

## Item 1: Cover Page

# **Appendix 1 of Part 2A Isthmus Partners, LLC Wrap Fee Program Brochure**

March 8, 2023

## **Isthmus Partners, LLC**

SEC File No. 801-79683

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This wrap fee program brochure provides information about the qualifications and business practices of Isthmus Partners, LLC. If you have any questions about the contents of this brochure, please contact us at 608-729-0949. 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 Isthmus Partners, 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 is our disclosure document prepared according to regulatory requirements and rules. 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.

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## Item 4: Services, Fees, and Compensation

### A. Isthmus Partners, LLC

Isthmus Partners, LLC ("Isthmus Partners" and/or "the firm"), is a Wisconsin limited liability company and an SEC-registered investment adviser. The firm is owned by Frank J Gambino, David A Hackworthy, Joel C McNeil, Victor E Rodriguez, and Jeremy Baier. The firm has been providing investment advisory services since 2014.

#### A.1. Advisory Services Offered

The investment advisory services offered by Isthmus Partners include portfolio management, investment advice, performance reporting, and related account services. The firm may also offer financial planning services to certain clients.

Isthmus Partners offers three primary investment strategies to individual clients: (1) a Large Cap Core Equity Counseled Portfolio; (2) a Small-Mid Cap Core Equity Counseled Portfolio; and (3) a Small Cap Core Equity Counseled Portfolio (the "Counseled Portfolios"). Isthmus Partners may also offer certain Counseled Portfolio clients fixed income portfolios, international equity portfolios, or portfolio of mutual fund portfolios. Fixed income, international equity portfolios, and portfolio of mutual fund portfolios are only available to Counseled Portfolio clients as part of a larger diversified portfolio. Isthmus Partners typically provides Counseled Portfolio clients with advice and guidance on matters including, but not limited to, asset allocation and financial planning, along with discretionary investment management over the client's account.

The firm seeks to meet the client's particular investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and Isthmus Partners. At the commencement of services, the firm reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, Isthmus Partners makes a subsequent recommendation to the client as to which investment style the firm believes is best suited for the client. The client makes the final decision as to which investment style is chosen for the client's account.

For its discretionary asset management services, the firm receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies described in Item 6.C.7 of this brochure.

In addition to providing Isthmus Partners with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are obligated 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 in writing of any changes in such restrictions or in the client's personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, Isthmus Partners' reports to clients will remind clients of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. Isthmus Partners 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.

## A.2. Fees and Compensation

### *Counseled Portfolios*

The following fee schedule sets forth the maximum fee rates for Counseled Portfolios.

<u>Value of Assets</u>	<u>Annual Fee Rate</u>
First \$2 million	1.25%
Next \$3 million	1.00%
Next \$5 million	0.80%
Over \$10 million	0.60%

The minimum asset value to open a Counseled Portfolio is typically \$2 million. The minimum annual advisory fee is generally \$25,000. For Counseled clients seeking fixed-income management only, fees are negotiable. International equity securities management and portfolio of mutual fund portfolios is only available to Counseled Portfolios as part of a larger diversified portfolio.

The firm will calculate a client's advisory fee by applying the applicable fee rate to the value of all of the assets in the client's account, including cash and its equivalent and including all assets held by any third party custodian. If requested by a client and approved by Isthmus Partners a client's advisory fee may be determined by also including the aggregate value of assets in certain other accounts held by a client and the client's immediate family members residing in the same household, which may include managed account assets held in a client's name at Isthmus Partners and may include at the firm's discretion, assets held away from Isthmus Partners non-managed assets, and assets held in a name other than that of the client. A client should note that retirement accounts may not be included in to the extent a prohibited transaction under ERISA or the IRC may result. The terms of any such household fee arrangement will be set forth in the client's investment management agreement.

The advisory fee and minimum account value are negotiable in certain instances and may vary based upon a number of factors, including but not limited to the size and nature of the assets in the client's account, the client's particular investment style or objective, and any particular services requested by the client. In some instances, clients may pay a higher fee than indicated in the fee schedules above.

Asset-based fees are always subject to the investment advisory agreement between the client and Isthmus Partners. 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 month.

These fees include charges for all transaction costs such as commissions on purchase and sales of stocks, bonds, exchange-traded funds and options, and mutual fund transactions fees. Except as otherwise provided below, client will incur no charges other than the adviser's fee pursuant to the above fee schedule in connection with the maintenance of and activity in client's account. The wrap fee does not include annual account fees or other administrative fees, such as wire fees, charged by manager or brokerage firm; fees for securities transactions executed away from the custodian; certain odd-lot differentials, transfer taxes, transaction fees mandated by the

Securities Act of 1934, postage and handling fees, and charges imposed by law with regard to transactions in the client's account; and advisory fees, expenses or sales charges (loads) of mutual funds (including money market funds), closed-end investment companies or other managed investments, if any, held in client's account. The wrap fee also does not cover certain costs associated with securities transactions in the over-the-counter market, such as fixed income securities where manager must approach a dealer or market maker to purchase or sell a security. Such costs include the dealer's mark-up, mark-down or spread and odd-lot differentials or transfer taxes imposed by law.

The trading cost component of the Isthmus Partners' advisory fee is estimated to range from \$0 to \$500 per account per year.

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 with such payments to 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. Isthmus Partners may modify the fee at any time upon 30 days' 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 canceled at any time by the client, or by Isthmus Partners with 30 days' prior written notice to the client. Upon termination, 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.

## **B. Disclosure of Cost Difference if Services Purchased Separately**

Depending on a number of factors, such as the number, size, and nature of the securities transactions in an advisory account, the overall fees and charges borne by the client over time could be more or less than what these fees and charges would be if the same services were provided on a separate basis, either as asset-based fees or transaction-based fees. Bundled fees (where the adviser assumes the cost of processing the trade) generally provide an economic incentive for the advisory firm to select investments and strategies that minimize trading costs. Frequent trading in an account where transactions fees are included as part of the overall advisory fee to the client drive trading costs higher and reduce the overall fee revenue to the advisor. As a result, higher trading costs in a bundled fee account have a negative impact on the advisory firm's profitability.

## **C. Additional Client Fees and Terms of Payment**

### **C.1. Client Payment of Fees**

Isthmus Partners 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.

Isthmus Partners will deduct its 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.2. Prepayment of Client Fees**

Isthmus Partners generally requires fees to be prepaid on a quarterly basis. Isthmus Partners' fees will either be paid directly by the client or disbursed to Isthmus Partners 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 canceled at any time by the client, or by Isthmus Partners with 30 days' prior written notice to the client. Upon termination, 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.

### **C.3. Additional Fees**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and exchange-traded funds. Such fees and expenses are described in each fund's prospectus. Clients are advised to read these materials carefully before investing. Please refer to the Brokerage Practices section (Items 9.B. and 9.B.) for additional information regarding the firm's brokerage practices.

## **D. Compensation for Recommending the Isthmus Partners Wrap Fee Program**

The Isthmus Partners Wrap Fee Program is a proprietary product offered exclusively through Isthmus Partners. As such, there are no conflicts of interest in that there are no commissions paid for selling the Isthmus Partners Wrap Fee Program.

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

Isthmus Partners' advisory professionals are compensated solely through a salary and bonus structure. Isthmus Partners is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products with respect to managed advisory assets.

## **F. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered through such custodian(s) 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:*** There are certain programs in which we participate where 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.

***Conflict Between Revenue Share Class (12b-1) and Non-Revenue Share Class Mutual Funds:***

Revenue share class/12b-1 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 can create conflicts of interest in instances where the custodian 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:*** To the extent that we either sponsor or recommend wrap fee programs, please be advised that certain wrap fee programs may (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). Wrap fee programs offer investment services and related transaction services for one all-inclusive fee (except as may be described in the applicable wrap fee program 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 representative 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. 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. 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.



## **G. Client Assets Under Management**

As of December 31, 2022, Isthmus Partners had \$977,296,272 of discretionary assets under management and \$0 of non-discretionary assets under management.

## **Item 5: Account Requirements and Types of Clients**

Isthmus Partners offers its investment services to various individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; and corporations or other business entities.

The minimum asset value to open Institutional Portfolios is typically \$3 million for a Small Cap Institutional Portfolio and Small-Mid Cap Institutional Portfolio, and \$5 million for a Large Cap Institutional Portfolio. The minimum asset value to open a Counseled Portfolio is typically \$2 million; the minimum annual advisory fee is generally \$25,000.

## **Item 6: Portfolio Manager Selection and Evaluation**

### **A. Portfolio Manager Selection and Review**

Isthmus Partners is the sole sponsor and sole portfolio manager for the Isthmus Partners Wrap Fee Program.

### **B. Participation in Wrap Fee Programs**

Other than offering its Isthmus Partners Wrap Fee Program, the firm does not participate in wrap fee programs.

### **C. Isthmus Partners Acts as Both a Wrap Fee Sponsor and Portfolio Manager**

The Isthmus Partners Wrap Fee Program is a proprietary product offered exclusively through Isthmus Partners. Other than offering its Isthmus Partners Wrap Fee Program, the firm does not participate in wrap fee programs.

#### **C.1. Isthmus Partners Wrap Fee Program**

Isthmus Partners offers three primary investment strategies to individual clients: (1) a Large Cap Core Equity Counseled Portfolio; (2) a Small-Mid Cap Core Equity Counseled Portfolio; and (3) a Small Cap Core Equity Counseled Portfolio (the "Counseled Portfolios"). Isthmus Partners may also offer certain Counseled Portfolio clients fixed income portfolios, international equity portfolios, or portfolio of mutual fund portfolios. International equity portfolios and portfolio of mutual fund portfolios are only available to Counseled Portfolio clients as part of a larger diversified portfolio. Isthmus Partners typically provides Counseled Portfolio clients with advice and guidance on matters including, but not limited to, asset allocation and financial planning, along with discretionary investment management over the client's account.

The firm seeks to meet the client's particular investment needs by developing a customized investment strategy based upon guidelines that are jointly established by the client and Isthmus Partners. At the commencement of services, the firm reviews the client's investment objectives and risk tolerance. Based upon that review and other information provided by the client, Isthmus Partners makes a subsequent recommendation to the client as to which investment style the firm believes is best suited for the client. The client makes the final decision as to which investment style is chosen for the client's account.

For its discretionary asset management services, the firm receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies described in 6.C.7 of this brochure.

In addition to providing Isthmus Partners 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. On a quarterly basis, Isthmus Partners' reports to clients will remind clients of their obligation to

inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. Isthmus Partners 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.

### **C.2. 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.

### **C.3. Management of Wrap Fee Program**

Isthmus Partners' portfolio management services are offered exclusively through this wrap fee program.

### **C.4. Performance-Based Fees and Side-by-Side Management**

Isthmus Partners does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in clients' best interests.

### **C.5. Methods of Analysis, Investment Strategies and Risk of Loss**

#### **C.5.a. US Equities**

The Domestic Equity Investment Team ("DEIT") consists of the firm's Chief Equity Strategist, Chief Investment Officer and Equity Analysts. Within the DEIT, the Equity Investment Committee ("EIC") is responsible for making investment decisions related to the firm's Large Cap Core, Small-Mid Cap Core and Small Cap Core Equity strategies. The EIC consists of Isthmus Partners' Chief Equity Strategist, Chief Investment Officer and Senior Equity Research Analyst. The DEIT meets formally on a weekly basis to review existing holdings and new investment opportunities. As it relates to the inclusion of a new equity security into one Isthmus Partners' Core strategies or the disposal of an existing position, all EIC members have an equal vote, with a majority-rules methodology applied.

Isthmus Partners uses the following investment process:

- **Security Selection:** The firm approaches the selection process similar to that of a business owner by evaluating the cash generating potential of a new asset, which ultimately gives the firm a guide as to what a company is worth.
- **Excess Return Identifier:** The firm's Excess Return Identifier exercise is an exhaustive process designed to generate industry specific quality screens that provide a quantitative advantage. That is, the tests evaluate which financial metrics (or combination of financial metrics) are good predictors of future excess returns. The Excess Return Identifier process is conducted at least every two years, with changes to the quality screens made accordingly.

- **Quality Screen:** The firm's search for investment opportunities involves finding companies that (1) have consistently created economic value for shareholders, or (2) are showing a trend of improvement in creating economic value. In sourcing its best opportunities, the firm uses the following investable universes:
  - **Large Cap Core:** all securities with market capitalizations above the following lower bound (at time of original purchase): market capitalization of the security representing the bottom one percentile of market capitalization in the S&P 500 Index, subject to a floor of \$2 billion.
  - **Small-Mid Cap Core:** all securities with market capitalizations using the following bounds (at time of original purchase): a) Lower bound: Market capitalization of the security representing the bottom one percentile of market capitalization in the Russell 2500® Index, subject to a floor of \$100 million; b) Higher bound: Market capitalization of the security representing the top one percentile of market capitalization in the Russell 2500® Index.
  - **Small Cap Core:** all securities with market capitalizations using the following bounds (at time of original purchase): a) Lower bound: Market capitalization of the security representing the bottom one percentile of market capitalization in the Russell 2000® Index, subject to a floor of \$100 million; b) Higher bound: Market capitalization of the security representing the top one percentile of market capitalization in the Russell 2000® Index.

More specifically, the firm defines quality as the difference between the return on invested capital (ROIC) and the weighted average cost of capital (WACC), otherwise known as "spread". The firm focuses on those companies that have the most attractive historical spreads and/or those companies where the spread is improving, overlaying this assessment with early identification of a catalyst.

- **Valuation Screen:** The firm uses valuation techniques to further refine its opportunity set and primarily uses discounted cash flow analysis to estimate the intrinsic value of a company. Through the initial Quality and Valuation screening processes, the firm efficiently refines its Large Cap Core Equity opportunity set to 70-80 companies, its Small-Mid Cap Core Equity opportunity set to 85-110 companies and its Small Cap Core Equity opportunity set to 100-125 companies.
- **Fundamental Analysis:** After conducting its Quality and Valuation screens to further refine its opportunity sets, the firm applies fundamental analysis to find eligible portfolio companies. By examining trends in the balance sheet, income and cash flow statements along with assessing other qualitative factors specific to each company, the firm recalibrates its valuation model to arrive at a more precise estimate of the intrinsic value of the company.
- **Vote and Implementation:** The entire analysis becomes complete when the analyst identifies, and the EIC agrees on, the catalysts that will move a mispriced security towards the estimate of intrinsic value. Once all questions are satisfactorily answered and the EIC renders an affirmative vote, the firm will begin implementing an approved security into the portfolio. The firm buys companies that trade at greater than a 20%

(25% for Small-Mid Cap Core Equity and Small Cap Core Equity) discount to intrinsic value. Large Cap Core Equity portfolios typically consist of at least 35-45 securities. Small-Mid Cap Core Equity portfolios typically consist of 45-55 securities. Small Cap Core Equity portfolios typically consist of 60-65 securities. Positions may be phased in over a 1-3 month period so as to mitigate timing errors.

- Valuation Is Dynamic. The firm continually updates its valuation models to reflect the most recent financial and other information available.

#### **C.5.b. Fixed Income Philosophy and Process**

Isthmus Partners' Fixed Income Investment Committee ("FIIC") is responsible for making investment decisions related to the firm's fixed income strategies.

The firm purchases fixed income investments for three primary purposes within a diversified portfolio: as a diversifying agent to mitigate risk associated with equity investments, as an asset/liability match for clients to meet expense obligations, and as an income source.

Isthmus Partners uses the following investment process:

- Security Selection: The firm approaches the selection of fixed income assets with quality as its primary factor. Permissible investments include United States Treasuries, bank-qualified certificates of deposit, municipal securities, corporate debt obligations, exchange-traded funds and mutual funds. The committee upholds strict quality guidelines with respect to all municipal and corporate obligations, not the least of which includes minimum investment grade criteria as rated by Moody's and/or Standard & Poor's.
- Fundamental Analysis: Substantiated by quality and valuation screens, all corporate obligations are supported by fundamental analysis.
- Yield curve: Yield to maturity for municipal and corporate obligations are compared to risk-free alternative (US Treasury) and industry peers.

Isthmus Partners uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by companies, corporate rating services, annual reports, prospectuses, and company press releases. Partners may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

#### **C.5.c. International Equity Strategy, Philosophy and Process**

Isthmus Partners' International Equity Investment Committee ("IEIC") is responsible for making investment decisions related to the firm's international equity strategy.

Isthmus Partners uses the following investment process:

- Security Selection: Equity holdings may include mutual funds and/or ETFs.
- Fundamental Analysis / Screen: Securities will be reviewed on a regular basis to ensure compliance with stated goals and objectives of the strategy. When mutual funds and/or ETFs are used, they will be reviewed against their peer group. The aim is to consistently produce a portfolio in which its holdings produce rolling returns in the top quartile on a 3-, 5-, and 7-year basis, with minimum criteria being in the top 50% on a rolling five-year average. Other measures of review include Standard Deviation, Alpha, Beta, and R-Squared, Sharpe, Upside/Downside Capture, Drawdown, Max Drawdown Duration, and internal expense. Using the PSN style box comparison, we will seek to find funds which assume less risk than their benchmark while producing greater returns. While this is optimal, we also realize that the portfolio outcome will not always reside in what is known as the northwest quadrant. Standard benchmarks of comparison will include MSCI ACWI ex-US (International Developed and Emerging Markets).

Isthmus Partners uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

In addition, Isthmus Partners reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. Isthmus Partners may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **C.5.d. Core + Strategy, (Mutual Fund, ETF) Philosophy and Process**

Isthmus Partners' ("CORE+IC") Director of Advisory Services is responsible for making investment decisions related to the firm's ancillary strategies. Ancillary strategies are designed to accommodate client portfolios of lesser value (Roth IRA, UTMA, etc.) that are best served by using mutual funds and/or ETFs. The Director of Advisory Services reports all changes to the portfolio managers of the Firm as they occur.

For Core +, Isthmus Partners uses the following investment process:

- Security Selection: Fixed income holdings may include the use of ETFs, mutual funds or individual securities. Equity holdings may include mutual funds or ETFs. The overall objective is to design, monitor and maintain a portfolio that closely mimics the characteristics of its larger brethren, i.e., client trust account, significant IRA portfolio, etc.
- Fundamental Analysis / Screen: Securities will be reviewed on a regular basis to ensure compliance with stated goals and objectives of the strategy. When mutual funds and/or ETFs are used, they will be reviewed against their peer group. The aim is to consistently produce a portfolio in which its holdings produce rolling returns in the top quartile on a 3-, 5-, and 7-year basis, with minimum criteria being in the top 50% on a rolling five-year average. Other measures of review include Standard Deviation, Alpha, Beta, and R-Squared, Sharpe, Upside/Downside Capture, Drawdown, Max Drawdown Duration, and

internal expense. Using the PSN style box comparison, we will seek to find funds which assume less risk than their benchmark while producing greater returns. While this is optimal, we also realize that the portfolio outcome will not always reside in what is known as the northwest quadrant. Standard benchmarks will include Barclays Intermediate Government Credit (Fixed Income), Russell 3000 and MSCI ACWI ex-US (International Developed and Emerging Markets).

For the Core + product, Isthmus Partners uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

In addition, Isthmus Partners reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. Isthmus Partners may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **C.6. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes Schwab as its primary custodian, which is described in detail under Section 12 of this Part 2A disclosure brochure. Under this arrangement we can access certain investment programs offered by our custodian that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please see Item 5.A. of this Brochure for detailed information.

#### **C.7. Investment Strategy, Method of Analysis, and Material Risks**

Our investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

##### **C.7.a. Margin Leverage**

Although Isthmus Partners as a general business practice, does not utilize margin leverage, there may be instances in which Isthmus Partners could utilize leverage. In this regard please review the following:

The use of margin leverage entails borrowing which enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1 invested and \$1 borrowed. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

Since the use of margin leverage entails borrowing, there are additional costs in the form of interest to the investor.



Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

#### **C.7.b. Short-Term Trading**

Although Isthmus Partners as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

#### **C.7.c. Short Selling**

Isthmus Partners generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

#### **C.7.d. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

Isthmus Partners generally does not engage in option strategies but reserves the right to do so as part of its investment strategy and may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases

#### ***C.7.e.1. Covered Call Writing***

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### ***C.7.e.2. Long Call Option Purchases***

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### ***C.7.e.3. Long Put Option Purchases***

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### ***C.7.c. Concentration Risk***

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they 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.

### **C.8. Material Risks of Investment Instruments**

Isthmus Partners typically invests in US-based equity securities, fixed income, open-end mutual funds, exchange-traded funds and real estate investment trusts for the vast majority of its clients. These investments have certain inherent risks as outlined below:

- Equity securities
- Mutual fund securities
- Exchange-traded funds
- Fixed income securities
- Municipal securities
- Corporate debt obligations
- Real Estate Investment Trusts (“REITs”)

#### **C.8.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.

#### **C.8.b. 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 can be tax inefficient in certain circumstances, which may result in clients paying capital gains taxes on fund investments while not having yet sold the fund.

#### **C.8.c. 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.

#### **C.8.d. Fixed Income Securities**

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 have liquidity and currency risk.

#### **C.8.e. 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.

#### **C.8.f. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, the firm may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **C.8.g. Real Estate Investment Trusts ("REITs")**

A REIT is a tax designation for a corporate entity which pools capital of many investors to purchase and manage real estate. Many REITs invest in income-producing properties in the office, industrial, retail, and residential real estate sectors. REITs are granted special tax considerations which can significantly reduce or eliminate corporate income taxes. In order to qualify as a REIT and for these special tax considerations, REITs are required by law to distribute 90% of their taxable income to investors. REITs can be traded on a public exchange like a stock, or be offered as a non-traded REIT. REITs, both public exchange-traded and non-traded, are subject to risks including volatile fluctuations in real estate prices, as well as fluctuations in the costs of operating or managing investment properties, which can be

substantial. Many REITs obtain management and operational services from companies and service providers which are directly or indirectly related to the sponsor of the REIT, which presents a potential conflict of interest that can impact returns on investments.

### **C.9. Voting Client Securities**

Isthmus Partners as an SEC-registered investment advisor, often has voting power with respect to securities in client accounts. The firm owes certain fiduciary duties with respect to the voting of proxies. These fiduciary duties include (i) the duty of care which is required to monitor corporate events and to vote the proxies, and (ii) the duty of loyalty which is required to vote proxies in a manner consistent with the best interests of the client and to put the client's interests before its own interests. In keeping with its fiduciary duties, the firm has adopted a Proxy Voting Policy, which sets forth policies and procedures designed to ensure that the firm votes each client's securities in the best interests of the client.

The firm will be authorized to take action and render any advice with respect to the voting of proxies for securities held in the client's account. The firm will make an independent valuation for each applicable company held in the client's account in accordance with its fiduciary obligations as detailed in this policy. Clients may contact Isthmus Partners' Managing Member for information about how the firm voted with respect to any of the securities held in their account.

Except as required by applicable law, the firm will not be obligated to render advice or take any action on behalf of the client with respect to assets presently or formerly held in the client's account which become the subject of any legal proceedings, including bankruptcies.

As a general rule, Isthmus Partners will vote all proxies relating to a particular proposal the same way for all client accounts holding the security in accordance with the firm's Proxy Voting Policy, unless a client specifically instructs in writing to vote such client's securities otherwise. When making proxy voting decisions, the firm may seek advice or assistance from third-party consultants, such as proxy voting services or legal counsel. A copy of the firm's Proxy Voting Policy will be provided upon receipt of a written request to the firm's Chief Compliance Officer at the address on the cover of this Brochure.

## **Item 7: Client Information Provided to Portfolio Managers**

Isthmus Partners collects the following information in order to formulate its investment recommendations to clients, including but not limited to:

- Date of birth
- Marital status
- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals, and risk tolerance
- Sources of wealth and/or deposits
- Risk assessment
- Investment time horizon
- Liquidity needs
- Asset allocation
- Restrictions on management of accounts
- Client questionnaire(s) and interview(s)
- Review of client's current portfolio
- Analysis of historical risk/return characteristics of various asset classes
- Analysis of the long-term outlook for global financial markets
- Analysis of the long-term global economic and political environments

## **Item 8: Client Contact with Portfolio Managers**

Isthmus Partners encourages communication with its clients and does not limit or condition the amount of time clients can spend with Isthmus Partners advisory professionals.

## **Item 9: Additional Information**

### **A. Disciplinary and Other Financial Activities and Affiliations**

#### **A.1. Disciplinary**

There are no current or pending disclosure items to report on behalf of Isthmus Partners advisors.

##### **A.1.a. Criminal or Civil Actions**

There is nothing to report on this item.

##### **A.1.b. Administrative Enforcement Proceedings**

There is nothing to report on this item.

##### **A.1.c. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

#### **A.2. Other Financial Activities and Affiliations**

##### **A.2.a. Broker-Dealer or Representative Registration**

Neither Isthmus Partners nor its affiliates are registered broker-dealers and do not have an application to register pending.

##### **A.2.b. Futures or Commodity Registration**

Neither Isthmus Partners 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.

##### **A.2.c. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

###### ***A.2.c.1. Schwab Adviser Marketplace Program***

Isthmus Partners participates in the Schwab Adviser Marketplace Program as a sub-adviser.

### **B. Code of Ethics, Brokerage Trading Practices, Account Reviews, and Financial and Related Matters**

#### **B.1. Code of Ethics Description**

In accordance with the Advisers Act, Isthmus Partners has adopted policies and procedures designed to detect and prevent insider trading. In addition, Isthmus Partners has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of Isthmus Partners' 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 Isthmus Partners. Isthmus Partners will send clients a copy of its Code of Ethics upon written request.

Isthmus Partners has policies and procedures in place to ensure that the interests of its clients are given preference over those of Isthmus Partners, 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.1.a. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

Isthmus Partners 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, Isthmus Partners does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

**B.1.b. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

Isthmus Partners, 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 Isthmus Partners specifically prohibits. Isthmus Partners 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.

Advisory representatives and employees must follow Isthmus Partners' procedures when purchasing or selling the same securities purchased or sold for the client.

**B.1.c. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

Isthmus Partners, 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 Isthmus Partners clients. Isthmus Partners 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. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of Isthmus Partners to place the clients' interests above those of Isthmus Partners and its employees.

**B.2. Factors Used to Select Broker-Dealers for Client Transactions****B.2.a. Custodian Recommendations**

Isthmus Partners 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.

Isthmus Partners may recommend that clients establish brokerage accounts with Charles Schwab & Co. ("custodian"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although Isthmus Partners may recommend that clients establish accounts at the custodian, it is the client's decision to custody assets with the custodian. Isthmus Partners is independently owned and operated and not affiliated with custodian. For Isthmus Partners 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.

In certain instances and subject to approval by the firm, Isthmus Partners 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 Isthmus Partners 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.

***B.2.a.1 How We Select Brokers/Custodians to Recommend***

Isthmus Partners seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### ***B.2.a.2. Client's Custody and Brokerage Costs***

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into the custodian's accounts. The custodian's commission rates applicable to the firm's client accounts were negotiated based on the firm's commitment to maintain a certain minimum amount of client assets at the custodian. This commitment benefits the client because the overall commission rates paid are lower than they would be if the firm had not made the commitment. In addition to commissions, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

#### ***B.2.a.3. Soft Dollar Arrangements***

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

#### ***B.2.a.4. Institutional Trading and Custody Services***

The custodian provides Isthmus Partners with access to its institutional trading and custody services, which are typically not available to the custodian's retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at a particular custodian. 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.

#### ***B.2.a.5. Other Products and Services***

The custodian also makes available to Isthmus Partners other products and services that benefit the firm 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 Isthmus Partners' accounts, including accounts not maintained at custodian. The custodian may also make available to the firm 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 the firm'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 the firm 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
- including Isthmus as an investment manager in its Schwab Marketplace Program

The custodian may also provide other benefits such as educational events or occasional business entertainment of Isthmus Partners personnel. In evaluating whether to recommend that clients custody their assets at the custodian, the firm 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.

#### ***B.2.a.6. Independent Third Parties***

The custodian may make available, arrange, and/or pay third-party vendors for the types of services rendered to Isthmus Partners. 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 Isthmus Partners.

#### ***B.2.a.7. Additional Compensation Received from Custodians***

Isthmus Partners may participate in institutional customer programs sponsored by broker-dealers or custodians. Isthmus Partners may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between Isthmus Partners'

participation in such programs and the investment advice it gives to its clients, although Isthmus Partners 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 Isthmus Partners 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 Isthmus Partners by third-party vendors

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

Isthmus Partners also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require Isthmus Partners to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, Isthmus Partners will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by Isthmus Partners' related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for Isthmus Partners' personnel to attend conferences sponsored by the broker-dealer or trust company).

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

***B.2.a.8. The Firm's Interest in Schwab's Services***

The availability of these services from the custodian benefits the firm because the firm does not have to produce or purchase them. The firm does not have to pay for the custodian's services so long as a certain minimum of client assets is kept in accounts at the custodian. This minimum of client assets may give the firm an incentive to recommend that clients maintain their accounts with the custodian based on the firm's interest in receiving the custodian's services that benefit the firm's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. The firm believes, however, that the selection of the custodian as custodian and broker is in the best interest of clients. It is primarily supported by the scope, quality, and price of the custodian's services and not the custodian's services that benefit only the firm.

***B.2.b. Brokerage for Client Referrals***

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

***B.2.c. Directed Brokerage******B.2.c.1. Isthmus Partners Recommendations***

Isthmus Partners typically recommends Schwab as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

***B.2.c.2. Client-Directed Brokerage***

Occasionally, clients may direct Isthmus Partners 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 Isthmus Partners 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. Isthmus Partners loses the ability to aggregate trades with other Isthmus Partners advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

***B.3. Aggregating Securities Transactions for Client Accounts******B.3.a. Best Execution***

Isthmus Partners may recommend that clients establish brokerage accounts with Schwab, a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Such accounts will be prime broker eligible so that if and when the need arises to effect securities transactions at broker-dealers ("executing brokers") other than with the client's current custodian, such custodian will accept delivery or deliver the applicable security from/to the executing broker. Schwab charges a "trade away" fee which is charged against the client account for each trade away occurrence. Other custodians have their

own policies concerning prime broker accounts and trade away fees. Clients are directed to consult their current custodian for their policies and fees.

Isthmus Partners pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the amount of such securities, the executing broker, and the commission rates to be paid to effect such transactions. The firm recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. The firm 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, the firm seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of Isthmus Partners' knowledge, these custodians provide high-quality execution, and the firm'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, the firm believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

#### **B.3.b. Security Allocation**

Since Isthmus Partners may be managing accounts with similar investment objectives, Isthmus Partners may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by Isthmus Partners in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.



Isthmus Partners' allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. Isthmus Partners 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.

Isthmus Partners' advice to certain clients and entities and the action of Isthmus Partners 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 Isthmus Partners with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of Isthmus Partners to or on behalf of other clients.

#### **B.3.c. Order Aggregation**

Other than for options transactions, orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if Isthmus Partners believes that a larger size block trade would lead to best overall price for the security being transacted.

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

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."

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



## **B.4. Review of Accounts**

### **B.4.a. Schedule for Periodic Review of Client Accounts**

Client accounts are monitored on an ongoing basis by the client's Portfolio Managers and are subject to review by the firm's Portfolio Management Committee chaired by the firm's Director of Advisory Services and consisting of the firm's Portfolio Managers. The client's Portfolio Manager generally reviews the performance of the client's account at least quarterly. The Portfolio Management Committee is required to review accounts' daily trading activity and also required to perform a quarterly review of the Portfolio Manager's accounts, focusing on verifying that the Portfolio Manager's composites of client accounts are generally being managed in accordance with the client's investment policy statement and attempting to ascertain whether client accounts within each composite are being treated equitably. Additional reviews performed by Portfolio Managers include drift reports, review of over- and under-weighted holdings, and for Counseled Portfolios, holdings not included in the firm's model and an asset allocation review that compares a client's investment policy statement to each account's cash and investment allocation.

### **B.4.b. Review of Client Accounts on Non-Periodic Basis**

Isthmus Partners 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 the firm formulates investment advice. More frequent reviews may also be triggered by a change in the client's investment objectives, tax considerations, large deposits or withdrawals, large purchases or sales, loss of confidence in corporate management, or changes in macro-economic climate.

### **B.4.c. Content of Client-Provided Reports and Frequency**

Isthmus Partners reports to the client on a quarterly basis or at some other interval agreed upon with the client, information on contributions and withdrawals in the client's investment portfolio, and the performance of the client's portfolio measured against appropriate benchmarks.

The client's independent custodian provides account statements directly to the client no less frequently than quarterly. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by Isthmus Partners.

## **B.5. Client Referrals and Other Compensation**

### **B.5.a. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

Other than as disclosed under Item 9.B.2.a., the firm does not receive economic benefits for referring clients to third-party service providers.

### **B.5.b. Advisory Firm Payments for Client Referrals**

The firm may compensate employees for referring clients to the firm.

## **B.6. Financial Information**

### **B.6.a. Balance Sheet**

Isthmus Partners does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B.6.b. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

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

### **B.6.c. Bankruptcy Petitions during the Past Ten Years**

There is nothing to report for this item.

## **B.7. Custody**

The firm 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 meet the SEC's seven conditions to avoid the surprise custody exam, as outlined below:
  1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
  2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
  3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.
  4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
  5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
  6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.

7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

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.

#### **B.8. Investment Discretion**

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