

**FORM ADV PART 2A**  
**INFORMATIONAL BROCHURE**



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MARK PROWELL  
MARCH 14, 2023

This brochure provides information about the qualifications and business practices of Prowell Financial Management, LLC. If you have any questions about the contents of this brochure, please contact us at 484-359-4057 or via email at [mark@prowell-financial.com](mailto:mark@prowell-financial.com). 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. Our registration does not imply a certain level of skill or training.

Additional information about Prowell Financial Management, LLC (CRD# 281762) is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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ITEM 2: STATEMENT OF MATERIAL CHANGES

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Prowell Financial Management, LLC is required to disclose any material changes to this ADV Part 2A here in Item 2. There are no material changes to report since our last annual amendment dated March, 2022.

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INFORMATIONAL BROCHURE  
PROWELL FINANCIAL MANAGEMENT LLC

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ITEM 4:      ADVISORY BUSINESS

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Prowell Financial Management LLC (“PFM”) has been in business since February, 2016. Mark Prowell is the firm’s only principal owner.

PFM provides advice to a select group of clients, who are most typically closely held companies seeking to ensure the succession of the company by ensuring that each of its owners has a financial plan that is consistent with that goal. Each company owner or other key person that receives services from PFM has services specifically tailored to that individual and the company for whom he or she is an owner. These services include financial planning and asset management, but not necessarily the way those concepts are most typically defined within the securities industry.

Privately owned companies have specific business issues, including the continuity of ownership, and the risks associated with being controlled by a small group of individuals and families. The company’s best interests are served by maintaining a consistent approach to these issues, where each owner’s individual circumstances are planned and organized, thus in turn limiting the risks to the company as a whole. The coordination of business issues, tax concerns, and investments is actually key to the continuity of the company, and therefore its value. Companies can engage PFM to work with each individual owner, be it a family or an individual, to assist in the coordination and organization of that owner’s financial concerns.

Because PFM’s clients are companies and their owners, PFM’s services are more aptly described as management of financial circumstances than financial planning, though planning does play a role. PFM’s goal is to create an organized approach to the complex financial circumstances that surround the individual, acting as the main contact point and advocate for each owner. The process begins with a review of the individual’s financial circumstances, which include current estate plans, trusts, other assets, and investments. At times, the organizational structure of these circumstances can be very complex, with various trusts and family partnerships created to hold and manage the family’s wealth.

PFM may also evaluate an individual’s or family’s current insurance needs to ensure that they are protected and the coverage they have is appropriate given the circumstances. If PFM believes that insurance coverage is inadequate, PFM may recommend certain insurance products to clients. Each individual’s circumstances are different, and PFM endeavors to gather as much information as possible in order to make the best recommendations to clients. In the event an insurance product is recommended by an individual associated with PFM, in the event the recommendation is accepted, the product may be purchased on a commission basis through an individual associated with PFM. This presents a conflict of interest, in that the individual will have a financial incentive to recommend

an insurance product. To mitigate this conflict, PFM informs clients that they are always free to purchase insurance products through other agents that are not affiliated with PFM, or to determine not to purchase the insurance product at all.

For asset management, PFM does not encourage the placement of assets directly with PFM's recommended custodian, unless specific circumstances merit a change in custodian. Individuals come to PFM with an array of existing managers, and in many cases, these managers are in PFM's opinion appropriate choices for the individual's assets. Where PFM attempts to add value is through the management of these managers: pressing each for specific concessions for the PFM client's benefit. These concessions can be in the form of fee discounts, or adding specific investment restrictions to prevent the overall portfolio from being overly concentrated. Through these reviews, PFM strives to synchronize and consolidate a client's entire financial life, providing a primary point of contact for the client and their existing managers. Our clients find all of the information they need in one place, organized in a manner that can be easily understood.

While not a separate service, PFM may on occasion recommend that a client place assets with a third party investment adviser. The rationale and investment process associated with such recommendations are more fully described in Item 8.

In some limited circumstances, PFM will manage client assets, on a discretionary basis or a non-discretionary basis. Discretionary management means that while we will continue an ongoing relationship with each client, being involved in various stages of their lives and decisions to be made, but we will not seek specific approval of changes to client accounts. Clients can always make deposits or withdrawals in their accounts at any time, or place restrictions on the types of investments in an account or portfolio. Because we take discretion when directly managing accounts, clients engaging us will be asked to execute a Limited Power of Attorney (granting us the discretionary authority over the client accounts) as well as an Investment Management Agreement that outlines the responsibilities of both the client and PFM.

When a client engages us to provide services on a non-discretionary basis, we monitor the accounts in the same way as for discretionary services. The difference is that changes to your account will not be made until we have your approval (either verbally or in writing), prior to each and every transaction, that our proposed change is acceptable to you.

If you request, PFM may recommend the services of other professionals for implementation purposes. You are under no obligation to engage the services of any such recommended professional. You retain absolute discretion over all such implementation decisions and are free to accept or reject any recommendation from PFM. If you engage any professional recommended by PFM, and a dispute arises thereafter relative to such engagement, you agree to seek recourse exclusively from and against the engaged professional.

### Assets Under Management

As of December 31, 2022, PFM managed approximately \$6,407,099,280 in assets under management of which \$945,801,604 are managed on a discretionary basis.

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## ITEM 5: FEES AND COMPENSATION

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### A. Fees Charged

All individuals will be required to execute an agreement with PFM outlining the services to be performed, as well as the fees for those services. Travel costs will be included in the annual fee paid to PFM, unless outlined separately. In many instances, the company itself will be responsible for the payment of fees related to work performed for each individual owner.

Clients are advised that they may pay fees that are higher or lower than fees they may pay another advisor for the same services and may in fact pay lower fees for comparable services from other sources. Clients are under no obligation at any time to engage or to continue to engage, PFM for investment services.

### Financial Organization and Management

Fees for financial organization and management are generally fixed fee arrangements. The amount of the fee will vary significantly, as it depends on the number of shareholders for whom PFM is providing services, the complexity of each shareholder's current circumstances, the urgency of the need, and any complicating factors that are not identifiable until they are observed. Generally, however, fixed fees begin at \$50,000 on an annual basis.

Clients may also choose to instead have fees for financial organization and management be based on a percentage of the assets under management. Because the typical PFM client's financial circumstances are so complex due to the higher net worth than the average RIA client, each client's case is truly unique, and therefore a simple fee tier for assets is not appropriate. In some cases, the asset management aspect of PFM's services is actually a smaller part of the work performed, as opposed to the overall strategy leadership and monitoring services that PFM refers to as Financial Organization. Other factors determining the fee arrangement and amount include the sense of urgency, the number of potential other professionals involved, whether there are significant complicating factors such as business ownership or heir issues. Generally, however, the range of fees based on the assets under management varies from 0.00% to 0.65%, on an annual basis. However, these fees are guidelines, subject to change according to the complexity of the situation. It is important to note that in many cases, the amount of assets under direct management is not an appropriate proxy for the amount of work required for a given client.

## Asset Management

For clients who engage PFM to provide stand-alone asset management services, PFM prefers to charge for such services on a fixed fee basis. Fixed fees for asset management services generally range from \$25,000 to \$350,000, based upon the nature and complexity of the account. The fixed fee range stated is a guide. Fees are negotiable, and may be higher or lower than this range, based on the nature of the work to be performed.

However, in limited circumstances, clients may engage PFM to provide stand-alone asset management services, where fees are based on a percentage of the assets to be managed, which will vary from 0.00% to 0.65% per annum, based on the amount of assets as well as the type of assets. However, these fees are guidelines, subject to change according to the complexity of the situation.

### B. Fee Payment

#### Fixed Fees:

The fixed annual fee is paid in quarterly installments, billed in advance. On an ongoing basis, the annual fee will be mutually agreed at the end of the initial engagement, and typically billed quarterly in advance. The ongoing annual fee can be debited from an account that the client designates, or in other such manner that client directs.

#### Asset Under Management Fees:

For clients who are billed based upon a percentage of assets under management, fees will be debited directly from each client's account. The advisory fee is paid quarterly, in advance, and the value used for the fee calculation is the net value as of the last market day of the previous quarter. This means that if your annual fee is 1.00%, then each quarter we will multiply the value of the account by 1.00% then divide by 4 to calculate our fee. For assets deposited into or withdrawn from an account after the inception of a billing period, the fee payable is prorated based on the number of days remaining in the billing period. Any reduction in fees related to the withdrawal of assets in an account will be credited against the next billing period's investment advisory fees. To the extent there is cash in your account, it will be included in the value for the purpose of calculating fees only if the cash is part of an investment strategy. Once the calculation is made, we will instruct the account custodian to deduct the fee from the appropriate account and remit it to PFM.

Clients whose fees are directly debited will provide written authorization to debit advisory fees from their accounts held by a qualified custodian chosen by the client. Each quarter, PFM sends the custodian written notice of the amount of the fee to be deducted from the client's account. Upon specific request, clients will receive a bill itemizing the fees to be debited, including the formula used to calculate the fee, the amount of assets the fee is based, and the time period covered by the fee. The invoice will also state that the fee was not independently calculated by the custodian. The client

will also receive a statement from their account custodian showing all transactions in their account, including the fees debited by PFM.

C. Other Fees

There are a number of other fees that can be associated with holding and investing in securities. You will be responsible for fees including transaction fees for the purchase or sale of a mutual fund or Exchange Traded Fund, commissions for the purchase or sale of a stock, or fees charged by independent managers, though these fees are not paid to PFM or any principal thereof. Expenses of a fund will not be included in management fees, as they are deducted from the value of the shares by the mutual fund manager. For complete discussion of expenses related to each mutual fund or Exchange Traded Fund, you should read a copy of the prospectus issued by that fund. PFM can provide or direct you to a copy of the prospectus for any fund that we recommend to you.

Please make sure to read Item 12 of this informational brochure, where we discuss broker-dealer and custodial issues.

D. *Pro-rata* Fees

If you become an asset management client during a quarter, you will pay a management fee for the number of days left in that quarter. If you terminate our relationship during a quarter, you will be entitled to a refund of any management fees for the remainder of the quarter. Once your notice of termination is received, we will assess pro-rated fees for the number of days between the end of the prior billing period and the date of termination to be paid in whatever way you direct (check, wire). PFM will cease to perform services, including processing trades and distributions, upon termination. Assets not transferred from terminated accounts within 30 (thirty) days of termination may be “de-linked”, meaning they will no longer be visible to PFM and will become a retail account with the custodian.

E. Compensation for the Sale of Securities.

Neither PFM nor its related persons receive compensation or commissions for the sale of securities.

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ITEM 6: PERFORMANCE-BASED FEES

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PFM will not charge performance-based fees.

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ITEM 7: TYPES OF CLIENTS

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Clients advised include the individuals, families, trusts, corporations, and charitable organizations. There is no account minimum.



It is important for you to know and remember that all investments carry risks. **Investing in securities involves risk of loss that clients should be prepared to bear.**

PFM's focus is on the management of an individual or family's overall financial conditions. Generally, PFM recommends maintaining relationships with the client's current managers, and simply seeking to organize those relationships to work for the client's best interests in the most productive way possible.

At times, PFM will find and recommend a new manager for one or more of its clients, which recommendation the client is free to accept or reject. These managers are selected for a specific niche of expertise they provide, which is either not available through an existing manager, or whose overall benefit PFM believes will exceed that which a current manager is providing for some portion of a client's investments. Prior to referring any client to another manager, PFM will confirm that such manager is registered, or exempt from registration, as an investment adviser.

In selecting managers for recommendation, PFM considers the specific expertise of the manager, the background and prior experience of each portfolio manager, the manager's regulatory history and filings, the experiences of other investors, the overall track record for various investment cycles, the potential opportunity for the asset class, and how the particular manager's anticipated portfolio will fit into the client's overall financial circumstances. Once a manager is included in a client portfolio, PFM monitors that client's performance and business operations with the goal of anticipating manager failures, sub-quality performance, or faulty risk management.

For asset management, because most client assets will be with third party managers many of whom will have pre-existing relationships with the client, the majority of the investments directly managed by PFM will be in cash or cash-like instruments, mutual funds, and ETFs designed for maximum liquidity and lowest cost. Individual equities and bonds may also be used, if appropriate for a given client. In the directly managed accounts, PFM is looking for liquidity and potential return profile balances in coordination with other managers, not an independent asset allocation.

Additionally, part of the PFM process may include, where appropriate, involving multiple generations in order to facilitate family financial planning. This can increase the financial education of the later generations and manage expectations. However, potential for conflicts of interest exist with the exchange of intergenerational information. PFM attempts to minimize these conflicts by treating each household as its own fiduciary relationship. Information can only be shared across generations with each household's consent.

## Risk of Loss

There are always risks to investing. **Clients should be aware that all investments carry various types of risk including the potential loss of principal that clients should be prepared to bear.** It is impossible to name all possible types of risks. Among the risks are the following:

- **Political Risks.** Most investments have a global component, even domestic stocks. Political events anywhere in the world may have unforeseen consequences to markets around the world.
- **General Market Risks.** Markets can, as a whole, go up or down on various news releases or for no understandable reason at all. This sometimes means that the price of specific securities could go up or down without real reason and may take some time to recover any lost value. Adding additional securities does not help to minimize this risk since all securities may be affected by market fluctuations.
- **Currency Risk.** When investing in another country using another currency, the changes in the value of the currency can change the value of your security value in your portfolio.
- **Regulatory Risk.** Changes in laws and regulations from any government can change the value of a given company and its accompanying securities. Certain industries are more susceptible to government regulation. Changes in zoning, tax structure or laws impact the return on these investments.
- **Tax Risks Related to Short Term Trading:** Clients should note that PFM may engage in short-term trading transactions. These transactions may result in short term gains or losses for federal and state tax purposes, which may be taxed at a higher rate than long term strategies. PFM endeavors to invest client assets in a tax efficient manner, but all clients are advised to consult with their tax professionals regarding the transactions in client accounts.
- **Purchasing Power Risk.** Purchasing power risk is the risk that your investment's value will decline as the price of goods rises (inflation). The investment's value itself does not decline, but its relative value does, which is the same thing. Inflation can happen for a variety of complex reasons, including a growing economy and a rising money supply.
- **Business Risk.** This can be thought of as certainty or uncertainty of income. Management comes under business risk. Cyclical companies (like automobile companies) have more business risk because of the less steady income stream. On the other hand, fast food chains tend to have steadier income streams and therefore, less business risk.
- **Financial Risk.** The amount of debt or leverage determines the financial risk of a company.
- **Default Risk.** This risk pertains to the ability of a company to service their debt. Ratings provided by several rating services help to identify those companies with more risk. Obligations of the U.S. government are said to be free of default risk.
- **Margin Risk.** "Margin" is a tool used to maximize returns on a given investment by using securities in a client account as collateral for a loan from the custodian to the client. The proceeds of that loan are then used to buy more securities. In a positive result, the additional securities provide additional return on the same initial investment. In a negative result, the additional securities provide additional losses. Margin therefore carries a higher degree of risk than investing without

margin. Any client account that will use margin will do so in accordance with Regulation T. PFM may utilize margin on a limited basis for clients with higher risk tolerances.

- **Risks specific to private placements, sub-advisors and other managers.** If we invest some of your assets with another advisor, including a private placement, there are additional risks. These include risks that the other manager is not as qualified as we believe them to be, that the investments they use are not as liquid as we would normally use in your portfolio, or that their risk management guidelines are more liberal than we would normally employ.

- **Information Risk.** All investment professionals rely on research in order to make conclusions about investment options. This research is always a mix of both internal (proprietary) and external (provided by third parties) data and analyses. Even an adviser who says they rely solely on proprietary research must still collect data from third parties. This data, or outside research is chosen for its perceived reliability, but there is no guarantee that the data or research will be completely accurate. Failure in data accuracy or research will translate to a compromised ability by the adviser to reach satisfactory investment conclusions.

- **Small Companies.** Some investment opportunities in the marketplace involve smaller issuers. These companies may be starting up or are historically small. While these companies sometimes have potential for outsized returns, they also have the potential for losses because the reasons the company is small are also risks to the company's future. For example, a company's management may lack experience, or the company's capital for growth may be restricted. These small companies also tend to trade less frequently than larger companies, which can add to the risks associated with their securities because the ability to sell them at an appropriate price may be limited as compared to the markets as a whole. Not only do these companies have investment risk, if a client is invested in such small companies and requests immediate or short-term liquidity, these securities may require a significant discount to value in order to be sold in a shorter time frame.

- **Concentration Risk.** While PFM selects individual securities, including mutual funds, for client portfolios based on an individualized assessment of each security, this evaluation comes without an overlay of general economic or sector specific issue analysis. This means that a client's equity portfolio may be concentrated in a specific sector, geography, or sub-sector (among other types of potential concentrations), so that if an unexpected event occurs that affects that specific sector or geography, for example, the client's equity portfolio may be affected negatively, including significant losses.

- **Transition Risk.** As assets are transitioned from a client's prior advisers to PFM there may be securities and other investments that do not fit within the asset allocation strategy selected for the client. Accordingly, these investments will need to be sold in order to reposition the portfolio into the asset allocation strategy selected by PFM. However, this transition process may take some time to accomplish. Some investments may not be unwound for a lengthy period of time for a variety of reasons that may include unwarranted low share prices, restrictions on trading, contractual restrictions on liquidity, or market-related liquidity concerns. In some cases, there may be securities or investments that are never able to be sold. The inability to transition a client's holdings into recommendations of PFM may adversely affect the client's account values, as PFM's recommendations may not be able to be fully implemented.

- **Restriction Risk.** Clients may at all times place reasonable restrictions on the management of their accounts. However, placing these restrictions may make managing the accounts more difficult, thus lowering the potential for returns.
- **Risks Related to Investment Term & Liquidity.** Securities do not follow a straight line up in value. All securities will have periods of time when the current price of the security is not an accurate measure of its value. If you require us to liquidate your portfolio during one of these periods, you will not realize as much value as you would have had the investment had the opportunity to regain its value. Further, some investments are made with the intention of the investment appreciating over an extended period of time. Liquidating these investments prior to their intended time horizon may result in losses.

#### Risks Associated by Security Type:

- **Mutual Funds.** The performance of mutual funds is subject to market risk, including the possible loss of principal. The price of the mutual funds will fluctuate with the value of the underlying securities that make up the funds. The price of a mutual fund is typically set daily therefore a mutual fund purchased at one point in the day will typically have the same price as a mutual fund purchased later that same day. When selecting mutual funds that have multiple share classes for recommendation to clients, we will take into account the internal fees and expenses associated with each share class, as it is our policy to choose the lowest-cost share class available, absent circumstances that dictate otherwise.
- **Exchange Traded Funds (ETFs).** The performance of ETFs is subject to market risk, including the possible loss of principal. The price of the ETFs will fluctuate with the price of the underlying securities that make up the funds. In addition, ETFs have a trading risk based on the loss of cost efficiency if the ETFs are traded actively and a liquidity risk if the ETFs have a large bid-ask spread and low trading volume. The price of an ETF fluctuates based upon the market movements and may dissociate from the index being tracked by the ETF or the price of the underlying investments. An ETF purchased or sold at one point in the day may have a different price than the same ETF purchased or sold a short time later.
- **Equity Securities.** Equity securities tend to be more volatile than other investment choices. The value of an individual mutual fund or ETF can be more volatile than the market as a whole. This volatility affects the value of the client's overall portfolio. Small and mid-cap companies are subject to additional risks. Smaller companies may experience greater volatility, higher failure rates, more limited markets, product lines, financial resources, and less management experience than larger companies. Smaller companies may also have a lower trading volume, which may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.
- **Fixed Income.** The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation. If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return. As nominal interest rates rise, the value of fixed income securities held by the Fund is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate.

- **Private Placement Offerings.** Because private placement offerings are exempt from registration requirements at both the state and federal level, no regulator has reviewed the offerings to make sure the risks associated with the investment and all material facts about the entity raising money are adequately disclosed. Securities offered through private placements are generally illiquid, meaning there are limited opportunities to resell the security.

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ITEM 9:        DISCIPLINARY INFORMATION

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There are no disciplinary items to report.

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ITEM 10:       OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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A. Broker-dealer

Neither the principal of PFM, nor any related persons are registered, or have an application pending to register, as a broker dealer or as an associated person of the foregoing entities.

B. Futures Commission Merchant/Commodity Trading Advisor

Neither the principal of PFM, nor any related persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

C. Relationship with Related Persons

Certain professionals of PFM are separately licensed as independent insurance agents. As such, these professionals may conduct insurance product transactions for PFM clients, in their capacity as licensed insurance agents, and will receive customary commissions for these transactions in addition to any compensation received in his capacity as employees of PFM. Commissions from the sale of insurance products will not be used to offset or as a credit against advisory fees. These professionals therefore have incentive to recommend insurance products based on the compensation to be received, rather than on a client's needs. The receipt of additional fees for insurance commissions is therefore a conflict of interest, and clients should be aware of this conflict when considering whether to engage PFM or utilize these professionals to implement any insurance recommendations. PFM attempts to mitigate this conflict of interest by disclosing the conflict to clients, involving clients other advisors in the decision, and informing the clients that they are always free to purchase insurance products through other agents that are not affiliated with PFM, or to determine not to purchase the insurance product at all. PFM also attempts to mitigate the conflict of interest by requiring employees to acknowledge in the firm's Code of Ethics, their individual fiduciary duty to the clients of PFM, which requires that employees put the interests of clients ahead of their own.

#### D. Recommendations of Other Advisers

PFM may at times recommend unrelated, third-party investment managers or professionals who have a greater expertise in certain disciplines when appropriate for the client. While each manager charges their own separate and additional fee, PFM does not receive any compensation, directly or indirectly, from the unrelated third-party investment managers or professionals for the referral of clients.

Select Asset Management and Trust ("SAM&T"), a third-party manager recommended to clients, has a relationship with PFM. This dual relationship presents a conflict of interest. PFM attempts to mitigate this conflict through a review of each manager, disclosing it to clients verbally and in this brochure that they are under no obligation to engage any third-party manager recommended by PFM, and by reminding employees that the firm's Code of Ethics requires employees to act in the best interest of clients.

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#### ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

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- A. A copy of our Code of Ethics is available upon request. Our Code of Ethics includes discussions of our fiduciary duty to clients, political contributions, gifts, entertainment, and trading guidelines.
- B. Not applicable. PFM does not recommend to clients that they invest in any security in which PFM, or any principal thereof has any financial interest.
- C. On occasion, an employee of PFM may purchase for his or her own account securities which are also recommended for clients. Our Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in one's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades are reviewed by the Compliance Officer. All employee trades effected in accounts over which an employee has any direct or indirect influence or control must either take place in the same block as a client trade or sufficiently apart in time from the client trade, so the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.
- D. On occasion, an employee of PFM may purchase for his or her own account securities which are also recommended for clients at the same time the clients purchase the securities. Our Code of Ethics details rules for employees regarding personal trading and avoiding conflicts of interest related to trading in one's own account. To avoid placing a trade before a client (in the case of a purchase) or after a client (in the case of a sale), all employee trades are reviewed by the Compliance Officer. All employee trades effected in accounts over which an employee has any direct or indirect influence or control must either take place in the same block as a client trade or sufficiently apart in time from the client trade, so the employee receives no added benefit. Employee statements are reviewed to confirm compliance with the trading procedures.

**A.      Recommendation of Broker-Dealer**

PFM does not maintain custody of client assets, though PFM may be deemed to have custody if a client grants PFM authority to debit fees directly from their account (see Item 15 below). Assets will be held with a qualified custodian, which is typically a bank or broker-dealer. PFM recommends that investment accounts be held in custody by Schwab Advisor Services (“Schwab”), which is a qualified custodian. PFM is independently owned and operated and is not affiliated with Schwab or any other custodians. The custodian of your choice will hold your assets in a brokerage account and buy and sell securities when PFM instructs them to, which PFM does in accordance with its agreement with you. While PFM recommends that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab or another custodian by entering into an account agreement directly with them. PFM does not open the account for you, although PFM may assist you in doing so. Even though your account is maintained at one custodian, we are still able to use other brokers to execute trades for your account as described below (see “Your brokerage and custody costs”).

**How we select brokers/custodians**

We seek to recommend a custodian/broker that will hold your assets and execute transactions on terms that are, overall, most advantageous when compared with other available providers and their services. We consider a wide range of factors, including both quantitative (Ex: costs) and qualitative (execution, reputation, service) factors. We do not receive referrals from Schwab or any other broker-dealer/custodian which would impact our evaluation of these parties.

**Your brokerage and custody costs**

For our clients’ accounts that Schwab or another custodian maintains, the custodian generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your account. In addition to commissions, custodians charge you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have your preferred custodian execute most trades for your account. We have determined that having your custodian execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “How we select brokers/custodians”).

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

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like PFM. They provide PFM 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. Schwab also makes available various support services. Some of those services help PFM manage or administer our clients' accounts, while others help PFM manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to PFM. Following is a more detailed description of Schwab's support services:

### *Services that benefit you*

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 may not directly benefit you.*

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may 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 us.*

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, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers



Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

#### **Our 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. These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. We may have an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests 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.

We do not consider whether Schwab or any other broker-dealer/custodian, refers clients to PFM as part of our evaluation of these broker-dealers.

#### *Directed Brokerage*

PFM does not recommend, request or require that clients direct PFM to execute trades through a particular broker-dealer (directed brokerage arrangements). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer. This means that the client, and not PFM, will be in the best position to seek and secure the best value for the costs of execution. This means that the client may not pay the most cost-effective commission rates. PFM will not be able to aggregate orders under these circumstances, which may result in higher commission costs or transaction fees because the trading costs are not allocated among a group. Clients also may not benefit from commission rates PFM may be able to negotiate. Further, there may be some transactions in certain securities that must be placed first through PFM's recommended broker-dealer. In some circumstances, placing those trades first may mean that a client who directs brokerage may not only pay a higher commission cost, but they may also pay a higher price for a given security. In general, clients may not receive value for the commission dollar spent, may spend more than is necessary for execution services, and may have reduced gains in their accounts as a result of directing brokerage.

#### **B. Aggregating Trades**

Commission costs per client may be lower on a particular trade if all clients in whose accounts the trade is to be made are executed at the same time. This is called aggregating trades. Instead of placing a number of trades for the same security for each account, we will, when appropriate,

executed one trade for all accounts and then allocate the trades to each account after execution. If an aggregate trade is not fully executed, the securities will be allocated to client accounts on a *pro rata* basis, except where doing so would create an unintended adverse consequence (For example, if a *pro rata* division would result in a client receiving a fraction of a share, or a position in the account of less than 1%.)

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ITEM 13: REVIEW OF ACCOUNTS

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All accounts and corresponding financial plans will be managed on an ongoing basis, with formal reviews with the client by a member of PFM senior management on at least an annual basis. However, it is expected that market conditions, changes in a particular client's account, or changes to a client's circumstances will trigger a review of accounts.

The annual report in writing provided by PFM is intended to review asset allocation. All clients will receive statements and confirmations of trades directly from their custodian. Additionally, upon request, clients will receive quarterly itemized bills from PFM. Please refer to Item 15 regarding Custody.

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ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

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A. Economic Benefit Provided by Third Parties for Advice Rendered to Client.

*Please refer to Item 12, where we discuss recommendation of Broker-Dealers.*

B. Compensation to Non-Advisory Personnel for Client Referrals.

PFM does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

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ITEM 15: CUSTODY

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There are two avenues through which PFM has custody of client funds; by directly debiting its fees from client accounts pursuant to applicable agreements granting such right, and potentially by permitting clients to issue standing letters of authorization ("SLOAs"). SLOAs permit a client to issue one document that directs PFM to make distributions out of the client's account(s).

Clients whose fees are directly debited will provide written authorization to debit advisory fees from their accounts held by a qualified custodian chosen by the client. Each quarter, PFM sends the custodian written notice of the amount of the fee to be deducted from the client's account. Upon specific request, clients will receive a bill itemizing the fees to be debited, including the formula used

to calculate the fee, the amount of assets the fee is based, and the time period covered by the fee. The invoice will also state that the fee was not independently calculated by the custodian. The client will also receive a statement from their account custodian showing all transactions in their account, including the fees debited by PFM.

We encourage clients to carefully review the statements and confirmations sent to them by their custodian, and to compare the information on your quarterly report prepared by PFM against the information in the statements provided directly from their custodian. Please alert us of any discrepancies.

In addition to the account custodian's custody procedures, clients issuing SLOAs will be requested to confirm, in writing, that the accounts to which funds are distributed are parties unrelated to PFM.

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#### ITEM 16: INVESTMENT DISCRETION

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When PFM is engaged to provide asset management services on a discretionary basis, we will monitor your accounts to ensure that they are meeting your asset allocation requirements. If any changes are needed to your investments, we will make the changes. These changes may involve buying or selling a security or group of investments, keeping the proceeds in cash, and hiring or firing outside managers. You may at any time place restrictions on the types of investments we may use on your behalf, or on the allocations to each security type. You may receive at your request written or electronic confirmations from your account custodian after any changes are made to your account. You will also receive monthly statements from your account custodian. Clients engaging us on a discretionary basis will be asked to execute a Limited Power of Attorney (granting us the discretionary authority over the client accounts) as well as an Investment Management Agreement that outlines the responsibilities of both the client and PFM.

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#### ITEM 17: VOTING CLIENT SECURITIES

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Copies of our Proxy Voting Policies are available upon request.

From time to time, shareholders of stocks, mutual funds, exchange traded funds or other securities may be permitted to vote on various types of corporate actions. Examples of these actions include mergers, tender offers, or board elections. Clients are responsible for voting proxies related to their investments, or to choose not to vote their proxies. PFM will not accept authority to vote client securities. Clients will receive their proxies directly from the custodian for the client account. PFM will not give clients advice on how to vote proxies.

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ITEM 18: FINANCIAL INFORMATION

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PFM does not require the prepayment of fees more than six (6) months or more in advance and therefore has not provided a balance sheet with this brochure.

There are no material financial circumstances or conditions that would reasonably be expected to impair our ability to meet our contractual obligations to our clients.