



**Biltmore Family Office, LLC**

**Part 2A of Form ADV**

March 31, 2023

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**Item 1 – Firm Brochure**

This brochure provides information about the qualifications and business practices of Biltmore Family Office, LLC. If you have any questions about the contents of this brochure, please contact us at (704) 248-5230 or [info@biltmorefamilyoffice.com](mailto:info@biltmorefamilyoffice.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state authority.

Biltmore Family Office, LLC is an investment advisory firm registered with the appropriate regulatory authority. Registration does not imply a certain level of skill or training. Additional information about Biltmore Family Office, LLC also is available on the SEC's website at [www.AdviserInfo.sec.gov](http://www.AdviserInfo.sec.gov).

## **Item 2 - Material Changes**

This Brochure is prepared in the revised format required beginning in 2011. Registered Investment Advisors are required to use this format to inform clients of the nature of advisory services provided, types of clients served, fees charged, potential conflicts of interest and other information. The Brochure requirements include the annual provision of a Summary of Material Changes (the “Summary”) reflecting any material changes to our policies, practices, or conflicts of interest made since our last required “annual update” filing. In the event of any material changes, such Summary is provided to all clients within 120 days of our fiscal year-end. Our last annual update was filed on March 30, 2022, below are the changes that have occurred since. The complete Brochure is available to clients at any time upon request.

Set forth below is the Summary of Material Changes for Biltmore Family Office, LLC (“BFO”):

<b>Date of Change</b>	<b>Description of Item</b>
March 2023	Item 4 has been updated regarding BFO’s assets under management.
March 2023	Item 14 has been updated regarding BFO’s use of solicitors.

### **Item 3 - Table of Contents**

Item 1 – Firm Brochure .....	1
Item 2 - Material Changes.....	3
Item 3 - Table of Contents.....	4
Item 4 - Advisory Business .....	5
Item 5 - Fees and Compensation.....	9
Item 6 - Performance-Based Fees and Side-By-Side Management.....	11
Item 7 - Types of Clients.....	11
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....	11
Item 9 - Disciplinary Information .....	15
Item 10 - Other Financial Industry Activities and Affiliations.....	16
Item 11 - Code of Ethics, Participation, or Interest in Client Transactions & Personal Trading .....	17
Item 12 - Brokerage Practices .....	17
Item 13 - Review of Accounts .....	20
Item 14 - Client Referrals and Other Compensation.....	21
Item 15 - Custody.....	21
Item 16 - Investment Discretion.....	21
Item 17 - Voting Client Securities .....	22
Item 18 - Financial Information.....	22
Brochure Supplements.....	Exhibit A

## **Item 4 - Advisory Business**

### **History**

Biltmore Family Office, LLC (“BFO”) is a collaborative family office formed in 2008 and registered as an Investment Adviser to begin serving outside clients in 2013. We are committed to serving high-net worth clients, families, and their related entities. We manage client assets primarily through internal investment selection and portfolio management, allocations to third-party managers, and various private investment funds.

As of December 31, 2022, BFO advises or consults on a total of \$3,318,867,095. BFO manages \$1,985,501,909 on a discretionary basis, an additional \$337,147,825 on a non-discretionary basis and provides consulting services on the balance.

### **Ownership**

The firm is primarily owned by its founder, Chris Cecil, as well as by its operating partners, Rael Gorelick, Nicole Gokey and Michael Farrell. Chris Cecil’s ownership is held through CHAC, Inc., Rael Gorelick’s ownership is held through RG Biltmore Holdings, Inc., Nicole Gokey’s ownership is held through Gokey Consulting, Inc., and Mike Farrell’s ownership is held through Farrell 4 Consulting, LLC. Each of these entities were formed for the sole purpose of holding their respective investment in BFO. These entities do not hold any other investments. Please see Brochure Supplements, Exhibit A, for information regarding all our partners and other individuals who formulate investment advice and have direct contact with clients or have discretionary authority over client accounts.

### **Services Offered**

We serve families with investible assets of \$10 million or more, or a net worth more than \$25 million. Our largest client families have a net worth exceeding \$1 billion. Our clients include families, individuals, single family offices, and family related fiduciary or charitable entities. As clients of the firm and owners of multi-generational wealth, our founders understand the complexities that accompany the blessings of family wealth. We focus only on privately-owned family wealth and seek to minimize conflicts of interest between ourselves and our clients. Our only source of revenue is fees paid to us by our clients. Our founding families and partners are fee paying clients of the firm and are invested alongside our clients; we believe our most important role in the firm is our role as a client.

To help other families navigate the challenges they face, we have developed a detailed process from many years of experience in which we help oversee the family balance sheet, manage investments, analyze cash flows, and advise on the often-complex planning vehicles and ownership structures. We do not use any proprietary funds and have no investment products to sell. Our advice typically includes the formulation of a family balance sheet, cash flow analysis, asset/liability management, investment management, estate & tax planning review, insurance review, fiduciary administration, and family governance & education. The following outlines our process at a high level:

1. **Family Balance Sheet**. Our process begins with the development of a family balance sheet, not too dissimilar from the balance sheet many of our entrepreneurial clients and business sellers used to create their wealth. Often through a liquidity event, the assets have become more liquid and less concentrated, and in our view, the liabilities have changed dramatically as well. Our

clients must solve for their Lifestyle Needs, or cash flows to maintain their standard of living. They must also solve for Generational Needs, which are longer term solutions to solve for the needs of living family members for their lifetimes, while protecting principal. Finally, there are Legacy Needs, which solve for the needs of future generations and longer-term charitable demands. As these all have a claim on the family's assets, we view Lifestyle, Generational, and Legacy as key liabilities of the family balance sheet – each needing to be defined, prioritized, planned, sized, and finally invested. Most importantly, the solution is not a goal, rather it is the proper allocation and investment of the family assets to meet the demands of their Lifestyle, Generational and Legacy needs. Using this framework, we develop cash flow requirements, planning needs, and investment risk & return parameters for the family and for their current generations as well as for those yet to come. Our unique family balance sheet framework is documented and then used as the starting basis for all our investment, planning, governance, and educational advice. The above framework with the definition, prioritization, and investing around a very long-term family balance sheet is our definition of a Family Office. We further define a Family Office as neither a product nor service; rather it is the family's ability to invest, plan, govern, give, and educate around well- defined, managed, and communicated balance sheet for many generations to come.

2. Investment Policy Statement. Working from the family balance sheet, we formulate and create customized investment policy statements for the accounts managed by our firm. Investment Policy Statements are prepared in accordance with each client's balance sheet as well as investment objectives, taking into consideration risk tolerance, time horizon, tax issues, liquidity and cash flow needs, restrictions/constraints, and other relevant guidelines. Investment Policy Statements are created at the inception of our relationship and are then updated upon a client's request or whenever necessary to reflect a change in the client's circumstances.
3. Asset Allocation. From the Investment Policy Statement, we work with our clients to create and establish their asset allocation and make changes to this recommendation as deemed appropriate. Our specialization is not in any one given asset class, but rather in the ongoing process of assessing our clients' objectives and developing an appropriate asset allocation to help the client achieve their objectives for each broad allocation to Lifestyle, Generational, and Legacy needs. Allocations within each are altered when tactical or secular risks and opportunities are identified. To this end, our client portfolios are diversified across a variety of asset classes, which may include, without limitation, equity securities, fixed income securities, limited partnerships, managed accounts, mutual funds, exchange traded funds, hedge funds, commodity futures, options, private equity, venture capital and direct company investments as well as other alternative investments consistent with a client's risk tolerance and overall objectives.
4. Investment Selection. As part of our asset allocation process, BFO assesses where it is most appropriate to use active or passive investment strategies. We routinely review asset classes to determine the post-fee return attributable to either an active or passive strategy with the goal of achieving the highest risk-adjusted, post-fee return for our clients. Where appropriate, our portfolio construction may include our direct management of exchange-traded funds, index funds, mutual funds, or individual corporate securities. Our direct management of any individual securities managed on behalf of any client is subject to the terms of the Investment Policy Agreement. As our firm has no proprietary products, we also identify, research, select

and monitor investment products provided by outside advisors to manage a portion of our client portfolios. A rigorous due diligence and evaluation process is used to evaluate other advisors and funds, employing both quantitative and qualitative techniques to identify the strategies we feel are best qualified to meet clients' objectives. In most instances, BFO retains the authority to add a new sub-advisor or to terminate a sub-advisor, while, in other instances, the client will ultimately select the sub-advisors recommended by BFO. Sub-advisors will generally have discretion to determine the type and amount of securities to be purchased or sold for the client for that portion of the client's assets managed by the sub-advisors. To the extent clients are invested directly or indirectly in unaffiliated funds of selected sub-advisors, the sub-advisor of such funds will have their own investment practices, and those independent investment practices will be described in each manager's disclosure documents and/or such funds' offering documents. The client understands that BFO makes no representation or assumes investment due diligence responsibility for any allocation or performance of any sub-advisor chosen exclusively by the client.

5. Ongoing Monitoring and Changes to Sub-Advisors. Where we have either selected or recommended any sub-advisor with respect to assets managed by us, our role will be to monitor the overall financial situation, the investment approach, and the performance of the sub-advisor, and to assist the client in understanding the investments held in the portfolio. When specifically requested by the client, we may assume ongoing monitoring responsibility for any allocation or performance of any sub-advisor or individual security chosen exclusively by the client.
6. Comprehensive Portfolio Reporting and Performance Evaluation. We provide each client a periodic consolidated statement of those investments managed by our firm, by any sub-advisors, and any other assets or liabilities provided to us where the client has instructed us to report. Our reports to clients typically include asset allocation summaries as well as investment performance calculated on either a time weighted, internal rate of return, or multiple of capital basis. We rely on and receive reporting and pricing data from custodian brokers or banks, from various sub-advisors and/or their administrators, and, occasionally, directly from clients. Although we believe this information to be accurate and complete, we cannot guarantee its accuracy or reliability. We, therefore, cannot be held responsible for any inaccuracies contained in our reports. We provide detailed reports to family members and their key service providers when requested, such as attorney and accountants, on an ongoing basis as requested.
7. Wealth Planning. Our wealth planning process is centered on the priorities established by our clients – for themselves, for their family and for their family's family, now and for the years to come. The tools we use help families prioritize their planning objectives to achieve a more sustainable model for their current and future needs. We help our clients answer the questions of how much is needed to meet their needs today through cash flow planning, income tax planning, and administration of the various family legal entities. We also work to solve for what families will need to provide for their family in the coming years through planning for major life events, analyzing the family estate planning priorities and existing structures, integration of family-owned businesses, financial literacy and education of the family and fiduciary administration considerations. What is needed to establish a legacy for the family is addressed through family governance, philanthropic planning, and family-owned business succession

planning.

### **Discretionary and Non-Discretionary Management**

We typically manage the client's investment portfolio on a discretionary basis and will have the authority to supervise and direct the portfolio without specific prior approval by the client. However, in certain pre-arranged circumstances, the portfolio may be managed under a non-discretionary arrangement where the client must be contacted prior to BFO executing any trade in the account(s) under management or allocating to any sub-advisors who may have discretion over the assets to which they are allocated. This may result in a delay in executing recommended trades, which could adversely affect the performance of the portfolio. This delay also normally means the affected account(s) will not be able to participate in block trades, a practice designed to enhance the execution quality, timing and/or cost for all accounts included in the block. In a non-discretionary arrangement, the client retains the responsibility for the final decision on all actions taken (or not taken) with respect to the portfolio.

### **Item 5 - Fees and Compensation**

All fee arrangements are agreed upon when the client engages our firm and are based specifically on each client's individual circumstances. For example, clients may agree to pay an asset-based Wealth Management Fee assessed on the market value of the assets under management. In other situations, we may agree that a fixed fee arrangement is more suitable. Under certain circumstances, the agreed-upon fee may be comprised of a combination of these two methods. In either case, individual client fee schedules are negotiated on a client-by-client basis based on the complexity of the relationship and other considerations. In addition to asset size, we evaluate client complexity based on the services we provide, the ownership and legal structure, the number and location of family members and the complexity, composition, and frequency of reporting services. Regardless of the fee calculation methodology, accounts are managed in the same way and with the same level of high customer service.

### **Wealth Management Fees**

When BFO's Wealth Management fee is based on the market value of a client's account, it is calculated pursuant to BFO's current fee schedule in effect at the time the applicable service is rendered or on a negotiated schedule based on complexity. Our published Wealth Management fee is as follows:

<u>Assets Under Management</u>	<u>Annual Rate</u>
The first \$10,000,000	1.00%
\$10,000,001-\$25,000,000	0.85%
\$25,000,001 and over	0.50%

Fees are payable quarterly in arrears at the end of each quarter based on the market value of the account on the last business day of the quarter.

It should also be noted that there is an annual minimum Wealth Management Fee of \$50,000.

In some circumstances, for the purposes of calculating the Wealth Management Fee, several accounts' values under our management may be aggregated and the total fee pro-rated across accounts so that a client's family benefits from allowing BFO to manage more assets.

Our fees are typically payable quarterly, in arrears, based either on the ending market value of the account(s) under management or on a retainer based fixed fee. The quarterly billing cycle normally begins the calendar month following the date the Investment Advisory contract is signed. Unless other arrangements are made, fees are normally debited directly from client custodial account(s). The details of a client's investment management fee are found in the Investment Management Agreement signed by the client and by us.

We do not receive, under any circumstances, any remuneration from any sub-advisor, affiliated advisor, third party money manager or private fund manager, for the recommendation of any such manager or fund to our clients or inclusion in client portfolios. All fees charged by sub-advisors, affiliated advisors and private funds are separately disclosed to, and agreed upon by, the client. The client should review all fees charged by funds, brokers, BFO and others to fully understand the total amount of fees paid by the client for investment and financial-related services. We strive to negotiate and minimize sub-advisor fees in favor of our clients.

Either we or the client may terminate the Investment Advisory Agreement at any time, subject to any written notice requirements in the agreement. In the event of termination, any fees due to our firm from the client will be invoiced or deducted from the client's account prior to termination.

Our fee is exclusive of all custodial and transaction costs as well as fees charged by sub-advisors, including advisors or sub-advisors to private funds in which our clients may invest. These fees may vary and will depend on several factors including, but not limited to, the size of investment, trading strategy, and degree of risk. Sub-advisor management fees generally range from 0.10% to 2.00% of assets per annum. In addition, some sub-advisors may charge performance fees of up to 20% of the profits experienced in an account. Since performance fees are generally based upon increase in the net assets of the portfolio, such performance fees may be based upon unrealized appreciation as well as realized gains. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

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

We do not have any performance-based fee arrangements. "Side - by - Side Management" refers to a situation in which the same firm manages accounts that are billed based on a percentage of assets under management and at the same time manages other accounts for which fees are assessed on a performance fee basis. Because we have no performance-based fee accounts, we have no side-by-side management.



## **Item 7 - Types of Clients**

We serve the following types of clients, without limitation:

1. High net worth individuals and other individuals,
2. Trusts, estates, foundations, and other charitable organizations,
3. Limited liability companies, corporations, pensions, and profit-sharing plans.

We typically work with clients whose investible net worth exceeds \$10 million or total net worth is \$25 million or more and is often composed of liquid and illiquid net worth, operating businesses, real estate, or other private investments. Our clients generally are, or have been, entrepreneurs, business owners, business sellers, or corporate executives. We often work with existing single-family offices in various roles to complement the services they are providing internally.

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

### **Methods of Analysis**

We employ both quantitative and qualitative analysis to determine portfolio allocations. The investment team begins with a baseline allocation incorporating opportunistic themes arising out of fiscal and monetary policy analysis, credit cycle timing, and asset class valuations. Allocation categories are melded into a whole portfolio through quantitative analytics using historical correlations between asset classes. The research group determines the best method of expressing the investment amongst private placement, passive ETF, actively managed accounts, or direct securities. Consideration is given to fees, liquidity, and correlation to other holdings.

To the degree we utilize sub-advisors or fund managers, the research team runs through a formal selection process. Quantitatively, each sub-advisor's return history is analyzed by looking at a combination of annualized returns over various periods, an evaluation of rolling correlations and volatility measures. The quantitative analysis serves merely as a starting point. Track records can be misleading. We believe that process and discipline lead toward more reliable investment results. To fully understand a sub-advisor's process, our firm utilizes a qualitative grading system. We grade each sub-advisor on over fifty metrics in five risk categories: execution, portfolio, business/operational, integrity, and strategy. This rigorous assessment enables us to be consistent and thorough in our initial evaluations and ongoing due diligence.

Sub-advisors are sourced via a variety of access points including other family office investors, clients, investment managers, conferences, brokers, and placement agents. We, wherever possible, will attempt to negotiate sub-advisors' fees for the benefit of BFO's clients in all instances where applicable, utilizing our size and scale. Any sub-advisor discounts achieved reduce the fees our clients pay the sub-advisor with no direct benefit to our firm.

To the extent they are utilized, mutual funds and ETFs are generally evaluated and selected based on a variety of factors, including, as applicable and without limitation, past performance, fee structure, liquidity, portfolio manager, fund sponsor, and overall ratings for safety and returns.

Fixed income investments may be used as a strategic short-term investment, as an instrument to fulfill liquidity or income needs in a portfolio, or to add a component of capital preservation. We may evaluate and select individual bonds or bond funds based on several factors including, without limitation, issuer, rating, yield, and duration.

### **Investment Strategies**

Our investment strategy is an asset/liability matching process incorporating a client's financial assets, non-financial assets, and sources and uses of cash flow. These assets are paired with a prioritization of the client's financial and non-financial priorities, or liabilities. We describe these priorities as if they were liabilities, or what they choose to commit to fund over their lifetime and of the lifetimes of future generations. We describe these as:

**Lifestyle** – is the liability, often cash flow driven, needed to provide for the lifestyle expenses of current generations. These expenses may include costs of living, health and education needs, income taxes, plus a safety buffer. This is often driven by cash flow which may or may not include: business cash flows, real estate investments, investment income, pension plans or stock ownership programs.

**Generational** – is a client's commitment to increase the net worth, through appreciation net of inflation, taxes, and expenses, for living family members including a surviving spouse, children, and/or grandchildren.

**Legacy** – is a client's funding commitment to meet the needs of future generations, philanthropic obligations, a family-owned business, aspirations, and future estate taxes.

We document target allocations into Lifestyle, Generational, and Legacy in each client's IPS. The best thinking of the investment team will be reflected in the portfolios built and maintained per the specific client IPS. We invest the portfolio in numerous investments including, but not limited to common stocks, ETFs, mutual funds, and individual bonds. We will also invest for clients through third party sub-advisors and in alternative investments, including private equity, limited partnerships, and hedge funds.

A broad number of specific strategies may be used in varying combinations over time for a given client, depending upon the client's individual circumstances:

- **Active security selection** – based on valuation, technical factors, company specific events, macro-economic factors, relative value, or other security specific factors. These could include short-selling strategies.
- **Passive ETF allocation** – for long term exposure to a given market.
- **Implementing bond and debt related strategies** – for income generation and risk reduction.
- **Distressed bond and debt related strategies** – for opportunistic total return.
- **Trading strategies** – generating return out of market inefficiencies, generally uncorrelated to broader markets.
- **Macro-economic strategies** – generating return out of currency, rate, commodity, equity, or fixed income mispricing due to policy change or misunderstanding.
- **Commercial Real Estate** – Public or private investment in domestic and/or international

property for income and/or total return.

- Private Equity – Investment in the equity of non-public companies for total return.

### **Investment Risk of Loss**

While we seek to diversify clients' investment portfolios across various asset classes consistent with their Investment Policy Statements to reduce risk of loss, all investment portfolios are subject to risks. Accordingly, there can be no assurance that client investment portfolios will be able to meet their investment objectives and goals, or that investments will not lose money or suffer a loss. Below is a description of several of the principal risks that client investment portfolios face:

Management Risks. While we manage client investment portfolios, or recommends one or more managers based on our experience, research and proprietary methods, the value of client investment portfolios will change daily based on the performance of the underlying securities in which they are invested. Accordingly, client investment portfolios, either through investments we have made directly or through sub-advisors we have chosen, are subject to the risk that their investments are adversely affected by unanticipated market movements, and the risk that our specific investment choices could underperform their relevant indexes.

Risks of Investments in Mutual Funds, ETFs and Other Investment Pools. As described above, BFO or a manager may invest client portfolios in mutual funds, ETFs and other investment pools ("pooled investment funds"). Pooled investment funds' success will be related to the skills of their managers and their performance in managing their funds. Pooled investment funds are also subject to risks due to regulatory restrictions applicable to registered investment companies under the Investment Company Act of 1940.

Risks Relating to Alternative Investments. As appropriate, we will make investments in a variety of types of instruments, including but not limited to: U.S. or offshore unit investment trusts, hedge funds, private equity funds, venture capital funds, real estate investment trusts, or other private alternative or other investment funds, some of which may be affiliated with us (collectively, "Alternative Investments" or "Alternatives"). These Alternative Investments will charge their own management and other fees, so that if we invest in them, the client will bear an additional level of fees and expenses. We do not receive fees directly from these funds but may have a financial interest. Please see Item 10 for additional information. Such investments may have unique risks of loss as described in their offering documents. The value of client portfolios will be based in part on the value of alternative investment vehicles included in the client's portfolio, the success of each of which will depend heavily upon the efforts of each Alternative's Manager. When the investment objectives and strategies of a Manager are out of favor in the market or a Manager makes unsuccessful investment decisions, the alternative investment vehicles managed by the Manager may lose money. A client account may lose a substantial percentage of its value if the investment objectives and strategies of many or most of the alternative investment vehicles in which it is invested are out of favor at the same time, or many or most of the Managers make unsuccessful investment decisions at the same time.

Equity Market Risks. We and any manager(s) will generally invest portions of client assets directly into equity investments, either stocks or pooled investment funds that invest in the stock market. These risks include, without limitation, the risks that stock values will decline due to daily fluctuations in the markets, and that stock values will decline over longer periods (e.g., bear markets) due to general market declines in the stock prices for all companies, regardless of any individual security's prospects.

Fixed Income Risks. We and any manager(s) may invest portions of client assets directly into fixed income instruments, such as bonds and notes, or may invest in pooled investment funds that invest in bonds and notes. While investing in fixed income instruments, risks include, without limitation, interest rate risks (risks that changes in interest rates will devalue the investments), credit risks (risks of default by borrowers), or maturity risk (risks that bonds or notes will change value from the time of issuance to maturity).

Foreign Securities Risks. We and any manager(s) may invest portions of client assets in foreign securities (*debt, equity, currencies, derivatives, etc.*). While foreign investments are important to the diversification of client investment portfolios, they carry risks that may be different from U.S. investments. For example, foreign investments may not be subject to uniform audit, financial reporting or disclosure standards, practices, or requirements comparable to those found in the U.S. Foreign investments are also subject to foreign withholding taxes and the risk of adverse changes in investment or exchange control regulations. Foreign investments may involve currency risk, which is the risk that the value of the foreign security will decrease due to changes in the relative value of the U.S. dollar and the security's underlying foreign currency.

Short Sale Risks. Short sales are speculative transactions and involve special risks. To initiate a short position, a security must be borrowed. Strategies that execute short sales may incur a loss if the price of the security sold short increases in value between the date of the short sale and the date when BFO purchases the security to replace the borrowed security. Losses are potentially unlimited in a short-sale transaction.

Options and Futures (Derivatives Risk). Even a small investment in options may give rise to leverage risk and can have a significant impact on the account's performance. Derivatives are subject to credit risk and liquidity risk.

Market Liquidity Risks. The value of securities held in client accounts and that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, September 2001, 2008, and more recently the Flash Crash in May 2010 could lead to violent price swings in securities held within client portfolios and could result in substantial losses.

Potential Concentration Risks. Client portfolios may have highly concentrated positions in issuers engaged in one or a few industries, sectors, markets, or countries. This increases the risk of loss relative to the market.

#### **Item 9 - Disciplinary Information**

We have had no disciplinary events to report.

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

BFO currently does not have any other financial industry activities or affiliations.

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

### **Code of Ethics and Personal Trading**

We have adopted a Code of Ethics (“the Code”), the full text of which is available to clients upon request. The Code has several goals.

First, the Code is designed to assist us in complying with applicable laws and regulations governing our investment advisory business. Under the Investment Advisers Act of 1940 (the “Advisers Act”), BFO owes fiduciary duties to our clients. Pursuant to these fiduciary duties, the Code requires persons associated with our firm (managers, officers, and employees) to act with honesty, good faith and fair dealing in working with clients. In addition, the Code prohibits such associated persons from trading or otherwise acting on insider information.

Second, the Code sets forth guidelines for professional standards for our associated persons. Under the Code’s Professional Standards, we expect our associated persons to put the interests of our clients first, ahead of personal interests. In this regard, BFO associated persons are not to take inappropriate advantage of their positions in relation to our clients.

Third, the Code sets forth policies and procedures to monitor and review the personal trading activities of associated persons. From time to time, our associated persons may invest in the same securities recommended to clients. Under our Code, we have adopted procedures designed to reduce or eliminate conflicts of interest that this could potentially cause. The Code’s personal trading policies include procedures for limitations on personal securities transactions of associated persons, reporting and review of such trading and pre-clearance of certain types of personal trading activities. These policies are designed to discourage and prohibit personal trading that would disadvantage clients. The Code also provides for disciplinary action as appropriate for violations.

### **Participation or Interest in Client Transactions**

We have adopted procedures to protect client interests when our associated persons invest in the same securities or sub-advisors as those selected for, or recommended to, clients. In the event of any identified potential trading conflicts of interest, our goal is to place our clients’ interests first. Consistent with the foregoing, we maintain policies regarding participation in initial public offerings (“IPOs”) and private placements to comply with applicable laws and mitigate conflicts with client transactions.

## **Item 12 - Brokerage Practices**

We are independently owned and operated and are not affiliated with any broker-dealer or custodian.

## **Best Execution and Benefits of Brokerage Selection**

When given discretion to select the brokerage firm that will execute orders in client accounts, we seek “best execution” for client trades, which is a combination of several factors, including, without limitation, quality of execution, services provided and commission rates. Therefore, we may use or recommend the use of brokers who do not charge the lowest available commission in the recognition of research and securities transaction services, or quality of execution. Research services received with transactions may include proprietary or third-party research (or any combination) and may be used in servicing any or all our clients. Therefore, research services received may not be used for the account for which the transaction was affected.

We recommend that clients establish brokerage accounts with various FINRA registered broker-dealers and members of the SIPC (“Custodians”) as the qualified custodians to maintain custody of clients’ assets. We may also affect trades for client accounts at custodians or may, in some instances, consistent with our duty of best execution and specific agreement with each client, elect to execute trades elsewhere.

Although we recommend that clients establish accounts with custodians, it is ultimately the client’s decision to custody assets with any custodian of their choosing. We are not affiliated with any custodian.

Custodians provide us with access to their institutional trading, custody, reporting and related services, which are typically not available to retail investors. Custodians also make available various support services to help us manage our clients’ accounts and manage and grow our business. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them. These services are not soft dollar arrangements but are part of the institutional platform offered by the Custodians. Custodians’ 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 might require a significantly higher minimum initial investment. We are not affiliated with any broker.

For BFO client accounts maintained in their custody, custodians generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through custodians or that settle into custodians’ accounts. Custodians also make available to us other products and services that benefit us but may not directly benefit our clients. Many of these products and services may be used to service all or some substantial number of client accounts, including accounts not maintained at custodians.

Custodians’ products and services that assist us in managing and administering clients’ accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide pricing and other market data; (iv) facilitate payment of our fees from clients’ accounts; and (v) assist with back-office functions, recordkeeping, and client reporting.

Custodians also offer other services intended to help our firm manage and further develop our business enterprise. These services may include: (i) technology, compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to

employee benefits providers, human capital consultants and insurance providers. Custodians may make available, arrange and/or pay third-party vendors for the types of services rendered to BFO. Custodians may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. Custodians may also provide other benefits such as educational events or occasional business entertainment to our personnel. In evaluating whether to recommend that clients custody their assets at specific custodians, we may consider 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 on the nature, cost or quality of custody and brokerage services provided by custodians, which may create a potential conflict of interest.

### **Directed Brokerage**

Clients may direct our firm to use a specific broker for custodial or transaction services on behalf of the client's portfolio. In directed brokerage arrangements, the client is responsible for negotiating the commission rates and other fees to be paid to the broker. Accordingly, a client who directs brokerage should consider whether such designation may result in certain costs or disadvantages to the client, either because the client may pay higher commissions or obtain less favorable execution, or the designation limits the investment options available to the client. By directing brokerage arrangements, the client acknowledges that these economies of scale and levels of efficiency are generally compromised when alternative brokers are used. While every effort is made to treat clients fairly over time, the fact that a client chooses to use the brokerage and/or custodial services of these alternative service providers can, in fact, result in a certain degree of delay in executing trades for their account(s) and otherwise adversely affect management of their account(s).

By directing us to use a specific broker or dealer, clients who are subject to ERISA confirm and agree with us that they have the authority to make the direction, that there are no provisions in any client or plan document which are inconsistent with the direction, that the brokerage and other goods and services provided by the broker or dealer through the brokerage transactions are provided solely to and for the benefit of the client's plan, plan participants and their beneficiaries, that the amount paid for the brokerage and other services have been determined by the client and the plan to be reasonable, that any expenses paid by the broker on behalf of the plan are expenses that the plan would otherwise be obligated to pay, and that the specific broker or dealer is not a party in interest of the client or the plan as defined under applicable ERISA regulations.

### **Aggregated Trade Policy**

We may enter trades as a block where possible and when advantageous to clients whose accounts have a need to buy or sell shares of the same security. This method permits the trading of aggregate blocks of securities composed of assets from multiple client accounts. It allows us to execute trades in a timely, equitable manner, and may reduce overall costs to clients.

We will only aggregate transactions when we believe that aggregation is consistent with our duty to seek best execution (which includes the duty to seek best price) for our clients and is consistent with the terms of our Investment Advisory Agreement with each client for which trades are being aggregated. No advisory client will be favored over any other client; each client that participates in an aggregated order will

participate at the average share price for all BFO client transactions in each security on a given business day. Transaction costs for participating accounts will be assessed at the custodian's commission rate applicable to each account; therefore, transaction costs may vary among accounts. Accounts may be excluded from a block due to tax considerations, client direction or other factors making the account's participation ineligible or impractical. We will prepare, before entering an aggregated order, a written statement ("Allocation Statement") specifying the participating client accounts and how it intends to allocate the order among those clients. If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement. If the order is partially filled, it will generally be allocated pro-rata, based on the Allocation Statement, or randomly in certain circumstances. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment, and the reason for different allocation is explained in writing and is approved by an appropriate individual/officer of BFO. Our books and records will separately reflect, for each client account included in a block trade, the securities held by and bought and sold for that account. Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the transaction on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement, and we will receive no additional compensation or remuneration of any kind as a result of the proposed aggregation.

### **Item 13 - Review of Accounts**

Each client's Investment Policy Statement is reviewed at least annually, but may be reviewed more often, upon receipt of information material to the management of the portfolio, or at anytime such review is deemed necessary or advisable by us. These factors generally include, but are not limited to, change in general client circumstances (marriage, divorce, retirement) or economic, political or market conditions. All accounts are routinely reviewed by our partners or by our firm's senior investment professionals.

Account custodians are responsible for providing monthly or quarterly account statements which reflect the positions (and current pricing) in each account as well as transactions in each account, including fees paid from an account. Account custodians also provide prompt confirmation of all trading activity, and year-end tax statements, such as 1099 forms. We may produce quarterly written statements that provide pertinent information regarding investment account(s), including but not limited to account values, net contributions and withdrawals, realized/unrealized gain/loss, etc. This statement is not intended to replace the statement provided by the account custodian(s), which should be considered the official record for all pertinent account information and for tax purposes. Our reports are provided in a different format from that of the account custodian(s) and may vary in content and scope. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy. At times, there may be small differences due to the timing of dividend reporting, pending trades or other similar issues. Additional reports are available at the request of the client.

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

BFO has written agreements with unaffiliated third-party solicitors/endorsers who are paid a mutually acceptable percentage of the investment advisory fees charged to clients referred to BFO by such



firms/persons. The written agreements define the duties and responsibilities of the third-party solicitors. In addition, each solicitor is required to provide a disclosure document which explains to the prospective client the terms and compensation structure under which the solicitor is working with BFO. The solicitor is also required to furnish a copy of BFO's Form ADV Part 2A to the prospective client and obtain a written acknowledgement from the client that both the endorser's disclosure document and BFO's Form ADV Part 2A have been received. Payments made by BFO to any solicitor will not increase the advisory fees charged by BFO to clients referred by such solicitors.

As noted above, we may receive an economic benefit from custodians in the form of support products and services it makes available to us and other independent investment advisors whose clients maintain accounts at custodians. These products and services, how they benefit us, and the related conflicts of interest are described in *Item 12 - Brokerage Practices*. The availability of custodians' products and services to us is based solely on our participation in the programs and not in the provision of any investment advice. Neither our custodians nor any other party is paid to refer clients to BFO.

#### **Item 15 - Custody**

It is the client custodian's responsibility to provide clients with confirmations of trading activity, tax forms and, at least quarterly, account statements. Clients are advised to review this information carefully, and to notify us of any questions or concerns. Clients are also asked to promptly notify us if the custodian fails to provide statements on each account held. From time to time and in accordance with our agreement with clients, we will provide additional reports. The account balances reflected on these reports should be compared to the balances shown on the brokerage statements to ensure accuracy.

#### **Item 16 - Investment Discretion**

As described in *Item 4 - Advisory Business*, we will accept clients on either a discretionary or non-discretionary basis. For *discretionary accounts*, a Limited Power of Attorney ("LPOA") is executed by the client, giving us the authority to carry out various activities in the account, generally including the following: trade execution, hiring and firing of third-party sub-advisors, the ability to request checks on behalf of the client, and the withdrawal of advisory fees directly from the account. We then direct investment of the client's portfolio using our discretionary authority. The client may limit the terms of the LPOA to the extent consistent with the client's investment advisory agreement with us and the requirements of the client's custodian.

For *non-discretionary accounts*, the client also generally executes an LPOA, which allows us to carry out trade recommendations and approved actions in the portfolio. However, in accordance with the investment advisory agreement between us and the client, we do not implement trading recommendations or other actions in the account unless and until the client has approved the recommendation or action. As with discretionary accounts, clients may limit the terms of the LPOA, subject to BFO's agreement with the client and the requirements of the client's custodian.

### **Item 17 - Voting Client Securities**

Where we have the authority to vote proxies, we will seek to vote them in the best interest of our client holding the applicable securities. In voting proxies, we consider factors that we believe relate to the client's investment and factors, if any, that are set forth in written instructions from the client.

In general, we believe that voting proxies in accordance with the following guidelines, with respect to such routine items, is in the best interests of our clients. Accordingly, we generally vote for:

- The election of directors (where no corporate governance issues are implicated);
- Proposals that strengthen the shared interests of shareholders and management;
- The selection of independent auditors based on management or director recommendation, unless a conflict of interest is perceived;
- Proposals that we believe may lead to an increase in shareholder value;
- Management recommendations adding or amending indemnification provisions in charter or by- laws; and
- Proposals that maintain or increase the rights of shareholders.

We will generally vote against any proposals that we believe will have a negative impact on shareholder value or rights. If we perceive a conflict of interest, our policy is to notify affected clients so that they may choose the course of action they deem most appropriate. A copy of our complete policy, as well as records of proxies voted, is available to clients upon request. As required under the Advisers Act, we maintain such records for a period of five (5) years.

### **Item 18 - Financial Information**

We do not have any financial commitment that would impair our contractual commitments to our clients and therefore have no disclosure with respect to this item.