

# Taylor Frigon Capital Management LLC

SEC File Number: 801 – 67498

## **ADV Part 2A, Firm Brochure**

**Dated: November 4, 2022**

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**This Brochure provides information about the qualifications and business practices of Taylor Frigon Capital Management LLC. If you have any questions about the contents of this Brochure, please contact us at (805) 226-0280 or [ohall@taylorfrigon.com](mailto:ohall@taylorfrigon.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.**

**Additional information about Taylor Frigon Capital Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Taylor Frigon Capital Management LLC as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## Item 2 Material Changes

Since the Other-Than-Annual Amendment to Form ADV filed on April 5, 2022, this Brochure has not been materially amended:

Although not material, the Registrant has made disclosure enhancements at Item 14.

**ANY QUESTIONS: Taylor Frigon Capital Management LLC’s Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions that a client or prospective client has about this Brochure.**

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## Item 4            **Advisory Business**

- A. Taylor Frigon Capital Management LLC (the “Registrant”) is a limited liability company formed on November 21, 2006 in the state of California. The Registrant became registered as an investment adviser in February 2007. The Registrant is owned by the Frigon Revocable Trust 3/1/99. Gerard Frigon and Karen Frigon are its co-trustees. Gerard is the manager of the Registrant.
  
- B. As discussed below, the Registrant offers investment advisory services, and, to the extent specifically requested by a client, limited consulting services on investment and non-investment related matters (including financial planning) that are generally ancillary to the investment advisory process. Unless otherwise indicated, references to “client” throughout this brochure relate to the Registrant’s separate account clients and not to the investment company and private investment fund that it manages.

### **INVESTMENT ADVISORY SERVICES**

Clients can engage the Registrant to provide discretionary investment advisory services on a fee-only basis. The Registrant provides investment advisory services specific to the needs of each client. Before engaging Registrant to provide investment advisory services, clients are required to enter into an *Investment Advisory Agreement* with Registrant setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the fee that is due from the client. To commence the investment advisory process, Registrant will ascertain each client’s investment objective(s) and then allocate the client’s assets consistent with the client’s designated investment objective(s). Once allocated, Registrant provides ongoing supervision of the account(s). The Registrant primarily invests in various individual equity, fixed income securities, publicly traded real estate investment trusts, business development companies, and investment companies (registered and unregistered), on a discretionary basis in accordance with the client’s designated investment objectives.

### **AFFILIATED MUTUAL FUND**

Registrant serves as the investment adviser of the Taylor Frigon Core Growth Fund, a mutual fund registered under the Investment Company Act of 1940 (the “Affiliated Mutual Fund”). Registrant is responsible for the Affiliated Mutual Fund’s operations and management, under the supervision of an independent Chief Compliance Officer and Board of Trustees. The Affiliated Mutual fund seeks to generate long-term capital appreciation under normal market conditions. The Affiliated Mutual Fund invests primarily in common stocks of companies of all sizes, including small and micro- capitalization companies. The prospectus for the Affiliated Mutual Fund contains a complete description of the Affiliated Mutual Fund, its strategies, objectives, costs, and risks. Before investing clients in the Affiliated Mutual Fund, the Registrant will make a good faith determination about whether an investment would reasonably be appropriate by considering factors that may include but are not limited to the following: (1) the client’s investment objectives; (2) the total amount of client assets currently being managed by Registrant; (3) the amount of anticipated future contributions that the client will make to the account(s) being managed by the Registrant; (4) the cost and efficiency of managing the client’s assets including and excluding an investment in the Affiliated Mutual Fund; and (5) the combined management fees and expense ratios of other non-affiliated mutual funds. However, the Registrant has a preference for recommending the Affiliated Mutual Fund to its clients.

Mutual funds charge operating expenses and investment management fees. As described in the Affiliated Mutual Fund’s prospectus, the Registrant receives a 1.00% management

fee from the Affiliated Mutual Fund based upon the amount of assets invested in the Affiliated Mutual Fund. In addition, as also described in the Affiliated Mutual Fund prospectus, the Registrant receives an additional fee of 0.45% of the Affiliated Mutual Fund's average daily net assets up to \$100 million, and 0.25% of such assets in excess of \$100 million and is obligated to pay the operating expenses of the Affiliated Mutual Fund excluding management fees, brokerage fees and commissions, 12b-1 fees (if any), taxes, borrowing costs (such as (a) interest and (b) dividend expenses on securities sold short), ADR fees, the cost of acquired funds and extraordinary expenses. The Registrant will waive its investment advisory fee described in Item 5 below with respect to any client assets invested in the Affiliated Mutual Fund. Accordingly, the Registrant will only receive one layer of management fees—the investment management fee payable by the Affiliated Mutual Fund. Depending on the client's agreement with the Registrant, this could result in an increase or decrease in the amount of fees received by the Registrant. Clients may direct Registrant, in writing at any time, not to exercise its discretionary authority to place client assets in the Affiliated Mutual Fund or to limit the amount of assets that the Registrant may invest in the Affiliated Mutual Fund. The Registrant's Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions regarding the above and any perceived conflict of interest.

#### **AFFILIATED PRIVATE FUND**

The Registrant is the investment adviser to Taylor Frigon Capital Partners, LP (the "Affiliated Private Fund"). The Registrant may recommend that qualified clients consider investing in the Affiliated Private Fund on a non-discretionary basis. The terms and conditions for participation in the Affiliated Private Fund, including management and incentive fees, conflicts of interest, and risk factors, are set forth in its offering documents. Registrant's clients are under absolutely no obligation to consider or make an investment in the Affiliated Private Fund or any other private investment fund.

Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that they are qualified for investment in the fund and acknowledges and accepts the various risk factors that are associated with such an investment.

In valuing the assets of the Affiliated Private Fund, the Registrant relies on the most recent valuations provided by the underlying fund sponsors or issuer. When a fund sponsor or issuer has not provided any updated valuations, the Registrant will use the purchase price as the value of the investment. The current value of an investment in the Affiliated Private Fund could be significantly more or less than the original purchase price or the price reflected in any client report. The client's investment in the Affiliated Private Fund is not subject to an advisory fee, but remain subject to a management fee charged by the Affiliated Private Fund.

Because the Registrant and/or its affiliates can earn compensation from the Affiliated Private Fund (management fees, incentive compensation, etc.) that may exceed the fee that the Registrant would earn under its fee referenced in Item 5 below, the recommendation that a client become an Affiliated Private Fund investor presents a conflict of interest. The Registrant generally has a preference for recommending its Affiliated Private Fund over other non-affiliated funds, even if those other funds may have better track records or

investment metrics. No client is under any obligation to become an Affiliated Private Fund investor. The Registrant's Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions regarding this conflict of interest.

**MODELS OFFERED THROUGH ENVESTNET ASSET MANAGEMENT, INC. AND OTHER CUSTOMIZED INVESTMENT SUB-ADVISORY SERVICES.**

Envestnet has developed an investment management program (the "Third Party SMA Models Program") that certain investment advisers or other financial institutions use to provide advisory services to their clients. Under the Third Party SMA Models Program these other advisors engage Envestnet to directly trade their assets pursuant to the investment models of one or more investment management firms that have agreed to provide their models to Envestnet for use in the Third Party SMA Models Program. The Registrant has an agreement with Envestnet to make its Core Growth model available through the Third Party SMA Models Program and expects it to offer its Israeli and Aspire models through the program in the near future.

The Registrant provides Envestnet with its recommendations as to the securities and other property to be purchased, sold and held from time to time in each of its models in the Third Party SMA Models Program, as well as the percentage of the model portfolio that would be invested in each security. Envestnet or another advisor provides individualized investment advice and portfolio management services to its clients and may or may not decide to implement all of the Registrant's recommendations as to the securities and other property to be held within an account.

The Registrant may also enter into sub-advisory agreements with unaffiliated registered investment advisers, broker-dealers, or custodian institutional clients to provide customized discretionary investment advisory services to their advisory client accounts per the terms and conditions of a sub-advisory agreement. As the sub-adviser, the Registrant manages these accounts in accordance with the investment direction provided by the investment adviser, broker-dealer or custodian client in connection with the underlying client accounts. The Registrant utilizes proprietary SMA investment models employing different equity strategies to meet specific investment objectives and sub-advisory mandates for institutional advisory clients. Depending on the investment adviser, broker-dealer or custodial client investment direction and objectives, one or more of the Registrant's equity strategies may be implemented. The Registrant works closely with each institutional client to identify the strategies to be implemented with respect to underlying clients in consideration of their investment policy and related portfolio requirements.

The separate investment adviser, broker-dealer or custodian, who is Registrant's sole client for these services, maintain both the initial and ongoing day-to-day relationship with the underlying client, including initial and ongoing determination of client suitability for Registrant's designated investment strategies. If the custodian/broker-dealer is determined by the unaffiliated investment adviser, Registrant will be unable to negotiate commissions and/or transaction costs, and/or seek better execution. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case through alternative clearing arrangements recommended by Registrant. Higher transaction costs adversely impact account performance. In certain situations, investment mandates may be customized further to the needs of the client's underlying investor relationships and any restrictions indicated by the client. The Registrant typically receives a portion of the fee charged by the primary advisor or platform provider.

The Registrant's recommendations in the Third Party SMA Models Program or other sub-

advised programs may differ from recommendations made to other clients.

## MISCELLANEOUS

**Limitations of Non-Investment Consulting/Implementation Services.** To the extent requested by the client, the Registrant may provide consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. Neither the Registrant, nor any of its representatives, serves as an attorney, accountant, or licensed insurance agent, and no portion of the Registrant's services should be construed as legal, accounting, or insurance implementation services. Accordingly, the Registrant does not prepare estate planning documents, tax returns, or sell insurance products. To the extent requested by a client, the Registrant may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from the Registrant. If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

**Retirement Plan Rollovers.** A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). If Registrant recommends that a client roll over their retirement plan assets into an account to be managed by Registrant, such a recommendation creates a conflict of interest if Registrant will earn new (or increase its current) compensation as a result of the rollover. Whether Registrant provides a recommendation as to whether a client should engage in a rollover or not, Registrant is acting as a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. To the extent that Registrant recommends that clients roll over assets from their retirement plan to an IRA managed by Registrant, then Registrant represents that it and its investment adviser representatives are fiduciaries under the Employment Retirement Income Security Act of 1974 ("ERISA"), or the Internal Revenue Code, or both. Clients are under absolutely no obligation to engage Registrant as the investment adviser for his/her retirement account.

### **ERISA PLAN and 401(k) INDIVIDUAL ENGAGEMENTS:**

- **Trustee Directed Plans.** Registrant may be engaged to provide discretionary investment advisory services to ERISA retirement plans, whereby the Firm shall manage Plan assets consistent with the investment objective designated by the Plan trustees. In such engagements, Registrant will serve as an investment fiduciary as that term is defined under The Employee Retirement Income Security Act of 1974 ("ERISA"). Registrant will generally provide services on an "assets under management" fee basis per the terms and conditions of an *Investment Advisory Agreement* between the Plan and the Firm.
- **Participant Directed Retirement Plans.** Registrant may also provide investment advisory and consulting services to participant directed retirement plans per the terms and conditions of a *Retirement Plan Services Agreement* between Registrant

and the plan. For such engagements, Registrant shall assist the Plan sponsor with the selection of an investment platform from which Plan participants shall make their respective investment choices (which may include investment strategies devised and managed by Registrant), and, to the extent engaged to do so, may also provide corresponding education to assist the participants with their decision making process.

**Cryptocurrency:** For clients who want exposure to cryptocurrencies, including Bitcoin, the Registrant, will advise the client to consider a potential investment in corresponding exchange traded securities, or an allocation to separate account managers and/or private funds that provide cryptocurrency exposure. Crypto is a digital currency that can be used to buy goods and services but uses an online ledger with strong cryptography (i.e., a method of protecting information and communications through the use of codes) to secure online transactions. Unlike conventional currencies issued by a monetary authority, cryptocurrencies are generally not controlled or regulated and their price is determined by the supply and demand of their market. Because cryptocurrency is currently considered to be a speculative investment, the Registrant will not exercise discretionary authority to purchase a cryptocurrency investment for client accounts. Rather, a client must expressly authorize the purchase of the cryptocurrency investment. **Please Note:** The Registrant considers investments in cryptocurrencies to be **speculative**. Clients who authorize the purchase of a cryptocurrency investment must be prepared for the potential for **liquidity constraints, extreme price volatility and complete loss of principal**.

**Portfolio Activity.** Registrant has a fiduciary duty to provide services consistent with the client's best interest. Registrant will review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including, but not limited to, investment performance, market conditions, fund manager tenure, style drift, account additions/withdrawals, and/or a change in the client's investment objective. Based upon these factors, there may be extended periods of time when Registrant determines that changes to a client's portfolio are neither necessary, nor prudent. Clients remain subject to the fees described in Item 5 below during periods of account inactivity.

**Cash Positions.** Registrant continues to treat cash as an asset class. As such, unless determined to the contrary by Registrant, certain cash positions (money markets, etc.) shall continue to be included as part of assets under management for purposes of calculating Registrant's advisory fee. At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), Registrant may maintain cash positions for defensive purposes. In addition, while assets are maintained in cash, such amounts could miss market advances. Depending upon current yields, at any point in time, Registrant's advisory fee could exceed the interest paid by the client's money market fund. **ANY QUESTIONS: Registrant's Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions that a client or prospective may have regarding the above fee billing practice.**

**Borrowing Against Assets/Risks.** A client who has a need to borrow money could determine to do so by using:

- **Margin-**The account custodian or broker-dealer lends money to the client. The custodian charges the client interest for the right to borrow money, and uses the assets in the client's brokerage account as collateral

These above-described collateralized loans are generally utilized because they typically provide more favorable interest rates than standard commercial loans. These types of collateralized loans can assist with a pending home purchase, permit the retirement of more expensive debt, or enable borrowing in lieu of liquidating existing account positions and incurring capital gains taxes. However, such loans are not without potential material risk to the client's investment assets. The lender (i.e. custodian, bank, etc.) will have recourse against the client's investment assets in the event of loan default or if the assets fall below a certain level. Registrant does not recommend such borrowing however, certain clients may use margin for short term or long term purposes according to the client's needs. Regardless, if the client was to determine to utilize margin, the following economic benefits would inure to Registrant:

- by taking the loan rather than liquidating assets in the client's account, Registrant continues to earn a fee on such Account assets; and
- if the client invests any portion of the loan proceeds in an account to be managed by Registrant, Registrant will receive an advisory fee on the invested amount.

**Please Note:** The Client must accept the above risks and potential corresponding consequences associated with the use of margin or a pledged assets loans.

**Client Obligations.** The Registrant will not be required to verify any information received from the client or from the client's other professionals and is expressly authorized to rely on the information in its possession. Clients are responsible for promptly notifying the Registrant if there is ever any change in their financial situation or investment objectives so that the Registrant can review, and if necessary, revise its previous recommendations or services.

- C. The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at any time, impose reasonable restrictions, in writing, on the Registrant's services.
- D. The Registrant does not participate in a wrap fee program.
- E. As of December 31, 2021, the Registrant had \$419,055,483 in assets under management on a discretionary basis.

## **Item 5 Fees and Compensation**

- A. The client can determine to engage the Registrant to provide discretionary advisory services on a fee-only basis.

### **INVESTMENT ADVISORY SERVICES**

Clients that engage the Registrant to provide discretionary investment advisory services, generally are charged an advisory fee of 1.00% of the market value of assets placed under the Registrant's management.

Registrant's annual investment advisory fee shall include investment advisory services,



and, to the extent specifically requested by the client, Registrant may provide limited consultation services to its investment advisory clients on investment and non-investment related matters (including financial planning) that are generally ancillary to the investment advisory process. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of the Registrant), the Registrant may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

The Registrant's investment advisory fee is negotiable at its discretion, depending upon objective and subjective factors including but not limited to: the amount of assets to be managed; portfolio composition; the scope and complexity of the engagement; the anticipated number of meetings and servicing needs; related accounts; future earning capacity; anticipated future additional assets; the professional(s) rendering the service(s); prior relationships with the Registrant and/or its representatives, and negotiations with the client. As a result, similarly situated clients could pay different fees, the services to be provided by the Registrant to any particular client could be available from other advisers at lower fees, and certain clients may have fees different than those specifically set forth above.

Clients should also review the disclosure in Item 4 under the heading Affiliated Private Fund and Affiliated Mutual Fund to better understand the manner in which the Registrant charges fees for clients investing in the Affiliated Private Fund and Affiliated Mutual Fund. To summarize, clients investing in the Affiliated Private Fund and Affiliated Mutual Fund are not subject to dual layers of fees but could pay the Registrant more or less than the fees outlined above with respect to their investments in these products.

- B. Clients may elect to have the Registrant's advisory fees deducted from their custodial account. Both Registrant's Investment Advisory Agreement and the custodial/ clearing agreement may authorize the custodian to debit the account for the amount of the Registrant's investment advisory fee and to directly remit that management fee to the Registrant in compliance with regulatory procedures. In the limited event that the Registrant bills the client directly, payment is due upon receipt of the Registrant's invoice. The Registrant shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, the Registrant shall generally recommend that Charles Schwab and Co., Inc. ("Schwab") serve as the broker-dealer/custodian for client investment advisory assets. Broker-dealers such as Schwab charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain mutual funds, commissions are charged for individual equity transactions, and mark-ups and mark-downs are charged for fixed income transactions). In addition, client accounts will typically invest in mutual funds (including money market funds and the Affiliated Mutual Fund) and ETFs that have various internal fees and expenses (i.e. management fees), which are paid by these funds but ultimately borne by clients as investors. These internal fees and expenses are in addition to the fees charged by the Registrant, unless the Registrant otherwise agrees to waive its fees. When beneficial to the client, individual debt and/or equity transactions may be effected through broker-dealers with whom the Registrant or the client have entered into prime brokerage arrangements, in which event, the client generally will incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate "tradeaway" or prime broker fee charged by the account custodian.

- D. The Investment Advisory Agreement between the Registrant and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the Investment Advisory Agreement. Upon termination, the Registrant shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.
- E. Neither the Registrant, nor its representatives accept compensation from the sale of securities or other investment products.

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

The Registrant does not charge performance-based fees to its separate account clients. However, the Registrant may charge performance-based fees to the Affiliated Private Fund or its investors, so long as they are a qualified client who have at least \$1,000,000 in portfolio assets managed by the firm, or who together with their spouse have a net worth of at least \$2,100,000 excluding their principal residence. Clients are advised that performance-based fees involve a sharing of any portfolio gains between the client and the investment manager.

Performance-based fees create an economic incentive for the Registrant to take additional risks in the management of the Affiliated Private Fund. A complete description of the fees for investing in the Affiliated Private Fund is set forth in its offering documents.

A conflict of interest exists because we generally charge advisory clients an asset-based fee for the advisory services we provide, but we (or our affiliates) are entitled to receive performance-based fees or allocations from the Affiliated Private Fund. As a result, we have an incentive to recommend that an advisory client invest in the Affiliated Private Fund, as opposed to holding assets only in separate accounts and allocating those assets to investment solutions through which we (or our affiliates) would not be entitled to receive performance-based fees or allocations. In addition, for those clients to whom we have agreed to charge performance-based fees, we have an incentive to favor those client accounts so they perform better and, in turn, we receive a greater amount of fees. We also may have an incentive to offer investments that we believe will be more profitable than others to the Affiliated Private Fund in order to earn more compensation. We seek to address these conflicts of interest by emphasizing our duty to place the interests of our clients first. In addition, the performance of the Affiliated Private Fund does not drive the compensation structure of our client advisers, though client advisers who indirectly have an equity interest in the Registrant will derive indirect benefits from performance-based fees or allocations received by our affiliates or us.

## **Item 7 Types of Clients**

The Registrant's clients shall generally include: individuals, high net worth individuals, investment companies, pooled investment vehicles, pension and profit sharing plans, charitable organizations, business entities, etc. Effective May 1, 2017, for new clients, Registrant has raised its minimum annual fee to \$50,000.00 (\$12,500.00 quarterly) for investment advisory services. The Registrant, in its sole discretion, may charge a lesser investment advisory fee, charge a flat fee, charge fee on a different interval and/or reduce or waive its annual minimum fee requirement based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be

managed, related accounts, account composition, negotiations with client, etc.). If a client is subject to the above annual minimum fee (or the pre-May 2017 \$15,000 annual minimum fee), the client could pay a higher percentage fee than 1.00% referenced in Item 5 above. In its sole discretion, for certain clients with less than \$5,000,000 under the Registrant's management, the Registrant may raise its annual percentage fee higher than 1.00%, but a client will still pay less than the \$50,000 minimum annual fee. As result of the above, similarly situated clients could pay different fees. In addition, similar advisory services may be available from other investment advisers for similar or lower fees.

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

- A. The Registrant generally uses the "Fundamental" method of security analysis, which requires the analysis of historical and present data, with the goal of making financial forecasts.

The Registrant may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Margin Transactions (use of borrowed assets to purchase financial instruments)

**Investment Risk.** Investing in securities involves risk of loss that clients should be prepared to bear. Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Registrant) will be profitable or equal any specific performance level(s).

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks. However, every method of analysis has its own inherent risks. To perform an accurate market analysis, the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies - Long Term Purchases and Short Term Purchases - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy.

- C. Currently, the Registrant primarily allocates client investment assets among various individual equity, fixed income securities, publicly traded Real Estate Investment Trusts, ("REITs") business development companies, open and closed-end mutual funds, exchange traded funds and individual bonds on a discretionary basis in accordance with the client's designated investment objective(s).

**REITs.** REITs are subject to risks generally associated with investing in real estate, such as: possible declines in the value of real estate; adverse general and local economic conditions; possible lack of availability of mortgage funds; changes in interest rates; and environmental problems. In addition, REITs are subject to certain other risks related specifically to their structure and focus such as: dependency upon management skills; limited diversification; the risks of locating and managing financing for projects; heavy cash flow dependency; possible default by borrowers; the costs and potential losses of self-liquidation of one or more holdings; the possibility of failing to maintain exemptions from securities registration; and, in many cases, relatively small market capitalization, which may result in less market liquidity and greater price volatility.

**Mutual Fund Risk.** Mutual funds are operated by investment companies that raise money from shareholders and invests it in stocks, bonds, and/or other types of securities. Each fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. Mutual funds charge a separate management fee for their services, so the returns on mutual funds are reduced by the costs to manage the funds. While mutual funds generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market. Mutual funds that are sold through brokers are called load funds, and those sold to investors directly from the fund companies are called no-load funds. Mutual funds come in many varieties. Some invest aggressively for capital appreciation, while others are conservative and are designed to generate income for shareholders. In addition, the client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives).

**Margin Accounts: Risks/Conflict of Interest.** Registrant **does not** recommend the use of margin for investment purposes. A *margin account* is a brokerage *account* that allows investors to borrow money to buy securities and/or for other non-investment borrowing purposes. The broker/custodian charges the investor interest for the right to borrow money and uses the securities as collateral. By using borrowed funds, the customer is employing leverage that will magnify both account gains and losses. Should a client determine to use margin, Registrant will include the entire market value of the margined assets when computing its advisory fee. Accordingly, Registrant's fee shall be based upon a higher margined account value, resulting in Registrant earning a correspondingly higher advisory fee. As a result, the potential of conflict of interest arises since Registrant may have an economic disincentive to recommend that the client terminate the use of margin. **Please Note:** The use of margin can cause significant adverse financial consequences in the event of a market correction. **ANY QUESTIONS: Our Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions that a client or prospective client may have regarding the use of margin.**

## **Item 9            Disciplinary Information**

The Registrant has not been the subject of any disciplinary actions.

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

- A. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

- B. Neither the Registrant, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. **Affiliated Private Fund and Affiliated Mutual Fund**. The Registrant serves as the investment adviser to the Affiliated Private Fund and the Affiliated Mutual Fund. Clients should review the disclosures above in Item 4 for additional information about these relationships and the conflicts of interest they create.
- D. The Registrant does not receive, directly or indirectly, compensation from investment advisers that it recommends or selects for its clients, but the Registrant and its affiliate stands to receive investment management fees from investments in the Affiliated Private Fund and the Affiliated Mutual Fund.

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

- A. The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of Registrant's representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

- B. As disclosed above, the Registrant serves as the investment adviser for the Affiliated Private Fund and the Affiliated Mutual Fund. This creates a conflict of interest because we have an incentive to recommend an investment in the Affiliated Private Fund and the Affiliated Mutual Fund based on our own financial interests, rather than solely the interests of our clients. We maintain various policies and procedures that are aimed at mitigating this conflict of interest. For example, clients have the unrestricted right to decline any recommendation we provide, except in situations where we have discretionary authority with respect to the client's account. For instance, we do not have investment discretion over advisory client accounts in respect of decisions regarding an investment in the Affiliated Private Fund. We may recommend that an advisory client invest in the Affiliated Private Fund, but the advisory client has ultimate discretion regarding whether to execute on our recommendation. We also require employees to act in accordance with applicable federal and state laws, rules and regulations governing investment advisory practices.

C. The Registrant and/or representatives of the Registrant may buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon their rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of the Registrant's clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal

securities transactions and securities holdings of each of the Registrant's "Access Persons". The Registrant's securities transaction policy requires that an Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects.

- D. The Registrant and/or representatives of the Registrant may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a conflict of interest. As indicated above in Item 11.C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Registrant's Access Persons.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that the Registrant recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct the Registrant to use a specific broker-dealer/custodian), Registrant generally recommends that investment advisory accounts be maintained at Schwab. Prior to engaging Registrant to provide investment advisory services, the client will be required to enter into a formal Investment Advisory Agreement with Registrant setting forth the terms and conditions under which Registrant shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian.

Factors that the Registrant considers in recommending Schwab (or another broker-dealer/custodian, investment platform and/or mutual fund sponsor) include historical relationship with the Registrant, financial strength, reputation, execution capabilities, pricing, research, and service. Broker-dealers such as Schwab can charge transaction fees for effecting certain securities transactions. To the extent that a transaction fee will be payable by the client to Schwab, the transaction fee shall be in addition to Registrant's investment advisory fee referenced in Item 5 above.

To the extent that a transaction fee is payable, Registrant shall have a duty to obtain best execution for such transaction. However, that does not mean that the client will not pay a transaction fee that is higher than another qualified broker-dealer might charge to effect the same transaction where Registrant determines, in good faith, that the transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, transaction rates, and responsiveness. Accordingly, although Registrant will seek competitive rates, it may not necessarily obtain the lowest possible rates for client account transactions.

### Non-Soft Dollar Research and Additional Benefits

Registrant receives from Schwab (and potentially other broker-dealers, custodians, investment platforms, unaffiliated investment managers, vendors, or fund sponsors) free or discounted support services and products. Certain of these products and services assist the

Registrant to better monitor and service client accounts maintained at these institutions. The support services that Registrant obtains can include investment-related research; pricing information and market data; compliance or practice management-related publications; discounted or free attendance at conferences, educational or social events; or other products used by Registrant to further its investment management business operations.

Registrant's clients do not pay more for investment transactions effected or assets maintained at Schwab or other broker-dealers and custodians because of these arrangements. There is no corresponding commitment made by the Registrant to any broker-dealer or custodian or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products because of the above arrangements. Unrelated to our arrangement with Schwab, clients and prospective clients should review Item 4 above under the heading "Affiliated Mutual Fund" for more information about how we stand to receive additional compensation from investments in the Affiliated Mutual Fund.

**The Registrant's Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest such arrangement creates.**

1. The Registrant does not receive referrals from broker-dealers.
2. **Directed Brokerage.** Registrant recommends that its clients utilize the brokerage and custodial services provided by Schwab. The Firm generally does not accept directed brokerage arrangements (but could make exceptions). A directed brokerage arrangement arises when a client requires that account transactions be effected through a specific broker-dealer/custodian, other than one generally recommended by Registrant (i.e., Schwab). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Registrant will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Registrant. As a result, a client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

In the event that the client directs Registrant to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Registrant. Higher transaction costs adversely impact account performance. Transactions for directed accounts will generally be executed following the execution of portfolio transactions for non-directed accounts. **The Registrant's Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions that a client or prospective client may have regarding the above arrangement.**

**Rotation.** The Registrant maintains a trade rotation policy that is designed to ensure that its client accounts, including the Affiliated Private Fund, the Affiliated Mutual Fund and accounts participating in the Third Party SMA Models Program are treated

fairly and equitably. While this policy cannot totally eliminate a client from being disadvantaged from a single trade or update to our models, it has been designed to ensure that no client is disadvantaged over extended periods. As noted above in Item 4, the Registrant will generally provide trade information to Interactive Advisors before it is implemented in the Registrant's other clients' accounts.

- B. To the extent that the Registrant provides investment advisory services to its clients, the transactions for each client account generally will be effected independently, unless the Registrant decides to purchase or sell the same securities for several clients at approximately the same time. The Registrant may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Registrant's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. The Registrant shall not receive any additional compensation or remuneration as a result of such aggregation.

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

- A. For those clients to whom Registrant provides investment supervisory services, account reviews are conducted on a periodic basis by the Registrant's Principal and/or representatives. All investment supervisory clients are advised that it remains their responsibility to advise the Registrant of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review investment objectives and account performance (and, to the extent applicable, financial planning issues) with the Registrant on an annual basis.
- B. The Registrant may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Those clients to whom Registrant provides investment supervisory services may also receive a quarterly report from the Registrant summarizing account activity and performance.

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

- A. As referenced in Item 12. above, the Registrant receives economic benefits from various broker-dealers/custodians such as Schwab. Unrelated to our arrangement with Schwab, clients and prospective clients should review Item 4 above under the heading "Affiliated Mutual Fund" for more information about how we stand to receive additional compensation from investments in the Affiliated Mutual Fund.
- B. Registrant does not maintain promoter arrangements or pay referral fee compensation to non-employees for new client introductions. However, if the Registrant determines to engage promoters to introduce new prospective clients to the Registrant consistent with the Investment Advisers Act of 1940, its corresponding rules, and applicable state regulatory requirements, and the prospect subsequently engages Registrant, the promoter will not be compensated by Registrant for the introduction. The promoter's introduction shall not



result in the prospect's payment of a higher investment advisory fee to the Registrant (i.e., if the prospect was to engage Registrant independent of the promoter's introduction). The promoter, at the time of the introduction, shall provide the prospective client with a written disclosure statement containing the terms and conditions of the promoter arrangement with Registrant, together with a copy of: (1) Registrant's written disclosure Brochure; and, (2) Form CRS (if the prospect is a retail client).

#### **Item 15      Custody**

The Registrant shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance. To the extent that the Registrant provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by the Registrant with the account statements received from the account custodian.

The account custodian does not verify the accuracy of the Registrant's advisory fee calculation. The Affiliated Private Fund is subject to an annual financial statement audit, which is distributed to each investor in accordance with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940.

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

The client can determine to engage the Registrant to provide investment advisory services on a discretionary basis. Prior to the Registrant assuming discretionary authority over a client's account, the client shall be required to execute Investment Advisory Agreement, naming the Registrant as the client's attorney and agent in fact, granting the Registrant full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage the Registrant on a discretionary basis may, at any time, impose restrictions, in writing, on the Registrant's discretionary authority. (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe the Registrant's use of margin, etc.).

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

- A. Unless a client directs otherwise, in writing, the Registrant, in conjunction with the proxy voting due diligence and administrative services provided by Proxy Edge (an unaffiliated proxy service), shall be responsible for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, and tender offers. However, the client shall maintain exclusive responsibility for all legal proceedings or other type events pertaining to the assets, including, but not limited to, class action lawsuits, except to the extent specifically agreed between the Registrant and the client in writing. The Registrant and/or the client shall correspondingly instruct each custodian of the assets to forward to the Registrant copies of all proxies and shareholder communications relating to the assets (except for legal proceedings). Absent mitigating circumstances and/or conflicts of interest

(to the extent any such circumstance or conflict is presented, if ever, information pertaining to how the Registrant addressed any such circumstance or conflict shall be maintained by the Registrant), it is the Registrant's general policy to vote proxies consistent with the recommendation of the senior management of the issuer. The Registrant, in conjunction with the proxy voting due diligence services provided by Proxy Edge, shall monitor corporate actions of individual issuers and investment companies consistent with the Registrant's fiduciary duty to vote proxies in the best interests of its clients. With respect to individual issuers, the Registrant may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), the Registrant may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and mergers. The Registrant, in conjunction with the services provided by Proxy Edge, shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. In addition, information pertaining to how the Registrant voted on any specific proxy issue is also available upon written request.

- B. In the event the client, in writing, declines our authority to vote, the client will receive their proxies or other solicitations directly from their custodian. Clients may contact the Registrant to discuss any questions they may have with a particular proxy solicitation.

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

- A. The Registrant does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. The Registrant has not been the subject of a bankruptcy petition.

**ANY QUESTIONS: The Registrant's Chief Compliance Officer, Jennifer O. Hall, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**