



# **First Wilshire Securities Management, Inc.**

## **Form ADV Part 2A**

### **Firm Brochure**

**Updated: March 28, 2023**

This Brochure provides information about the qualifications and business practices of First Wilshire Securities Management, Inc. ("First Wilshire", "We", "Us", "Our" or "Firm"). If you have any questions about the contents of this Brochure, please contact us at (626) 796-6622 or [ClientServices@firstwilshire.com](mailto:ClientServices@firstwilshire.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

First Wilshire is an investment adviser registered with the SEC. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about us is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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**(626) 796-6622**

**[www.firstwilshire.com](http://www.firstwilshire.com)**

## Item 2 – Material Changes

This Brochure has been updated to make the following material changes:

- Item 4 – Advisory Business – Updated to reflect our Assets Under Management as of 12/31/2022
- Item 14 – Updated to reflect updated client referral arrangements
- Item 17 – Updated to reflect new policy for proxy voting, class actions, corporate actions, and bankruptcy proceedings

First Wilshire encourages each Client to read this Brochure carefully and to call with any questions you may have. Our previous version of Form ADV Part 2A was dated March 31, 2022.

Pursuant to SEC rules under the Investment Advisers Act of 1940 (“Advisers Act”), First Wilshire will ensure that Clients receive a summary of any material changes to this Brochure within 120 days of the close of our fiscal year, along with a copy of this Brochure or an offer to provide the Brochure. Additionally, as we experience material changes in the future, we will send you a summary of our “Material Changes”, along with an offer to provide the Brochure under separate cover. For more information about First Wilshire, please contact us at (626) 796-6622.

Additional information about First Wilshire and its investment adviser representatives is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4 – Advisory Business**

### **A. Description of Firm**

First Wilshire provides discretionary investment management services to separately managed accounts (“SMA” or “SMAs”) established by individuals, pension and profit-sharing plans, charitable organizations, corporations and other institutions. We also manage two affiliated private funds.

Apart from custom portfolios, for most SMAs, we invest primarily in equity securities using a value and contrarian investment philosophy consisting predominantly, though not exclusively, of small and micro-cap U.S. and foreign equity securities. Foreign securities include but are not limited to ordinary shares, depository receipts including American Depositary Receipts (“ADRs”), American Depositary Shares (“ADS”) and Global Depositary Receipts (“GDRs”), or warrants. Such securities will be traded via the New York Stock Exchange, NASDAQ, the American Stock Exchange, OTCBB, the Pink Sheets, and in other exchanges or venues. First Wilshire does not generally tailor our SMA investment strategy and small-cap investment style to the individual needs of Clients. This strategy also is not specifically tied to traditional benchmarks. Please refer to Item 8 below for important information related to our Methods of Analysis and Risk of Loss.

### **B. Type of Advisory Services we Offer**

First Wilshire provides three types of advisory services: SMA Investment Management Services, Custom Portfolio Management, and Financial Review Services, all of which are more fully described below.

#### **1. SMA Investment Management Services**

For SMA Clients, First Wilshire does not generally tailor our investment strategy and small-cap investment style to the individual needs of those Clients, meaning that Clients may not generally impose restrictions requiring us to invest in certain securities or types of securities that we believe would hinder our management of the portfolio. However, under certain circumstances we reserve the right to accommodate reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

First Wilshire currently offers only fee-based SMA advisory services (See Item 5 for a description of services and fees).

#### **2. Custom Portfolio Management**

For Clients who require Custom Portfolio Management, First Wilshire will customize Clients’ portfolios according to their individual risk tolerance, time horizon and specific goals. Generally, First Wilshire will design an investment strategy unique to each individual to meet their objectives (although most strategies tend to be aggressive). Each Client’s portfolio is traded

and rebalanced on an as-needed basis in accordance with the strategy selected. Generally, First Wilshire invests Client assets based on tactical allocation<sup>1</sup>, taking into consideration the Client's unique needs and circumstances.

### 3. Financial Review Services

First Wilshire's Financial Review Services provide our Clients with an analysis of the steps Clients may wish to consider within their investment portfolio to help achieve their financial goals and objectives. To begin this process, First Wilshire generally will interview the Client to gather certain necessary information to assess the Client's current financial situation. Based upon this initial interview, First Wilshire may ask the Client to provide First Wilshire with all necessary documentation in order to assess the Client's current and anticipated investment positions and financial objectives. The Client has full discretion to accept, reject or modify the results of First Wilshire's review. At all times, First Wilshire will rely upon the information provided by our Clients so it is important for each Client to provide accurate, updated and complete information to us.

### **C. General Information**

Prior to engaging First Wilshire to provide any advisory services, the Client is required to enter into an Investment Management Agreement with the Firm setting forth the terms and conditions of the engagement, as well as describing the specific scope of services to be provided.

As noted above, we managed the assets of two affiliated private funds that are managed differently than the SMAs. See Item 6 for a further description.

First Wilshire had approximately \$307,358,589 of Client assets under discretionary management as of December 31, 2022.

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<sup>1</sup> Tactical allocation is an investment style in which the three primary asset classes (stocks, bonds and cash) are actively balanced and adjusted. The main goal of tactical allocation is to maximize portfolio returns while managing market risk.

## Item 5 – Fees and Compensation

### **Advisory Fees**

First Wilshire is generally compensated for providing investment management services by charging Clients an annual investment management fee as set forth in the chart below.

First Wilshire's general fee schedule for SMAs is tiered and based on a percentage of assets under management, as follows:

<b>Account Assets</b>		<b>Annual Fee (billed quarterly)</b>
First \$1 million	=	1.75%
over \$1 million up to \$30 million	=	1.50%
over \$30 million up to \$50 million	=	1.25%
over \$50 million	=	Negotiable

Custom accounts generally are assessed a different, lower amount.

The specific manner in which fees are charged is established in a Client's written Investment Management Agreement (the "Agreement") with us. Fees are billed quarterly or monthly, in advance. Fees will be deducted from the Client's account or remitted by the Client as set forth in the Agreement.

First Wilshire reserves the right to negotiate individual SMA fees when appropriate. Factors that might be considered include, without limitation, the amount of assets at account opening or the expectation that assets are likely to increase in the near term, the investment climate, individual account groupings, Client tenure, the extent of supplemental services to be provided to the account, the broker holding custody of Client assets, and other account specific circumstances. Fee arrangements for some existing long-tenured Clients differ from, and may be lower than, the above schedule.

Assets of certain accounts can be aggregated by a number of different factors including accounts in a household, to determine if a lower fee applies. The fees noted in the schedule above may be reduced when a new account is related to or affiliated with a current Client.

Clients may be able to obtain services similar to those we provide from other investment advisers for a lower fee.

For our Financial Review Services, unless otherwise noted in the Client's Agreement, Financial Review Services are provided at a fixed fee of \$1,000.00.

## **Brokerage and Custodial Expenses**

First Wilshire does not maintain custody of your assets. We have entered into arrangements with certain registered broker-dealers that maintain Client accounts and effect trades for such accounts. Those arrangements are summarized below:

- A. SMAs held at Schwab Advisor Services, a division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, member SIPC; or for certain legacy accounts, Wedbush Securities, Inc. ("Wedbush") a registered broker-dealer, member SIPC, are subject to the fee schedule described above.<sup>2</sup> In addition to the management fees charged by First Wilshire, the Client is responsible for paying directly any commissions, transaction fees, custodial fees and any other fees charged by Schwab or Wedbush. First Wilshire does not mark these fees up. They are separate and independent of the advisory fees you pay First Wilshire.
- B. First Wilshire also manages SMAs held at other broker-dealers that act as custodian for Client accounts, including Morgan Stanley Wealth Management, Raymond James Financial, Inc., RBC Capital Markets, LLC, UBS Financial Services, Inc. and Wells Fargo Advisors. These firms' representatives may refer clients to us for investment management services or their clients may select us as the investment manager.

First Wilshire charges Clients with accounts at these firms an annual management fee of 1.25%. In addition to the fee paid to First Wilshire, the Client is responsible for paying commissions, custodial and other fees directly to the broker-dealer/custodian under a separate agreement with the broker-dealer/custodian. First Wilshire does not mark these fees up. They are separate and independent of the advisory fees you pay First Wilshire. First Wilshire does not negotiate the amount of fees or commissions with these broker-dealers. Clients of these broker-dealers may negotiate other arrangements directly with the broker-dealer. Such arrangements may result in higher or lower costs compared with other investment products.

## **Other information**

Clients who want to terminate their accounts with us must send us a written notice of termination via e-mail to [ClientServices@firstwilshire.com](mailto:ClientServices@firstwilshire.com) or via mail to 1214 E. Green St., Suite 104, Pasadena, CA 91106 Attn: Client Services. First Wilshire will continue to charge and collect a fee for 30 calendar days after receipt of the termination notice. We will refund any prepaid fees collected for a period which extends beyond the 30-calendar day notice period except that if a Client terminates us during the first quarter of management, we will keep the prepaid fees to cover account set-up costs.

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<sup>2</sup> As of March 28, 2023, less than 3% of our assets under management were being held at Wedbush. Generally, only First Wilshire legacy accounts hold accounts through Wedbush.

As noted above, Clients will incur brokerage and other transaction costs including any charges imposed by custodians, third party investment advisers and other third parties such as transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. In addition, Clients whose uninvested assets are swept into money market mutual funds for short-term cash management purposes by the Client's selected brokerage firm or custodian will also incur the additional fees and expenses assessed by such funds to the extent of a Client's investment in the funds. Clients should carefully read the agreements they sign with an advisory and/or brokerage firm to understand all the fees to which they may be subject. Such charges, fees and commissions are exclusive of, and in addition to, our fee. We do not receive any portion of these commissions, fees, and/or costs.

Item 12 further describes the factors that we consider in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation (e.g., commissions).

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

As an alternative to the standard asset-based fee arrangements, First Wilshire may negotiate a combination of performance and asset-based fees as permitted by applicable federal and state regulations, including SEC Rule 205-3 of the Advisers Act. Clients must qualify under applicable laws for a performance-based fee structure. First Wilshire currently has no SMA relationships in which we earn or collect performance-based fees.

First Wilshire has entered into performance fee arrangements with qualified, accredited investors in our affiliated private funds described below.

First Wilshire has been retained by Lake Street Management, LLC ("Lake Street Management") the General Partner of Lake Street Fund, L.P., and Mount Wilson Management, LLC ("Mount Wilson Management"), the General Partner of Mount Wilson Global Fund, L.P., to manage on a discretionary basis, investment portfolios of Lake Street Fund, L.P. and Mount Wilson Global Fund, L.P. (Lake Street Fund, L.P. and Mount Wilson Global Fund, L.P., collectively, the "Funds").

There is and will be significant overlap in the securities held by the Funds and the SMAs. The Funds are, however, managed differently, and are likely to purchase different types of securities, such as options and private placements that are not available for purchase for the SMAs.

Howard Lu, Scott Hood, William Caton and Nicole Green are owners of Lake Street Management, LLC and Mount Wilson Management LLC, and the owners of First Wilshire. Howard Lu, Scott Hood and William Caton are also investors in the Funds.

We or our affiliates receive compensation for the management of the Funds as follows:



- First Wilshire receives from Lake Street Fund, L.P. a quarterly management fee of 0.375% of the Lake Street Fund, L.P.'s assets. Lake Street Management also receives an annual incentive fee of 20% above a 5% "hurdle" of each limited partner's share of any net profits if certain conditions are met.
- First Wilshire receives from Mount Wilson Global Fund, L.P. a monthly management fee of 0.125% of the Mount Wilson Global Fund L.P.'s assets. Mount Wilson Management also receives an annual incentive fee of 20% above a 5% "hurdle" of each limited partner's share of any net profits if certain conditions are met.

Some current and/or former employee investors in the Funds do not pay a performance fee or pay a reduced performance fee. The General Partner for each of the Funds has the power, discretion and right to waive all or any part of the performance fee for a limited partner.

First Wilshire has potential conflicts of interest in managing our SMA Clients and the Funds because certain of our employees and principals are investors in the Funds and because we will receive performance-based incentive payments from the Funds if certain conditions are met. To avoid these conflicts, we have implemented procedures designed to prevent an allocation preference be given to the Funds. We also prohibit the Funds from taking short positions in securities held by SMAs.

Portfolio managers and trading staff are aware of these potential conflicts and are responsible for conducting trading activities in a manner consistent with our procedures to avoid such conflicts. First Wilshire procedures also require our compliance department to periodically review certain trade allocations and prices to verify that allocations and prices are fair and equitable. (See Item 12 for further description of allocation and pricing procedures).

## **Item 7 – Types of Clients**

First Wilshire provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, private investment funds, trusts and other U.S. and international businesses. Our current minimum new account investment is \$500,000. Accounts of smaller size will be considered under certain conditions; e.g., householding, combining with an existing Client relationship, or other circumstances.

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

### Methods of Analysis

We primarily use fundamental analysis to determine which companies to purchase and sell. We also utilize a variety of informational sources and strategies to make investment decisions. We expect to utilize any or all of the following:

- direct contact with company representatives;
- conference calls;
- on-site visits to companies;
- quote and news service providers;
- various on-line informational websites;
- audited financial statements; and
- regulatory filings<sup>3</sup>.

First Wilshire expects to increase or decrease cash positions and/or purchase or sell securities when conditions warrant as part of our overall investment strategy.

Investment advisory account decisions for SMAs and the Funds are made by our investment committee. Our CEO and President, Howard Lu, is the head of our investment committee. As noted above, Mr. Lu is also an owner of the General Partner of each of the Funds and an investor in the Funds. We have adopted allocation procedures, followed by the investment committee and reviewed by compliance, to ensure that we fairly and consistently allocate investment opportunities among the Funds and the SMAs, subject to their respective investment objectives, the capital available for investment, and other appropriate considerations.

### Risk of Loss

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

- *Market Risk:* The market values of securities held in a Client's account may decline, at times sharply and unpredictably.
- *Common Stock Risk:* Stocks may decline significantly in price over short or extended periods of time, particularly when overall economic activity decreases. Price changes may occur in the market as a whole, or they may occur in only a particular country, company, industry, or sector of the market.
- *Small-cap and Micro-cap Company Risk:* Investment in small-cap and micro-cap equity securities involves greater issuer risk than larger capitalization securities. The markets for such securities can be more volatile and much less liquid. The securities of such companies can be subject to more volatile market movements than securities

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<sup>3</sup> We rely on the accuracy of information provided in a company's audited financial statements and regulatory filings.

of larger more established companies. The equity securities of small cap and micro-cap companies typically are traded in lower volume and are typically more subject to changes in earnings and prospects. In addition, these companies typically have more limited product lines, markets, and financial resources and may be dependent on a smaller management group.

- *Foreign Investment Risk:* Non-U.S. companies or U.S. companies with significant non-U.S. operations can be subject to risks in addition to those of companies that principally operate in the United States. These risks include adverse political, currency, economic, social or regulatory developments in a country including excessive taxation, lack of liquidity, and differing legal or accounting standards. Changes in currency exchange rates can affect the value of an equity security and the gains and losses realized on the sale of equity securities.
- *Emerging Markets Risk:* Investments in companies located in, or with significant operations in, emerging market countries are subject to special political, economic, and market risks that can make emerging market investments more volatile and less liquid than investments in developed markets. The markets of emerging markets countries generally do not have the level of market efficiency and strict standards in accounting and securities regulation to be on par with advanced economies, but emerging markets will typically have a physical financial infrastructure, including banks, a stock exchange and a unified currency. Emerging markets often experience faster economic growth as measured by GDP. All of the risks of investing in non-U.S. securities described above are heightened by investing in emerging markets countries.
- *Lack of 24-Hour Trading Desk:* Although we purchase foreign securities mainly in the form of ADRs and ADSs that are listed on a U.S. exchange and trade during U.S. trading hours, we are likely to also purchase or sell foreign listed securities. We do not maintain a 24-hour trading operation; however, we have relationships with 24-hour trading desks to purchase and/or sell foreign securities for Clients' accounts. We typically do not engage in high frequency trading in Client accounts.
- *Currency Risk:* Although all managed accounts will be denominated in U.S. currency, the value of foreign securities may vary depending upon the value of the U.S. dollar in relation to the currency of the company in which the managed account is invested. The exchange rates between the U.S. dollar and non-U.S. currencies depend upon such factors as supply and demand in the currency exchange markets, international balance of payments, governmental intervention, speculation and other economic and political conditions.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management.

First Wilshire and all registered investment advisers of First Wilshire do not have any reportable disciplinary history.

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

### **1. General Partner and Sponsor of Private Funds that invest in securities.**

See Item 6 for a description of our affiliated Funds, including the conflicts of interest and potential conflicts of interest associated with our management of the Funds.

### **2. Other business activities of First Wilshire Employees.**

Several of our registered investment advisers or employees engage in non-securities related business activities that have been disclosed to us and are monitored as necessary. These outside business activities are unrelated to First Wilshire and its Clients. None of the Client information or other data is shared or used by any outside business activities of First Wilshire's associated personnel. Any income from these non-First Wilshire related activities is solely received by the employee and does not benefit us.

In addition, we have employees with industry related outside business activities. Specifically, as previously described, the Firm's President and owners perform duties related to their ownership and oversight of Lake Street Management and Mount Wilson Management, which are the General Partners of investment funds. Another employee maintains an outside registered investment advisory firm that receives a referral fee for accounts referred to First Wilshire. See Item 14 for additional information on referred accounts.

We also permit our employees and officers to maintain securities accounts with independent broker-dealers and engage in securities transactions executed away from the Firm. We supervise personal trading transactions in these accounts to detect if inappropriate transactions occurred, or that are otherwise not in compliance with our Code of Ethics. See Item 11 for a description of our Code of Ethics that applies to investing by our employees and officers.

### **3. Employees who hold the CFA designation**

Several members of our investment committee hold the CFA designation. Below is a brief description of the designation.

The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals.

There are currently more than 138,000 CFA charterholders working in 134 countries. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct..

## **Item 11 – Code of Ethics**

We have established and adopted a Code of Ethics (the “Code”) which sets forth standards of conduct expected of personnel employed by the Firm.

### **Investment Adviser Code of Ethics**

Rule 204A-1 of the Advisers Act requires all investment advisers registered with the SEC to adopt codes of ethics that set forth standards of conduct and require compliance with federal securities laws.

Our Code is intended to reflect fiduciary principles that govern our conduct and our supervised persons in situations where we act as an investment adviser in providing investment advice to Clients. The Code contains policies regarding standards of conduct and compliance with laws, rules and regulation, protection of material non-public information and personal securities trading.

This Code is based on the principle that all registered investment advisers and certain other persons of the Firm have a fiduciary duty to place the interest of Clients ahead of their own.

All employees and registered investment advisers are responsible for, and have agreed, as a requirement of their employment or registration to review, be familiar with, and comply with this Code. In addition, all employees are expected to be familiar with and comply with our Firm’s policies and procedures as they apply to the business function(s) in which they engage. First Wilshire requires all employees to conduct all business dealings in an ethical fashion and to abide by not only the technical requirements of this Code, but also to the spirit in which it is intended. When in doubt, employees should seek advice from supervisors or other appropriate personnel.

## **Covered Persons**

This Code covers all registered and unregistered staff of the Firm.

## **Standard of Conduct and Compliance with Laws, Rules and Regulations**

Covered Persons are required to abide by all applicable federal securities laws. Policies concerning these securities laws are discussed in other manuals and guides internally distributed by First Wilshire. Among other restrictions, Covered Persons are not permitted, in connection with the purchase or sale, directly or indirectly, of a security held or to be acquired by a Client to:

- Defraud a Client in any manner;
- Mislead a Client, including by making any statement that omits material facts;
- Engage in any act, practice or course of conduct that operates or would operate as a fraud or deceit on a Client;
- Engage in any manipulative practice with respect to a Client;
- Engage in any manipulative practice with respect to securities, including price manipulation;
- Favor the interests of one Client over another Client;
- Engage in front running, and/or profit personally, directly or indirectly, as a result of knowledge about a security or a transaction.

## **Protection of Material Non-Public Information**

Our employees are prohibited from using non-public material information regardless of the source, including information regarding portfolio holdings or Client transactions for their personal benefit. Specifically, employees are prohibited from using advance knowledge of non-public material information to trade ahead of or otherwise benefit from such knowledge.

Additionally, employees may not disseminate or tip non-public material information to others who may trade the security. Non-public material information includes any information that a reasonable investor would consider in making an investment decision. Non-public material information is information that has not been disseminated in a manner that would make it generally available to investors. Any employee who has reason to believe that this policy has been or is likely to be violated should immediately bring the actual or potential violation to the attention of First Wilshire's Chief Compliance Officer prior to taking any action.

## **Personal Securities Trading**

Employees are required to obtain pre-trade approval for all individual company securities trades in order to alert our compliance staff to potential trading conflicts in Covered Securities. Covered Securities are generally defined as any stock, bond, future, investment contract or any other instrument that is considered a security under the securities laws, options, limited partnerships, foreign unit investment trusts or foreign mutual funds, private investment funds, hedge funds

and investment clubs. Employee accounts managed by third parties on a discretionary basis require prior approval by our compliance department. Further, monthly statements are received by First Wilshire and account transactions are then monitored by our compliance department.

Our surveillance program monitors holdings and trades in employee securities accounts to ensure compliance with the Code, our Written Supervisory Procedures, and other applicable Firm policies. Our employees are required to disclose all securities accounts they beneficially own or control within 30 days of their hire date and to submit duplicate account statements to the compliance department. At least annually during their employment, employees are asked to review and confirm the accuracy and status of their disclosed securities accounts.

### **Initial Public Offerings and Private Placements**

Our employees are prohibited from purchasing securities in an initial public offering. However, subject to the preclearance requirement described above, our employees may purchase securities in the secondary market. Our employees must receive written permission from the compliance department to purchase any private placement. We grant permission when we believe the investment would not be suitable for our Clients or if there are sufficient securities for both our Clients and our employees to purchase the private placement.

If there are insufficient securities to fill orders for both Client accounts and employee accounts, orders for Client accounts will be filled first.

### **Employee and Client Transactions in the Same Securities**

We may purchase or sell the same securities for our own proprietary accounts at the same time as we purchase or sell these securities for Clients, but Clients will receive the same or a more favorable price than we receive on the same day at the same custodian. Similarly, our employees may purchase or sell the same securities at the same time as we purchase or sell the securities for Client accounts. In these instances, Clients will receive the same or more favorable prices for same time/same custodian orders.

If there are insufficient securities to fill orders for both Client accounts and employee accounts, orders for Client accounts will be filled first.

## **Gifts and Entertainment**

No employee may receive any gift, service, or anything else of more than \$100 value from any person or entity that does business with or on behalf of the Firm. No employee may give or offer any gift of more than \$100 value to existing Clients, prospective Clients, or any entity that does business with the Firm or on our behalf without pre-approval by the compliance department. The giving or receipt of gifts from family or personal friends, who also happen to be Clients, is permitted.

No employee may provide to or accept extravagant or excessive entertainment from a Client, prospective Client, or any person or entity that does or seeks to do business with or on behalf of the Firm. Our employees may provide or accept a business entertainment event, such as dinner or a sporting event, of reasonable value, if the person or entity providing the entertainment is present.

## **Consequences for Failure to Comply and Reporting Certain Conduct**

Any employee who knows of, or has a reasonable belief, that there is a violation of applicable laws or of the Code, must report that information immediately. No employee should conduct preliminary investigations unless authorized to do so by the appropriate First Wilshire supervisor. Anyone who in good faith raises an issue regarding a possible violation of law, regulation, company policy, or unethical behavior will be protected from retaliation. If you have violated this Code however, making a report will not protect you from the consequences of your actions.

Material violations of the Code must be immediately reported to the Chief Compliance Officer of First Wilshire. Examples include material violations of applicable securities rules and regulations, fraud, or illegal acts involving any aspect of the Firm's business, material misstatements in Client records, or reports of any material activity that is harmful to Clients.

Violations of the Code may result in disciplinary action including, but not limited to, warnings, fines, disgorgement, suspension, demotion or termination of employment or licensing.

We will provide a copy of our Code to any Client or prospective Client upon request.

## **Acknowledgement of Receipt of the Code**

All employees are required to acknowledge receipt of delivery of this Code upon becoming employees by First Wilshire, as well as annually thereafter. Furthermore, any material amendments to the Code may also require acknowledgement. Additionally, it is the responsibility of all Covered Persons to read, understand, and abide by all aspects of the Code.

All written acknowledgements of the Code must be retained by the Firm for a period of no less than 6 years after the employee leaves the Firm.



## **Item 12 – Brokerage Practices**

### **Directed Brokerage**

First Wilshire does not maintain custody of your assets, although we may be deemed to have custody of your assets if you give us authority to withdraw management fees from your account (See Item 15 Custody, below). Your assets must be maintained in an account at a “qualified custodian,” generally a broker-dealer or bank. The broker-dealers with which we have an existing relationship are detailed under Item 5.

We are independently owned and operated and are not affiliated with Schwab or any other broker-dealer/custodian. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to do so. While we recommend that you use Schwab as a broker/custodian, you will decide whether to do so and will open your account with Schwab or another broker/custodian by entering into an account agreement directly with them. Conflicts of interest associated with this arrangement are described below, as well as in Item 14 (Client referrals and other compensation). You should consider these conflicts of interest when selecting your broker/custodian.

We do not open the account for you, although we may assist you in doing so. Each Client independently chooses the broker-dealer with which it prefers to do business and opens their account by entering into an account agreement directly with that broker-dealer. As detailed in Item 5 above, we have established relationships with Schwab as a broker/custodian.

### **Important Broker-Dealer/Custodian Information**

#### **How we select brokers/custodians**

We recommend Schwab, a broker-dealer/custodian, to hold your assets and execute transactions. When considering whether the terms that Schwab provides are, overall, most advantageous to you when compared with other available providers and their services, we take into account a wide range of factors including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody);
- Capability to execute, clear and settle trades (buy and sell securities for your account);
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.);
- Quality of services;
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.);
- Reputation, financial strength, security and stability.

While we will accommodate a Client’s request to use an alternative broker-dealer/custodian and assist in the preparation of new account documentation, we do not open broker-dealer accounts for Clients.

### **Your brokerage and custody costs**

For our Clients' accounts with Schwab, Schwab generally does not charge a Client separately for custody services, but instead the Custodian is compensated by charging a Client commissions or other fees on certain trades that it executes or that settle into your Schwab account. Certain trades (for example many mutual funds and ETFs) may not incur commissions or transaction fees. Schwab is also compensated by earning interest on the uninvested cash in your account in Schwab's Cash Features Program. By using another broker-dealer you may pay lower transaction costs.

We generally require that Clients direct brokerage for their account to the broker-dealer with custody of their account. As a result of this requirement, we cannot aggregate all Client transactions in the same security to obtain large volume discounts. We can only aggregate the transactions for those accounts directed to the same brokerage firm. Further, orders for portfolio transactions are placed separately at each Client-directed brokerage firm using a rotation system. The result will be that some Clients' orders will go ahead of other Clients' orders. Consequently, the price a Client's account receives for a security may be higher or lower than the price paid or received by other Clients of the Firm who have directed brokerage to different brokers. Thus, by directing brokerage, we may not be able to achieve the most cost-effective execution of Client transactions and this practice may cost Client's money. Moreover, such direction prevents us from effectively negotiating brokerage commissions on a Client's behalf.

Depending on where Clients decide to custody their accounts, we may be unable to participate in certain transactions for their account. For example, if we are able to obtain a block of securities from a third party it's possible that we could only distribute those securities to accounts held at custodians who permit trades to be executed with third party brokers. Also, some brokers may participate in public offerings while others do not. We can only allocate these transactions to accounts held at custodians that participate in the offering.

### **Products and services available to us from Schwab**

The following section applies to Clients who choose to use Schwab as their custodian and broker-dealer.

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. Schwab provides the Firm and our Clients with access to its institutional brokerage services (trading, custody, reporting and related services), many of which are not typically available to Schwab retail customers. However, certain retail investors may be able to get institutional brokerage services from Schwab without going through us. Schwab also makes available various support services. Some of those services help us manage or administer our Clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (i.e., we do not have to request them) and at no charge to us. These products and services are not provided in connection with Clients' securities transactions.

We endeavor at all times to put the interests of our Clients first. Clients should be aware, however, that receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence our preference of one broker-dealer over another broker-dealer that does not furnish similar products, services, and/or compensation.

The following is a more detailed description of Schwab's support services:

### **Services that benefit you, the Client**

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our Clients. Schwab's services described in this paragraph generally benefit you and your account.

### **Services that do not directly benefit you**

Schwab also makes available to us other products and services that benefit us but do not directly benefit you or your account. These products and services assist us in managing and administering our Clients' accounts and operating our Firm. This includes investment research, both Schwab's own and that of third parties. We have the ability to use this research to service all or a substantial number of our Clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to Client account data (such as duplicate trade confirmations and account statements);
- Facilitate trade execution and allocate aggregated trade orders for multiple Client accounts;
- Provide pricing and other market data;
- Facilitate payment of our fees from our Clients' accounts;
- Assist with back-office functions, recordkeeping, and Client reporting.

### **Services that generally benefit only First Wilshire**

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events;
- Consulting on technology and business needs;
- Consulting on legal and related compliance needs;
- Publications and conferences on practice management and business succession;
- Access to employee benefits providers, human capital consultants, and insurance providers;
- Marketing consulting and support.

Schwab provides some of these services themselves. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. Schwab also provides us with other benefits, such as occasional business entertainment of our personnel. If you did not maintain your account with Schwab, we would be required to pay for those services from our own resources.

### **First Wilshire's interest in Schwab's services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. Schwab has also agreed to pay for certain technology, research, marketing and compliance consulting products or services on our behalf once the value of our Clients' assets in accounts at Schwab reaches certain thresholds. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The fact that we receive these benefits from Schwab is an incentive for us to recommend the use of Schwab rather than making such a decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. We believe, however, that taken in the aggregate, our recommendation of Schwab as custodian and broker is in the best interest of our Clients. Our selection is primarily supported by the scope, quality and price of Schwab's services (see "How we select brokers/custodians") and not Schwab's services that benefit only us.

### **Products and services available to us from Wedbush**

The following section applies to Clients who choose to use Wedbush as their broker/custodian.

Wedbush provides First Wilshire with access to its institutional trading and operations services, which are typically not available to Wedbush retail investors. These services generally are available to registered independent investment advisers without cost or at a discount. First Wilshire receives some benefits from Wedbush through its participation in the registered adviser program. These benefits include some or all of 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 First Wilshire 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.

### **Brokerage Commissions**

As the executing broker/custodian, Schwab may charge a flat rate per equity transaction as set forth in its commission schedule. Other brokerage firms may have more favorable rates.

When a Client chooses a brokerage firm other than Schwab, it is up to the Client to negotiate the flat fee or commission rates for all transactions. Typically, the brokerage commission rate or flat fee for brokerage services is set by the brokerage firm and may be higher or lower than that which could be obtained from another brokerage firm and may be higher or lower than what our other Clients pay. First Wilshire reserves the right to charge a different investment management fee for accounts moved to such broker/custodians.

We do not utilize Client commissions to pay for third party research, research products or research related services. We also do not accept payment or benefits for order flow.

### **Trade Aggregation, Trade Sequence and Allocation of Partially Filled Orders**

As noted above, we expect to purchase and sell the same securities on the same day for some or all of our SMAs and Funds. In order to obtain better execution of orders for Client accounts, we may combine orders of Client accounts custodied at the same brokerage firm. However, we are often unable to purchase or sell a sufficient quantity of securities at a price-to fill all combined orders. When a partially completed, combined order is large enough to effectively allocate across multiple accounts, we will allocate the partially completed order to accounts participating in the order. For more information about our trade allocations policy and procedures, please give us a call at (626) 796-6622.

## **Item 13 – Review of Accounts**

### **Portfolio Manager Review**

The Portfolio Manager or designee regularly reviews SMAs and the Funds for account performance, sector weight, geographic exposure, holdings percentages, and recent transactions. In addition, the Portfolio Manager typically compares accounts to the composite holdings of all accounts and reviews outliers and/or exceptions.

### **Compliance Review**

The compliance department reviews Client accounts on a periodic basis. The review is typically based on account activity, value of assets held in the account and/or account charges but may be based on other factors. Review frequency is based on activity in the account and any other information concerning the account that may suggest a review is necessary. Account reviews are conducted on a daily, monthly, quarterly or other basis. Documents subject to review could include a combination of account statements, confirmations, trade allocation spreadsheets, transaction details and electronic in-house systems, clearing firm systems, or other databases.

The broker/custodian of record for the SMA will provide trade confirmations to Clients as trades occur. Clients' will also receive monthly and/or quarterly account statements from that

broker/custodian. Unless requested by the Client, we do not prepare or send periodic account specific statements or reports to Clients aside from the quarterly billing fee statement.

See Item 15 for further information about custody of Client assets.

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

We currently have one existing arrangement with a third-party promoter who is paid a referral fee for having introduced existing Clients to us. The referral fee is based on a percentage of assets of Client accounts that are referred to us and the percentage was disclosed to Clients at the time a third party makes a referral.

We do not currently have active arrangements with third party promoters for new Client accounts. Should First Wilshire enter into a new third party promoter arrangement, Clients will receive the promoter's disclosure statement at the time of the referral to First Wilshire which will provide important disclosures related to the relationship between the promoter and First Wilshire, any conflicts of interest and the compensation that the promoter will receive for referring the client to First Wilshire.

#### **Item 15 – Custody**

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab or your other designated broker/custodian to deduct our advisory fees directly from your account. Schwab or your other designated broker/custodian maintains actual custody of your assets. You will receive account statements directly from Schwab or your other designated broker/custodian at least quarterly. Account statements will be sent to the email or mailing address you have provided Schwab or your other designated broker/custodian. You should carefully review those statements promptly when you receive them. We also urge you to compare these account statements with the periodic account reports you will receive from us.

#### **Item 16 – Investment Discretion**

In the written Investment Management Agreement we enter into with a Client, we receive discretionary authority from the Client to select the identity and amount of securities to be bought or sold without a Client's prior consent. When selecting securities and determining quantities to be transacted, we seek to comply with the Client's investment policies as outlined in each Client's Investment Management Agreement. As noted above, Clients may impose restrictions on our investment authority only to the extent that such restrictions would not hinder

our management of the portfolio. (See Item 4 above for additional information). In addition, various securities and/or tax laws as well as our internal policies are likely to impose additional restrictions on the investments that will be made for your account.

## **Item 17 – Voting Client Securities/Class Actions**

### *Proxy Voting*

First Wilshire, in accordance with Rule 206(4)-6 of the Advisers Act, has adopted policies and procedures governing the voting of Client proxies. The Firm, through Broadridge Investor Communication Solutions, Inc. ("Broadridge"), will help facilitate the proxy voting process on behalf of each Client account over which First Wilshire has proxy voting authority. A third party (currently, Glass Lewis & Co.) will be used to assist First Wilshire with providing research and recommendations on proxy votes. Broadridge will then manage the process of meeting notifications, voting, tracking, mailing, record maintenance, and voting of proxies on our Clients' behalf. To mitigate potential conflicts of interest, First Wilshire generally votes in line with the third party provider's research, guidelines, and vote recommendation that has been integrated with Broadridge. On the rare occasion where the third party provider does not provide a recommendation, First Wilshire will vote in a manner it believes is in the Client's best interest.

Under normal circumstances, First Wilshire will vote proxies in accordance with its proxy voting policy and in a manner it believes is in the Client's best interest. If First Wilshire is specifically made aware of a conflict whereby a Client disagrees with its proxy voting policy in general or as to a particular security, First Wilshire will make best efforts to vote the proxy as directed by the Client. Proxy voting guidelines as well as a record of how proxy votes were cast on your behalf is available upon written request by contacting us at [ClientServices@firstwilshire.com](mailto:ClientServices@firstwilshire.com). Pursuant to the Client's Agreement with First Wilshire, unless otherwise noted, Clients agree to instruct their custodian to forward promptly to First Wilshire all proxies and shareholder communications related to securities for which First Wilshire is voting proxies. Client agrees that First Wilshire will not be responsible for voting proxies if First Wilshire has not received such proxies or shareholder communications on a timely basis.

In instances where Clients choose to vote their own proxies, the custodian will forward all proxy materials to Client directly.

### *Class Actions, Corporate Actions and Bankruptcy Proceedings*

First Wilshire has entered into an agreement with Broadridge as a claim administrator ("Claims Administrator"), permitting the Claims Administrator to process class action lawsuits, claims, distributions resulting from the claims (i.e., settlement payments), government filings and other supporting documentation on behalf of our Clients, based on the terms and conditions outlined in our Clients' Agreement. Claims Administrator is entitled to 20% of the settlement proceeds for their services and issues checks directly to our Client. A record of how the class action lawsuit was settled is available upon request.

In instances where a Client chooses not to utilize the services of Claims Administrator, the Client will be responsible for monitoring and filing all securities class action claims on the Client's own behalf. Clients may request from us historical information about their account to assist with their submission of securities litigation claims. Upon request, First Wilshire will provide Clients with information regarding a class action.

First Wilshire will vote on corporate actions on a Client's behalf unless the Client instructs us otherwise. First Wilshire will not be advising on bankruptcy proceedings on a Client's behalf for securities presently or formerly held in the Client's account.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that we expect to impair our ability to meet contractual and fiduciary commitments to Clients and have not been the subject of a bankruptcy proceeding.