trades with other PFM advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Best Execution and Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

PFM, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold and the amount of such securities. PFM recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. PFM will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities

- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, PFM seeks to ensure that clients receive best execution with respect to clients' transactions. To the best of PFM's knowledge, these custodians provide high-quality execution, and PFM's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, PFM believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

PFM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if PFM determines that such arrangements are no longer in the best interest of its clients.

## **B.2. Security Allocation and Order Aggregation**

As PFM may be managing accounts with similar investment objectives, although it does not currently, PFM may aggregate orders for securities for such accounts in the future. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, would be made by PFM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

PFM's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. PFM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

PFM's advice to certain clients and entities and the action of PFM for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of PFM with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of PFM to or on behalf of other clients.

## **B.3. Allocation of Trades**

In the event PFM chooses to aggregate orders in the future, all allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors

including, but not limited to, the size of each client's allocation, clients' liquidity needs, and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

PFM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interests of its clients.

## **Item 13: Review of Accounts**

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

PFM monitors assets as part of an ongoing process, while regular account reviews are conducted on at least an annual basis. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with PFM and to keep PFM informed of any changes thereto. PFM 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. For those clients to whom PFM provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis.

Such reviews are conducted by one or more of PFM's investment adviser representatives.

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

### **B. Review of Client Accounts on Non-Periodic Basis**

PFM may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how PFM formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

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 PFM provides investment advisory services will also receive a report from PFM 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 PFM.



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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Other than what is disclosed in Item 12 regarding benefits the firm receives from its custodian(s), PFM does not receive economic benefits for referring clients to third-party service providers.

### **B. Advisory Firm Payments for Client Referrals**

PFM does not pay for client referrals.

## **Item 15: Custody**

PFM is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). The firm has elected to engage an independent public accountant to annually conduct a surprise custody exam audit.

Individual advisory clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in their accounts. Clients are urged to compare the account balance(s) shown on their account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to PFM with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, PFM will exercise full discretion as to the nature and type of securities to be purchased and sold and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

PFM allows clients to utilize third-party standing letters of authorization that do not strictly comply with the SEC's conditions stipulated in its recent no-action relief. As such, the firm is subject to a surprise annual custody audit by an independent certified public accounting firm.

## **Item 17: Voting Client Securities**

PFM does not take discretion with respect to voting proxies on behalf of its clients. PFM may provide general advice to clients on voting proxies regarding shareholder vote, consent, election

or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of PFM supervised and/or managed assets. In no event will PFM take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, PFM will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. PFM has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. PFM also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, PFM has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where PFM receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

PFM does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

PFM does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.