



## DISCLOSURE BROCHURE & ADV PART 2

MARCH 26, 2018

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## PREFACE

We developed this document to comply with the revised disclosure rules for investment advisors registered with and regulated by the SEC; these rules were substantially changed on July 21, 2010. It is a copy of the newly revised Part 2 of the “Form ADV” we filed with the SEC in March of 2013.<sup>1</sup> The ADV is a disclosure document that all SEC-registered advisors must file with that agency, and provide to their customers, each year. The information on the ADV allows the SEC – and investors who review it at the SEC website – to understand the basics of our firm and the way we do business. We have filed Part 1 of the ADV with the SEC every year since we formed our company in 1995. In 2011, for the first time, the SEC also began requiring advisors to file each year a portion of the ADV – namely, Part 2 – that had formerly been exempt from an annual filing requirement. Part 2 provides a great deal more information than Part 1. The purpose of the new filing requirement for the ADV Part 2 is to enable the SEC to publish it at the SEC website, so that investors can make more informed decisions about whether to do business with a given advisor.

Alert readers may recognize that this document is a reworked version of the Disclosure Brochure that we have long provided to our clients and prospective clients in lieu of our ADV. The SEC has allowed advisors to satisfy their duty of disclosure to clients and prospective clients by using such a Brochure, provided it contained the same information as was found in the ADV. We have always employed a Brochure instead of the ADV itself, because we felt that it was more intelligible. Part 2 had formerly been a dry, bare bones affair – a form asking a series of questions that were best answered in technical jargon. Realizing that it was difficult for investors to grapple with this format, the SEC has required advisors to recast their Part 2 in the same sort of narrative, readable format that we had always used for our Disclosure Brochure. Henceforth, therefore, our ADV Part 2 and our Disclosure Brochure will be the same document.

To make the Part 2 more accessible to investors, the ADV rules now require advisors to express themselves therein using “plain English.” The SEC has published an 80 page guide to achieving this laudable objective. We have sought to meet this requirement by, among other things, simplifying our expressions, avoiding technical language where possible, driving out the passive voice, and by referring to SCI usually in the first person plural, rather than the third person singular. We have done our best to make this document easy to interpret.

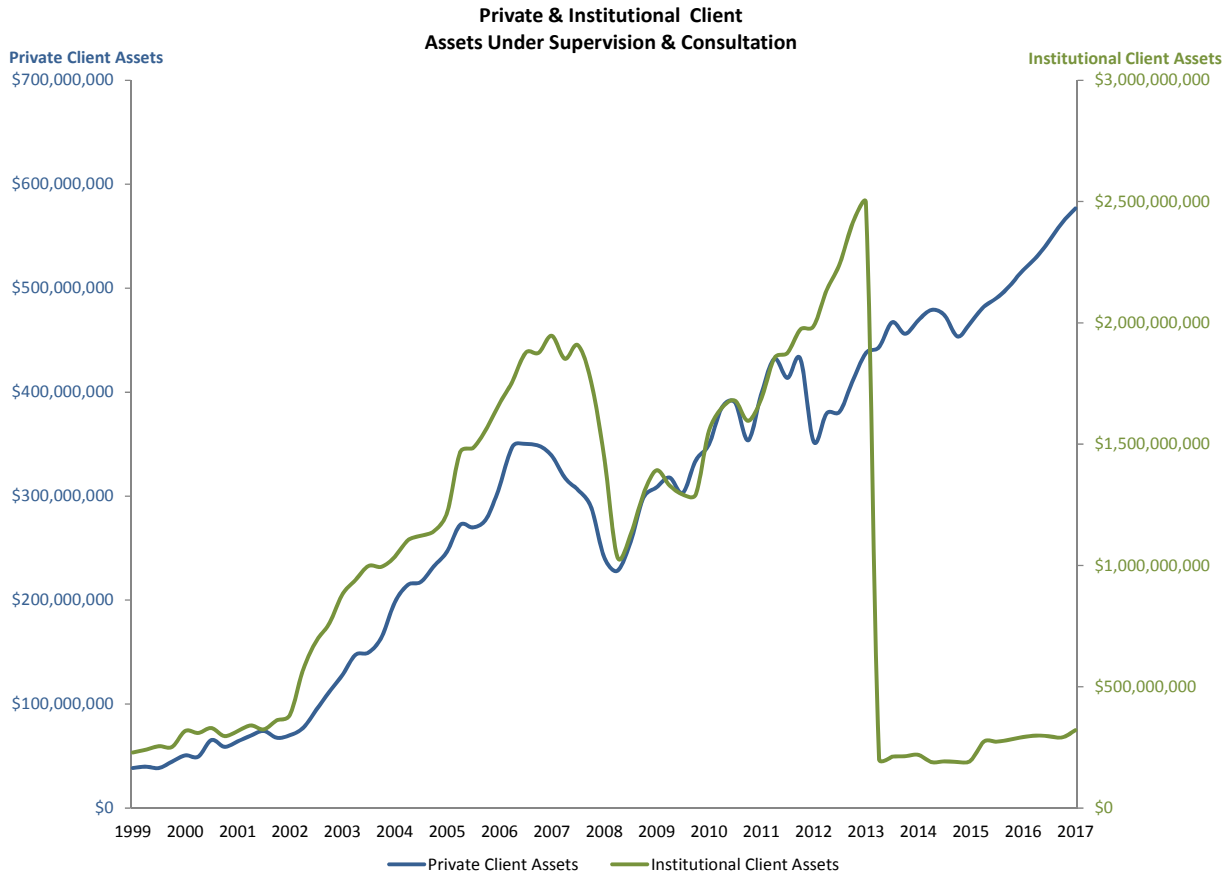
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<sup>1</sup> The SEC has published this document online (at [advisorinfo.sec.gov/IAPD/Content/Search/iapdOrgSearch.aspx](http://advisorinfo.sec.gov/IAPD/Content/Search/iapdOrgSearch.aspx)). It is also available at our website ([schultzcollins.com](http://schultzcollins.com)).



## SUMMARY OF MATERIAL CHANGES

The ADV rules require that we begin by summarizing the changes that have occurred at SCI since our last annual filing with the SEC that are material to an investor’s decision whether to retain us as investment counsel. As of 12/31/17, our combined assets under supervision and assets under consultation stood at \$897,864,943.<sup>2</sup>



<sup>2</sup> At 12/31/17, AUS accounted for approximately 97% of total assets covered by our active engagements. For more details on these two categories, see **Advisory Business**, below.



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## ADVISORY BUSINESS

Schultz Collins, Inc., [SCI] is an independent investment advisory firm headquartered in San Francisco, California, with branch offices in Towson, Maryland and Washington, D.C. The firm incorporated and commenced business operations in January of 1995. SCI has two shareholders, both of whom are officers, and both of whom sit on the firm's management and investment committees: Patrick J. Collins and Kristor J. Lawson. Each owns more than 10% of the company's stock.

Our primary business is the supervision of investment portfolios for institutional and individual investors. We provide this supervision in our capacity as investment counsel under the 1940 Investment Advisers Act. According to the Act, "it shall be unlawful for any [registered investment adviser] to represent that [it] is an investment counsel unless ... a substantial part of [its] business consists of rendering investment supervisory services."<sup>3</sup>

The Act defines investment supervisory services as "the giving of continuous advice as to the investment of funds on the basis of the individual needs of each client."<sup>4</sup> We design and supervise client accounts individually, according to the particular requirements of each client's situation, objectives, and predilection for the assumption of investment risk.

With respect to their clients, investment advisors are fiduciaries. As such, we owe our clients the duty of utmost good faith. Among other things, that good faith requires that in all our business activities we put the interests of our clients ahead of any others. From our very beginning, SCI principals have sought to organize the firm and its services so as to prevent conflicts of interest, and to make improper activities structurally impossible. Some examples:

- Insider Trading is practically impossible for SCI employees by virtue of their connection with the firm, because with very few exceptions (e.g., legacy stocks with large embedded capital gains), client portfolios are invested only in pooled investment vehicles, and because the firm does not participate in investment banking or security valuation.
- Misrepresentation of the firm's investment performance is difficult, because SCI does not maintain proprietary portfolios. Rather, because we serve clients as investment counsel, each client's portfolio is unique, and trades independently of any other portfolios. Therefore we neither calculate nor advertise the firm's investment performance.
- We do not recommend any particular broker/dealer. Broker/dealer selection is left to the client, and we work with several different broker/dealers. Furthermore, the firm is willing to work with any custodian the client may wish to select, provided only that we are able to gain access to account information. Because each client portfolio is managed separately, client trades are not aggregated, and we do not direct trades to any broker/dealer.
- The risk that customer funds will be invested unsuitably is minimized because SCI does not accept investment discretion from clients. Rather, clients authorize all trades and disbursements (including those intended to pay investment advisory fees) before they are executed.
- Client funds are insulated from misappropriation of their assets, and from any risk posed by the firm's liquidity, by virtue of the fact that SCI is not itself a custodian, trust company, mutual fund,

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<sup>3</sup> 15 U.S.C. § 208(c)

<sup>4</sup> 15 U.S.C. § 202(a)(13)

fund manager, or broker/dealer, and never has any ownership interest in or control of client assets, either directly or via the agency of any person associated with the firm.

- The likelihood that we will vote proxies in conflict with the best interests of our clients is minimized because we do not accept the right to vote proxies on their behalf. This policy is in harmony with our general determination never to act as investment manager, but rather as investment counsel. Our business purpose is, not to attract funds to our management, but to support rational, informed client decisions.
- The risk that clients will suffer costs arising from their relationship with us that exceed the fees specified in their advisory agreements with the firm is minimized by the fact that SCI is an independent firm, owned by its principals, and not affiliated with any other provider of financial products or services. No other firm can exert influence over the investment advice we provide to customers, except insofar as they themselves are unable to execute client decisions derived therefrom, for reasons of their own structural organization, or of their regulatory constraints.

In particular, we avoid conflicts of interest by shunning relationships with any firms that would oblige or otherwise motivate us to do business with them on behalf of our clients, other than by virtue of their financial soundness and the quality of their products or services.

Despite our determined efforts to organize SCI so as to prevent moral hazards and conflicts of interest from arising in the first place, it is impossible to eradicate them completely from any human organization. Where they persist, we disclose them (see **Conflicts of Interest** below).

## ASSETS UNDER SUPERVISION OR CONSULTATION

Investment firms are often evaluated, in part, according to their assets under management, or AUM. AUM is one measure of the trust investors have placed in a firm: the greater the AUM, the greater the trust. But it is crucial to emphasize, at our mention of this acronym so prevalent in the investment industry, that SCI is not an asset manager. Mutual fund companies, insurers, separate account managers, hedge funds, venture capital firms, private equity firms, and some private banks and trust companies are asset managers: they add client deposits to proprietary portfolios that they market to many different investors, and in which they trade without prior authorization from their clients. Such firms have AUM.

We take the opposite approach: we maintain no proprietary portfolios; rather, we help and support our clients in the management of their own portfolios, and do not intervene in those portfolios without their prior approval. So, while we provide advice on assets currently valued at about two billion dollars, we don't "manage" them. Thus we prefer to use the acronyms AUS and AUC: assets under supervision or assets under consultation.

What is the difference between assets under supervision and assets under consultation? The main difference is that when we supervise a portfolio, we are involved in trading, and in monitoring the actual performance of actual investment positions, whereas with the latter, we neither trade nor report on actual positions. A typical example of supervision would be our engagement to provide ongoing, continuous monitoring, reporting, back office services (e.g., trading, wires, account administration, and the like), and on-call advice to a portfolio owned by an individual investor. For such an engagement, we would be involved, for example, in executing trades and accounting for their effect on the portfolio. A typical example of consultation would be our engagement as investment advisor to a corporate retirement plan, to provide quarterly, semi-annual, or annual advice on the menu of investment options it offers to plan participants, including fund benchmarking, analysis, evaluation and recommendations, and so forth. For such an engagement, we would not be involved in trading or monitoring investment activity in the accounts of the plan's participants.

Most of our individual engagements are supervisory in nature, while most of our corporate engagements are consultative.

## ADDITIONAL SERVICES

In addition to portfolio design and supervision, we provide several related services to individual and institutional clients. As with our core investment supervisory services, we follow strict standards of practice; to wit:

- Adherence to the Prudent Investor Rule;
- The use of a Policy Statement, where applicable, to define a protocol the client will use in making investment, insurance or planning decisions;
- The reduction of unnecessary and unjustified portfolio management expenses;
- The mitigation of conflicts of interest to the greatest practicable extent;
- Disclosure of risks, conflicts and costs;
- Advice unbiased by any relationship with other financial firms.

## ADVISORY SERVICES FOR RETIREMENT SAVINGS & PENSION PLANS

SCI provides investment advisory and consulting services to sponsors of ERISA qualified retirement savings and pension plans, to non-qualified retirement savings and pension plans, and to IRC §457, 403(b) and similar plans offered by government or non-profit organizations.

Retirement plans are a legally complex employee benefit. To the extent contributions to the plans are made with pre-tax dollars, the plan sponsor must adhere to numerous regulations enforced by the Internal Revenue Service and the U.S. Department of Labor. Failure to comply with them can pose a significant risk to the plan sponsor corporately, and individually to the trustees and fiduciaries of the plan. SCI specializes in helping plan sponsors manage their fiduciary responsibilities through the following advisory and consulting services:

**EVALUATION, DESIGN AND SUPERVISION OF QUALIFIED PLAN INVESTMENT PROGRAMS:** We specialize in developing investment programs that meet the numerous objectives implicit in a sponsor's retirement plan, while minimizing employer exposure to fiduciary liability. SCI assumes the role of co-fiduciary in helping the trustees of pension and retirement plans implement prudent investment structure and procedures in accordance with ERISA (the Employee Retirement Income Security Act of 1974). As co-fiduciaries, we recognize that, "prudence should be measured principally by the process through which investment strategies and tactics are developed, adopted, implemented and monitored,"<sup>5</sup> rather than by the results of these processes.

**ASSISTANCE IN OBTAINING OPTIMAL PLAN ADMINISTRATION SERVICES:** We evaluate various record-keeping and trust arrangements for plan sponsors, to help them determine the most efficient and appropriate combination of services, given their plan configuration. We maintain an extensive database on a wide range of service providers and vendors and their affiliated or proprietary investment programs. SCI has no contractual relationship with any third party administrators, trustees, or actuarial firms, nor are such relationships contemplated. Although we may refer clients to third party providers, clients are under no obligation to transact business with them, and we receive no referral fees from such providers.

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<sup>5</sup> Longstreth, Bevis *Modern Investment Management and the Prudent Man Rule* Oxford University Press 1986

EMPLOYEE COMMUNICATION AND EDUCATION PROGRAMS: We develop and deliver communication programs designed to provide plan participants with “information on the basis of which informed investment decisions can be made.”<sup>6</sup> We also help plan sponsors meet their duty of full disclosure to plan participants of material information about the plan’s investment vehicles and procedures. Our communication and education programs are designed to encourage employees to invest knowledgeably and successfully, while avoiding the appearance of giving investment advice.

## ADVISORY SERVICES TO TRUSTS, ENDOWMENTS & FOUNDATIONS

SCI helps fiduciaries charged with the management of assets owned by trusts, endowments and foundations. Services available to such fiduciaries include:

EVALUATING PROFESSIONAL TRUSTEE AND MONEY MANAGER PERFORMANCE: Corporate trustees and money managers sometimes provide information on their investment performance in such a way as to make it difficult for clients to understand what has really happened. We evaluate investment performance objectively, helping the fiduciary determine:

- The extent of portfolio diversification;
- The amount and type of risk assumed;
- The degree to which portfolio performance can be attributed to the skill of the money manager, versus luck;
- The attribution of performance variously due to market timing, security selection and to asset allocation, and;
- The risk-adjusted return added or subtracted by money managers, compared with relevant benchmarks.

MONITORING PORTFOLIO SUFFICIENCY: Even a well-designed portfolio, operating within expected parameters, and approximating its statistically expected return, runs the risk that its actual dollar value at some critical future juncture will differ widely from the projected value. Regular testing of the likelihood that future cash distribution targets can be supported with dollars then available is therefore vital. As trust portfolios weather the ups and downs of volatile capital markets, we monitor portfolio sufficiency by modeling historical variation in performance, adjusting for inflation experience and the actual history of contributions and distributions, and determining the probability of future surplus or shortfall.

DEVELOPMENT AND TESTING OF SPENDING POLICY: Most trust agreements are written prior to any determination whether the trust corpus is likely to prove sufficient to fund their distribution requirements. This poses a problem for fiduciaries charged with investing the corpus so as to meet such requirements. The difficulty applies equally to foundations and endowments required to make annual distributions. SCI tests spending and distribution policies under various portfolio asset allocations.

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<sup>6</sup> DOL Regs. 29 CFR §2550.404c-1 (b)(2)(i)(B)

## RETIREMENT PLANNING

Much of our work involves the supervision of investment portfolios ultimately intended to support clients in their retirement, whether via ERISA-qualified retirement plans or other arrangements. As a natural adjunct to this work, the firm often analyzes client investment assets and incomes from all sources in the development of a comprehensive plan for funding retirement.

In addition to projecting retirement incomes generated by funding vehicles already in place, we sometimes advise clients on methods of increasing retirement income. Several strategies may be employed in this endeavor, and each constitutes an independent service of the firm:

**RETIREMENT INCOME ANALYSIS:** The firm prepares analyses of projected cash flows from all sources during the course of retirement, with a view to ascertaining whether they will remain adequate. Where it is determined that they may not, specific modifications to such factors as the savings rate and the targeted portfolio return are considered. Other factors, such as controlling for medical risk and taxes, may enter into these discussions.

**PORTFOLIO SUFFICIENCY ANALYSIS:** Investors often approach retirement with substantial portfolios, but with no clear idea whether they are likely to run out of money during retirement. Using our proprietary WealthCaster® modeling program, we can gauge the probability of portfolio failure, given an asset allocation structure, a schedule of portfolio contributions and distributions, and the demographics of the family.

**INDIVIDUAL QUALIFIED PLAN DISTRIBUTION PLANNING:** Many qualified plan participant accounts are large enough to trigger excise taxes on excess accumulations and distributions. Together with income and estate taxes, these excise taxes can reduce the economic value of a qualified plan account by more than eighty percent. SCl provides analytical and planning services to clients who wish to reduce the impact of excise taxes and increase the portion of the plan account passing to the intended beneficiaries.

## FEE-BASED INSURANCE ADVISORY SERVICES

Life insurance ought to be – and, where it is a trust asset, must be – subject to the same degree of scrutiny, the same careful monitoring and supervision, and the same level of expert analysis as any other financial instrument. SCl offers advice on life insurance arrangements. Our insurance advisory service helps individuals and trustees who are considering purchase, exchange, retention, sale or termination of insurance programs to evaluate important financial issues, thus increasing the probability of a good outcome from the decision making process. Specifically, for all insurance transactions, irrespective of whether the policy is owned by a trust, corporation or individual, we help the decision maker in developing and implementing procedurally prudent standards that are defensible, and that conform to the generally accepted standards of quantitative and statistical analysis mandated by the Uniform Prudent Investor Act [UPIA] and the system of modern portfolio analysis which it presupposes.

Our insurance advice, whether rendered to individuals, fiduciaries or their advisors, is compensated only by client fees; we do not accept commissions on the sale of financial products. It may pertain (but is not limited) to:

- Financial analyses and comparisons of carriers;
- Insurance contract analyses (re timing, risk, magnitude and probability of cash flows);
- Capital needs analyses, including proprietary simulation analyses of the likelihood that a proposed or existing plan of insurance coverages will outperform alternative investment options;
- Analyses of beneficiary designations, contract ownership, settlement and dividend options, and premium financing arrangements;

- Underwriting strategy and pricing consultations for clients with medical or avocational difficulties.

In addition, the firm performs yearly monitoring and surveillance of in-force insurance contracts, also compensated by client fees. The annual client review covers developments that may affect a carrier's solvency or ability to deliver benefits. When appropriate, we may suggest that consideration be given to alternative carriers or products. We may, from time to time, offer advice to professional advisors and clients in such areas as compensation planning, multi-life cases, business interest transfer planning, estate tax or family wealth transfer planning, or issues relating to insurance within qualified plans. In rendering insurance advice, the firm utilizes the independent sources of information described in **Logistics of Investment Advisory Services** below, as well as:

- Financial rating services such as Moody's, Standard & Poor's, A. M. Best & Company, and Duff & Phelps;
- Academic analyses and evaluations of the industry;
- Insurance trade publications (e.g., Best's Review and the Journal of Financial Service Professionals);
- Third-party financial, regulatory and legal data-bases;
- Information made available by the National Association of Insurance Commissioners; and,
- Other publicly disclosed information regarding insurance companies.

In order to provide underwriting, pricing, and yearly monitoring services, SCI maintains relationships with several master general agencies, each of which in turn maintains relationships with several insurance companies. We also have access to a number of no-load insurance programs through various vendors of such programs. In this way, we seek to eliminate the influence any particular insurance company might exercise on our activities, or on the advice we render clients; and, in fact, no carrier enjoys any such influence (see **Conflicts of Interest** below).

## LITIGATION CONSULTING

The expertise arising from our decades of experience in all these areas of service has given rise to a demand for our advice as consultants to attorneys involved in legal disputes with various financial firms, including banks, trust companies, insurers, broker/dealers, and investment advisors. We regularly accept such engagements, helping attorneys in every stage of a legal dispute:

**EVALUATION OF POTENTIAL RISKS AND RETURNS OF A PROSPECTIVE DISPUTE:** Attorneys consult with us to determine whether there is a likelihood of success in undertaking legal action.

**REVIEW OF CASE MATERIALS:** Our knowledge of sales and back office practices and administrative procedures in financial services firms enables us to reconstruct from case files and depositions the course of events that led to a client complaint.

**PREPARATION OF ARGUMENTS:** We help attorneys understand the strengths and weaknesses of their cases, and refine their arguments.

**TESTIMONY AS EXPERT WITNESSES:** We stand ready to testify in depositions, mediations, arbitrations, and trials.

**EVALUATION OF DAMAGES AND SETTLEMENT OFFERS:** We assist with calculating damage measures.

## FEES & OTHER COSTS

As should be abundantly clear from all the foregoing, each of our client engagements is unique. Some require a great deal of work, some less. For example, an engagement to supervise an investor's portfolio might cover a single IRA, or might cover five qualified accounts, several trusts, and a foundation, each with its own complexities, each held at different custodians; it might cover a single portfolio, or several, each with its own Investment Policy Statement [IPS] and distribution requirements. Likewise, a corporate engagement might call for annual reports and meetings with a plan committee, or quarterly; it might cover only fund evaluation, or it might include plan design and administration of a vendor search. We do not therefore maintain a standard fee schedule. Rather, as with our advice, we tailor our fees to the engagement.

We charge for our services in several ways: hourly fees, project fees, and fees based on a percentage of the assets under supervision. An engagement may involve any or all of these kinds of fees, depending on its nature, complexity, the value of the assets it covers, the number of parties involved, and the scope of services provided. For example, an engagement to provide ongoing supervision to a portfolio will usually call for an annual fee calculated as a percentage of assets under supervision; but, should the development of the IPS entail a week of upfront meetings and research, we would also charge a project or hourly fee for that initial project.

Our first meeting with a prospective client is complimentary. We use it, in part, to take the measure of the work entailed by the engagement, so as to estimate the total fees for the services contemplated therein. We then generally provide a formal proposal for services, including a specification of fees, which, if accepted by the client, is incorporated in the Client Service Agreement by which the engagement is legally established.

All fees and fee schedules are negotiated, depending on the scale, complexity and range of services provided to the client. Fees are subject to change in the event of a significant change in the degree of complexity of the engagement or the specific services involved therein.

For the services described in **Additional Services** above, we generally charge either project fees or hourly fees. Our hourly billing rates are \$150 to \$650 per hour for services rendered by SCI professionals, and starting from \$50 per hour for services rendered by SCI staff, plus expenses. One half of such estimated hourly fees, or of flat fees, is generally payable upon execution of a Client Service Agreement, and the other half upon completion of the work delineated therein. If the work exceeds the hours initially estimated, we seek the client's approval before beginning such excess work.

## SUPERVISORY FEES

For ongoing portfolio supervision, we generally charge annual fees calculated as a percentage of assets under supervision. Such fees are a standard practice in the investment advisory industry, but each firm has its own way of calculating and billing them.

## SUPERVISORY FEE CALCULATION

While we have no “standard” or “default” fee schedule, we offer the following example so that clients may understand how we apply a fee schedule to calculate annual supervisory fees as a percentage of assets under supervision, for a portfolio of \$15,000,000.

	Assets under Supervision	Annual % Fee	Annual \$ Fee
I.	For the first \$0 to \$1,000,000	1.00%	\$10,000
II.	And then from \$1,000,000 to \$2,000,000	0.80%	\$8,000
III.	And then from \$2,000,000 to \$5,000,000	0.60%	\$18,000
IV.	And then from \$5,000,000 to \$10,000,000	0.40%	\$20,000
V.	And then from \$10,000,000 to \$50,000,000	0.30%	\$15,000
VI.	And then from \$50,000,000	0.20%	\$0
	Totals For portfolio = \$15,000,000	0.47%	\$71,000.00

The sample fee schedule above would result in the following total fees for various portfolio values:

Portfolio	Total Annual % Fee	Total Annual \$ Fee
\$3,000,000	0.80%	\$24,000
\$5,000,000	0.72%	\$36,000
\$10,000,000	0.56%	\$56,000
\$50,000,000	0.35%	\$176,000
\$100,000,000	0.28%	\$276,000

## MECHANICS OF BILLING SUPERVISORY FEES

When a new client engages us for portfolio supervision, it often takes a fair bit of work, and not a little time, to install the portfolio in accordance with a new IPS, so that it is actually invested under our supervision. We do not generally charge supervisory fees for the many steps involved in that installation process (establishing and consolidating accounts, reviewing trust documents, transfers of assets between accounts, discovery and education interviews with the client, IPS development, and so forth); rather, such work is generally compensated with project or hourly fees. Supervisory fees begin when that work is complete, and are billed as follows:

- Fees for new supervisory engagements are earned beginning with their Inception Date, and are generally payable semi-annually.
- The Inception Date is defined as the first day of the month following that date when the greater part of the assets of the Portfolio were invested as specified by the Portfolio’s IPS.
- The Valuation Date is defined as the last business day of the month preceding the Inception Date, and the last business day of each subsequent semi-annum.
- The Billing Date is defined as the first day of the third month after each Valuation Date.
- Fees generally become due and are invoiced at the Billing Date, and every six months thereafter.
- Fees are therefore billed two months in arrears, and four months in advance.



- The minimum annual fee is \$10,000.
- The semi-annual fee due at each Billing Date is half the annual fee, based on the market value of the Portfolio as of the most recent Valuation Date.
- Clients may pay fees directly, or may direct custodians to pay them via disbursement of client funds to SCI.

The minimum portfolio value for new supervisory accounts is \$1,000,000. Under certain circumstances we may waive this minimum, subject to the approval of our Management Committee. In such cases, minimum annual fees would generally apply.

## PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

Performance-based fees are charged by many hedge funds and private money managers, over and above basic advisory fees such as those we charge, and that are described above. It is not uncommon, for example, for a hedge fund to charge an annual base fee of 1% or 2% of assets under management, plus a performance-based fee equal to 20% of the amount by which it has out-performed a benchmark index over the preceding period.

Side-by-side management occurs when an advisor has some clients that pay performance-based fees, and others that do not. In such cases, a conflict may well arise between the interests of the advisor and those of the clients who do not pay the performance-based fee. Such an advisor might be tempted to allocate the most profitable trades to the accounts that generate performance-based fees, and the less profitable trades to those that do not.

We do not assess performance-based fees, so we are not subject to the moral hazard entailed in side-by-side management. Neither, for that matter, are we able to allocate trades among our clients, because we do not aggregate trades.

## OTHER COSTS OF INVESTING

Broker/dealers charge various transaction fees, and mutual funds and exchange traded funds [ETFs] charge transaction, management or other administrative fees. These fees are separate from, and are in addition to, any investment advisory fees charged by SCI. We disclose the commissions, transaction costs, or other expenses that would be borne by a client at any broker/dealer we suggest as soon as they become ascertainable.

We do our best to minimize such costs. This is why we prefer to do business with discount brokers: they charge much lower commissions on transactions than their full-service competitors. Likewise, we prefer institutional mutual funds and ETFs because the expense ratios they charge are far lower than is the case with retail funds, all other things being held equal. Finally, this is why we minimize trading in client accounts: not only does trading generate commissions for the custodian, it can impose market impact costs on the portfolio.

## TYPICAL BROKER/DEALER FEES

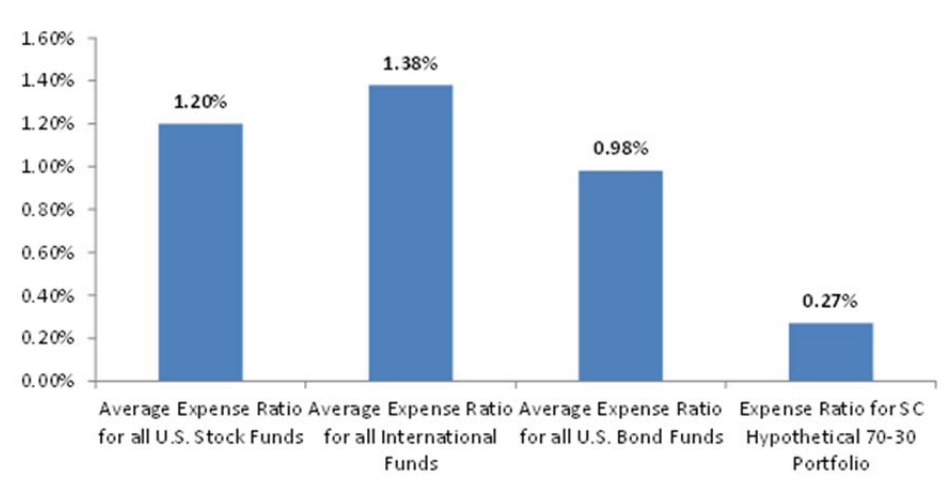
The following table summarizes various broker/dealer fees and services at two of the leading discount brokerage firms many of our clients employ. They reflect the additional institutional discounts they provide to SCI clients. They are subject to change. Depending on the broker/dealer or the instrument, fees may be added or waived. For example, transaction fees on purchase of a Fidelity fund in a Fidelity brokerage account may be waived.

	TD Ameritrade	Fidelity
<b>Mutual Fund Trading</b>		
Online	Household $\geq$ \$500K or eDelivered: \$24.00 flat Household $<$ \$500K & not eDelivered: \$31.00 flat	\$30.00 flat
Broker Assisted	\$45.00 flat	\$30.00 flat
Swap Trades	No charge on second trade	Available within fund family
Non-Transaction-Fee Funds	No charge to purchase; \$49.99 to liquidate if held less than 90 days	No charge to purchase, or to liquidate if held more than 60 days
<b>Stock Trading</b>		
Online Trades	Household $\geq$ \$500K or eDelivered: \$9.99 flat Household $<$ \$500K & not eDelivered: \$/share $\geq$ \$1.00: \$16.99 for the first 1000 shares; \$0.01/share thereafter \$/share $<$ \$1.00: \$16.99 flat	Account $\geq$ \$1M or eDelivered: \$7.95 for the first 1000 shares; \$0.01/share thereafter Account $<$ \$1M & not eDelivered: \$17.95 for the first 1000 shares; \$0.015/share thereafter
Broker Assisted	\$0.01/share; \$45.00 minimum	\$0.05/share; \$29.95 minimum
Penny Stock	\$16.99 flat	\$7.95 flat
<b>Bond Trading</b>		
Role (agent/principal)	Generally trades on net basis (principal)	Competitive basis
Governments (as agent)	\$25.00/trade	
Listed Corporates	Bonds 1-9: \$45.00 Flat Bonds 10-99: \$5.00 per Bonds 100+: \$2.50	

## FUND EXPENSES

The funds typically used in SCI portfolios are much less costly to own than funds typically available to retail investors. This is due primarily to our access to funds, or share classes of funds, that are only offered through financial institutions. For example, Vanguard makes quite a few of their funds available in different share classes, one for small retail investors, another for large retail investors or clients of smaller investment advisors, and yet another for investors who are clients of sufficiently large investment advisors, such as SCI. Of these share classes, the first type is the most expensive, the last is least expensive. Wherever possible, we take advantage of the availability of less expensive institutional share classes (they are not available for all funds).

The following chart compares average fund expense ratios on the open market to those of a representative SCI portfolio. Note that other fees, such as custody, trading, and investment supervision, are not reflected in the chart.



Source for averages: Morningstar, Inc.

## TYPES OF CLIENTS

SCI clients fall into a number of categories:

- Private Clients: individuals, households, or families;
- Retirement Plans sponsored by organizations of various types;
- Trusts, endowments and foundations;
- Law firms or their clients (for litigation support services described above).

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES & RISK OF LOSS

A key principle informs all our work: the Prudent Investor Rule.<sup>7</sup> Specifically, we acknowledge and affirm that:

- Investment decisions concerning individual assets must be evaluated not in isolation, but in the context of the portfolio as a whole. We help investors develop coherent and practical strategies for combining disparate assets into a viable whole.
- Risk and return are directly related. We help clients analyze and make conscious decisions about the level of risk appropriate for their portfolios.
- Sound diversification is fundamental to risk management. We help clients reduce unnecessary risk by carefully diversifying their accounts.
- Fiduciaries must balance the need for current income and the protection of purchasing power. We take prudent measures to achieve a real long term return, once inflation and taxes are taken into account.
- A prudently managed portfolio avoids unjustified expenses. We are adamant in our drive to reduce the fees and transaction costs borne by our clients. We disclose them as soon as they become ascertainable.

SCI uses objective statistical and mathematical disciplines in developing portfolios which can meet these requirements. Specifically, we apply the best evidence from academic research in the fields of economics, finance, and statistics to structure portfolios so as to enhance expected return at the selected degree of risk. Quantitative and fundamental in nature, our analyses employ Modern Portfolio Theory, the Capital Asset Pricing Model, the Fama/French Three Factor Model, and other related asset management and selection models. Finally, we often employ proprietary computer models to simulate the future histories of client portfolios under varying economic conditions. Our WealthCaster® application allows investors to take a portfolio allocation for a “test drive.” It incorporates data on historical return series and mortality tables into a simulation of thousands of possible futures of a portfolio allocation structure meeting a schedule of future distributions for a group of lives. Clients may then gauge the likelihood that a particular portfolio allocation structure will fail to meet their long-term economic objectives. We use WealthCaster® both in the initial portfolio design process, and periodically during a portfolio’s career, to test its suitability and prudence, and its fit with client preferences as they evolve over time.

Each client portfolio we supervise is unique, depending for its structure on the particular circumstances and investment goals of the client, as determined in a thorough process of discovery. This process, which customarily includes in-depth interviews and a review of relevant documents (such as, e.g., trusts), clarifies our joint understanding of the investment objectives, time horizon, risk tolerance, and preferences that constrain the design and management of the portfolio. We record all these factors in a written Investment Policy Statement [IPS] for each supervisory portfolio.

The IPS serves as the strategic blueprint for the portfolio, to which the client and any advisors may refer in making investment decisions. It includes criteria for the selection and retention of investments and investment managers. It defines a protocol for determining suitability and evaluating performance. In addition, it specifies an asset management approach that fits with client goals, preferences, and constraints. Taken as a whole, the IPS

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<sup>7</sup> Restatement of the Law Third, Trusts (Prudent Investor Rule), adopted and promulgated by the American Law Institute (Washington, D.C., May 1990) p. 30. See also the Uniform Prudent Investor Act, National Conference of Commissioners on Uniform State Laws (Chicago, 1994); and California’s version of the UPIA, effective January 1, 1996, (West’s Ann. Cal. Probate Code, §§ 16045-16054).

establishes a procedurally prudent method whereby fiduciaries and investors may make rational, defensible investment decisions on the basis of available information.

No amount of care and diligence in making decisions about investments can eliminate the risk of loss of principal that investment necessarily entails, if it is to generate a real return. The probability that an economic asset will suffer some loss of value over some period – whether short or long – is inescapable, whether or not it is invested. Even instruments that carry guarantees of principal, such as certificates of deposit or Treasury Bills, may lose their purchasing power – i.e., their value – due to inflation. Risk of loss being unavoidable, financial decisions, then, consist properly not in choices whether to take risk, but rather how much risk to take, of what types, and when, and how. We view our primary job as helping our clients make informed, rational, prudent decisions about the assumption of risk, given their situation, their objectives, and their temperament. To that end, we spend a great deal of time educating clients about the nature of investment risk, and how it can be controlled. Investors should however never fall prey to the notion that because they have made their investment decisions in a sound manner, with help from experts, they are therefore going to get the outcome they desire. There can be no such assurance.

## LOGISTICS OF INVESTMENT ADVISORY SERVICES

Using the IPS as a guide, SCI recommends investment vehicles appropriate for use in implementing the portfolio structure it specifies. We make recommendations with respect to:

- Equity securities (including exchange-listed, OTC, and foreign-issued securities);
- Corporate debt securities;
- Certificates of deposit;
- Fixed annuities;
- Guaranteed investment contracts;
- Municipal securities;
- Variable life insurance and variable annuities;
- Mutual funds and ETFs;
- Common & Collective Trust Funds;
- Separately Managed Accounts;
- Limited Partnerships;
- U.S. government securities.

The firm's investment strategy is generally long term, with portfolio securities held at least one year. We do not recommend:

- Short term purchases (securities sold within one year);
- Trading (securities sold within 30 days of purchase);
- Short sales;
- Margin transactions;
- Option writing, etc.

## REPORTS & EVALUATIONS

We carefully monitor portfolio performance, and provide a number of regular reports to supervisory clients.

At the end of each quarter, we report the performance of their portfolios and every asset therein, over the quarter, the trailing 1, 3, 5, and 10 years (as applicable), and since inception of the portfolio. These reports are prepared on the basis of a regular review of account statements and data downloaded from the Advisor Services Group at Charles Schwab & Company [Schwab], the Institutional Wealth Services Group at Fidelity Investments [Fidelity], TD Ameritrade Institutional Services, a division of TD Ameritrade, Inc. [TD Ameritrade] (all registered broker/dealers and members of FINRA and SIPC), or other broker/dealers, trustees, or custodians. We make every effort to ensure their accuracy, but can make no guarantee thereof, for we are dependent in our efforts upon information provided by third parties, which is not uncommonly erroneous. Indeed, we detect and correct errors in downloaded information almost every day. It is almost inevitable, therefore, that our statements may from time to time disagree with those of the custodians our clients employ. We therefore urge clients to compare their custodial statements with our performance reports, and report any discrepancies to us as soon as possible.

In addition to quarterly performance reports, we provide Annual Portfolio Evaluations and Annual Fund Evaluations. The former analyzes the behavior of the portfolio since its inception, and compares its risk and return those of the model portfolio analyzed in the IPS, so that the investor can see whether the portfolio is behaving more or less as expected. The latter analyzes the funds owned by the portfolio, to see if they are behaving more or less as expected when they were purchased. Together, these three reports provide clients with both panoramic and detailed looks at their portfolios.

We generally consult with our clients at least once each year to learn of changes in their situations, to review their investment objectives, and to make such changes to their portfolios as are deemed necessary. Either a greater or a lesser frequency of meetings or reports, or of other investment advisory services, may be arranged.

In rendering investment advice, the firm relies upon many independent sources of information. These include, but are not limited to: *Financial Analyst's Journal*, *Journal of Portfolio Management*, *The Journal for Financial Studies*, *Benefits Quarterly*, Morningstar, Inc., *The Wall Street Journal*, *Trusts & Estates*, *Chartered Financial Analyst Digest*, the *Journal of Financial Planning*, *Financial Planning*, *Employee Benefit Plan Review*, *Institutional Investor*, *Journal of Financial Statement Analysis*, and resources available over the internet.

## DISASTER RECOVERY & BUSINESS CONTINUATION

A disaster might affect our ability to help clients manage their portfolios. Consequently, we maintain and regularly update a Business Continuity Plan (BCP) designed to minimize the impact of a disaster on our firm's operations, and to expedite our ability to restore normal business activity. The BCP includes four primary elements:

- Protection of client documents and data: Schultz Collins routinely backs up the data on our computer network to hard drives and tapes maintained at geographically remote locations. We scan all critical documents, and maintain backup copies electronically. Hard copies of historical documents are maintained at a secure offsite storage facility.
- Plans to restore normal business operations: If we cannot access our San Francisco headquarters office, or if its systems are unavailable, we will move to a back-up facility. We maintain key information and document retrieval systems at our back up facility, and will operate from that location until more permanent arrangements can be established.

- Alternate ways clients may contact Schultz Collins: clients who are unable to reach us through normal channels due to a disaster in the San Francisco Bay Area may call our emergency telephone message system (410.583.7055) or visit our website ([www.schultzcollins.com](http://www.schultzcollins.com)). We will use these systems to keep clients apprised of our recovery.
- Procedures whereby clients may access their assets directly: All Schultz Collins client assets are held in custody at major financial institutions that maintain robust disaster recovery systems of their own. Should we be temporarily unavailable, clients can deal with these custodians directly.

## DISCIPLINARY INFORMATION

Neither SCI nor any of its employees have ever been the subject of any disciplinary actions.

## FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS

Other than the business activities undertaken in connection with SCI's services to its clients, SCI employees are not engaged in other businesses. Our employees belong to several professional associations:

- Financial Planning Association
- Society of Financial Service Professionals
- Western Pension & Benefits Conference
- The Chartered Financial Analyst Institute

## CODE OF ETHICS

SCI has a written Code of Ethics and Professional Conduct, which forms a part of its overall Investment Adviser Policies and Procedures Manual. The Code covers the ethical obligations of SCI employees with respect to trading, conflicts of interest, and so forth, in great detail. All employees of the firm are required each year to read the entire Manual, including the Code of Ethics, and to agree in writing that they will abide by its provisions. The entire Manual may be found on the firm's website; a copy will be provided to any client or prospective client upon request.

## PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

Neither SCI nor its employees are permitted to have, or in fact do have, or ever have had, any participation or interest in transactions we execute for clients. SCI does not have any inventory of securities, does not trade for its own account, does not act as a counterparty, and does not make any markets. Neither we nor our employees can profit in any way from client transactions.

## PERSONAL TRADING

Our employees are not prohibited from owning the same securities as our clients, or from managing their portfolios according to the same sorts of investment policies we use for client portfolios. They are, however, prohibited from trading in their own accounts prior to placing similar trades for client accounts – so called “front-running.” Our policy is that all trades in employee accounts must be processed through our trading desk, just as if they were client trades, so that they are covered by our trading supervisory procedures. However, the trading desk must place all outstanding trades that have been authorized by clients for their own accounts before placing any trades in the accounts of SCI employees.

All employee trades are subject to prior review by our Chief Compliance Officer. According to our Compliance Policies and Procedures Manual (§3.1.6):

It is SCI's policy to impose specific requirements related to each [employee's] personal trading and investment activity. The firm shall consider some types of trading, including short term trading and trading in new issues, as inherently constituting a potential conflict of interest. Such trading shall receive particular scrutiny by the [Chief Compliance Officer]. Similarly, SCI may impose specific requirements related to investments in private placements.

Approval may be refused for any proposed trade by an employee that:

1. Involves a security that is being or has been purchased or sold by SCI on behalf of any client account, or that is being considered for purchase or sale;
2. Is otherwise prohibited under any internal SCI policies (such as SCI's Policy and Procedures to Detect and Prevent Insider Trading);
3. Breaches the employee's fiduciary duty to any client;
4. Is otherwise inconsistent with applicable law, including the 1940 Investment Advisers Act and the Employee Retirement Income Security Act of 1974, as amended;
5. Creates an appearance of impropriety.

## BROKERAGE PRACTICES

Because it is a costly procedure, we try to trade as little as possible. Nevertheless, any portfolio must trade from time to time, if only to maintain an approximation to its target allocation, or to meet client requests for the disbursement of funds.

## RISKS OF TRADING

Quite apart from the investment risk involved in owning securities, there are risks entailed in trading them. For example, a sale that might have made a great deal of sense when a security had traded at \$10, and that had been entered for execution when the market price stood thereat, might, for reasons of market liquidity or operational snafus at a broker/dealer, fail to execute until the price had dropped to \$8.

We generally recommend either no-load institutional open-end mutual funds or ETFs for client portfolios, on account of their broad and efficient diversification and low cost. The former trade at the end of each market day, and all purchases and sales of such funds have the fund itself for a counterparty. They therefore pose fairly insignificant trading risk.

ETFs are, however, a different matter. Because they trade intraday like stocks, with all other market participants as potential counterparties, ETFs can be quite volatile. It is not uncommon for a single order in a large portfolio that we supervise to exceed the daily volume of thinly traded ETFs. Thus there is a not inconsiderable risk, when trading ETFs, that the price of a transaction as executed might differ quite a bit from what the trader thought he would get when he pushed the "go" button.

To mitigate these risks, particularly with large trades, we work with custodians and, in some cases, directly with the ETF manufacturers, to control their market impact and improve the price of execution. This may involve, e.g., breaking a large sale (especially of thinly traded ETFs) into several smaller sales.



## AGGREGATION OF ORDERS

We develop trading recommendations for each client account individually, so trades are never aggregated. While this marginally increases the trading costs borne by our customers, it eliminates the moral hazard we would otherwise confront, of ensuring that our allocation of trade lots to client portfolios was fair and proper, and not at all influenced by our own interests.

## BEST EXECUTION

SCI has an obligation to seek best execution of clients' transactions under the circumstances of the particular transaction. Accordingly, SCI must execute securities transactions for clients in such a manner that the total cost or proceeds in each transaction is the most favorable under the circumstances. It is important to note that best execution is not identical with the lowest possible transaction cost.

In order to minimize conflicts of interest that could arise in the event that we were to steer clients toward a certain broker/dealer, it is our policy not to recommend any particular broker/dealer for execution of client transactions, but rather to work with such broker/dealers as clients themselves select. This is in line with our general philosophy that our proper role is, not to manage portfolios for clients, but rather to enable them to make the most informed, rational investment decisions possible, and then to assist them in carrying out such decisions.

Most of our clients have decided to custody their assets at discount brokers TD Ameritrade or Fidelity, but we impose no obligation upon them to do so. On the contrary, we endeavor to work with any custodian our clients wish to employ.

TD Ameritrade and Fidelity provide us with access to their institutional trading and operations services, which are typically not available to retail investors. These services are generally available to independent investment advisors at no charge, so long as a stated minimum amount of their client's assets are maintained at the broker/dealer. TD Ameritrade requires \$25 million in client assets, Schwab requires \$10 million, and Fidelity requires \$50 million.

Services provided by these custodians include research, brokerage, custody, and access to mutual funds and other investments that are otherwise available only to institutional investors, or that would require minimum initial investments so great as to be out of reach for all but a few clients. Fidelity and TD Ameritrade also make available to SCI other products and services that are of use to us, but may not redound directly to the benefit of clients, except to the extent that they improve our responsiveness to their service requests. These include software and other technology that:

- Provide access to client account data (such as trade confirmations and account statements);
- Facilitate trade execution;
- Provide expedited delivery of research reports, pricing information and other market data;
- Facilitate disbursement of SCI advisory fees from client accounts; and,
- Assist with back-office support, recordkeeping and client reporting.

Many of these services are used to service all or a substantial number of SCI's client accounts, including accounts not maintained at these custodians.

Fidelity and TD Ameritrade may also provide us with other services intended to help us manage and further develop our business as an enterprise. These services may include consulting, publications and presentations on practice management, information technology, business planning, regulatory compliance, and marketing. Fidelity

and TD Ameritrade may discount or waive fees they might otherwise charge for some of these services, or pay all or a part of the fees of a third party providing such services. The availability of these services is not contingent upon any agreement by us to direct any amount of business to Fidelity or TD Ameritrade, over and above the assets that our clients choose to custody at these firms. SCI has never entered, and will not ever enter, into any such agreements with custodians or broker/dealers; nor could we in any case fulfill the terms of such an agreement, for the choice of custodians is a decision of the client, rather than of SCI. The provision of such services to SCI by custodians and broker/dealers does not, therefore, in our opinion, constitute a conflict of interest.

## REVIEW OF ACCOUNTS

As of December 31, 2017, our clients could be divided into the following categories:

Category	Clients	Asset Value
Corporate or Institutional Clients	7	279,571,539
Private Clients: Individuals, Families, & their Trusts & Estates	154	576,748,013
Trusts, Endowments & Foundations	7	41,545,391
Totals	168	897,864,943

## CLIENT REFERRALS & OTHER COMPENSATION

SCI receives referrals to new prospective clients from a number of sources, each of which could generate conflicts of interest:

- Some new clients come to the firm as referrals from existing clients, so there is some risk that recommendations made to a client might be influenced by our knowledge of his personal connection to another.
- We also receive referrals from unaffiliated third parties, such as attorneys, accountants, financial planners, pension consultants, and the like. In such cases, there is some risk that advice provided to the client might be influenced by our understanding of any professional relationship obtaining between the referring party and the client; indeed, factors arising from such a relationship often constitute the rationale for the referral.
- SCI may receive referrals from unaffiliated registered investment advisors (solicitors). In addition to Part 2 of SCI's Form ADV – i.e., this brochure – we provide clients thus referred a separate solicitor's referral disclosure statement that will, among other things, disclose to the client the terms and fee arrangements, if any, under which SCI will compensate the referring solicitor for such referrals. No costs additional to SCI advisory fees will redound to clients in connection with such referrals. No such arrangements, however, ever have existed, or do now exist.
- Professional associations to which our employees belong, such as the Financial Planning Association, also provide referrals to their members from time to time; and though unlikely, it is possible that considerations arising from such membership could create conflicts of interest.
- Finally, we receive referrals from unaffiliated financial firms, such as TD Ameritrade, Fidelity, Dimensional Fund Advisors, Vanguard, et al. In certain cases (e.g., Dimensional Fund Advisors) the referral arrangements are codified by a formal agreement, while in others they are ad hoc or informal. Our advice could possibly be influenced by such a referral, or in particular by our participation in a formal referral program. Participation in such referral arrangements in no way alleviates an advisor's duty to seek best execution of client trades, and may therefore pose potential conflicts of interest. Thus SCI does not compensate such unaffiliated firms in any way for such referrals, and neither does, nor ever will, labor under any obligation to direct client

trading or investment business toward such firms as may provide referrals arising out of the fact of such referrals.

Our duty of best execution is not at all vitiated by any referral arrangement, whether formal or not. Financial firms that refer prospective clients to us do not thereby impose any obligation on us, or limit our activities or advice. In no case is any client obliged to do business with a third party we suggest. Rather, in every case, clients themselves select the custodians, broker/dealers, insurers, banks and trust companies with whom they do business.

## CUSTODY

SCI does not act as custodian of client funds, securities or other assets.

## INVESTMENT DISCRETION

We do not exercise discretion over client accounts. That is, we do not trade without prior explicit approval from our clients. Our recommendations may therefore generally be implemented only under authority of their written direction to us. This policy effectually eliminates a number of conflicts of interest we might otherwise experience. It prevents us from directing trading traffic to custodians who would informally reciprocate by providing us with special “soft-dollar” benefits (e.g., back office machinery, trips to conferences, and so forth), but who would therefore charge our customers slightly more for trade execution. It prevents us from assigning profitable trades to one client, at the expense of another. Finally, and perhaps most importantly, it prevents us from taking precipitate action without informing our clients; it therefore forces us to keep our clients “in the loop,” and therefore, insofar as is practicable, “in the know.”

Our policy that we will not exercise discretion over client accounts includes the decision which custodians or broker/dealers to utilize. We may recommend to clients such broker/dealers as Fidelity, or TD Ameritrade. Other custodians may be recommended where appropriate. Clients are not, however, obliged to implement our portfolio recommendations through any particular custodian or broker/dealer, whether recommended by us or not; and we will undertake to cooperate with any broker/dealer or custodian selected by a client.

Neither do we impose any limit on the number of custodians a given portfolio may employ. Indeed, it is quite common for our clients to maintain accounts at several custodians. In such cases, one of the primary benefits of engaging SCI is our collection and audit of financial data from all such custodians, and the integration thereof in a consolidated set of portfolio performance reports and evaluations.

Since business relationships between broker/dealers and our clients are in the final analysis independent of their client relationship with SCI, our clients bear the final responsibility of negotiating terms and conditions with broker/dealers. We are therefore unable to act as the client’s agent in seeking better execution services or prices from other broker/dealers, or to consolidate trades in a given security across client portfolios at a certain broker/dealer so as to obtain more advantageous pricing. Clients might thus incur marginally higher commissions, other transaction costs or greater spreads, or receive less favorable net prices, on transactions for their accounts than would otherwise be the case had they determined to effect transactions through such discount broker/dealers as Fidelity or TD Ameritrade, where we have negotiated further institutional discounts for our clients.

Because decisions regarding custodial and brokerage service are made entirely by clients, an important aspect of our support of client decisions is to inform clients of the relevant costs and benefits of doing business with various different broker/dealers.

## VOTING CLIENT SECURITIES

We do not accept from clients any rights to vote proxies in their behalf. Materials relating to such proxies, such as Annual Reports, 10-K's, or ballots, are therefore generally mailed directly to our clients, either by the registrar of the company in question, or by the custodian where its shares are held for the benefit of the client.

## CONFLICTS OF INTEREST

Our interests could, conceivably, conflict with those of our clients. To alleviate potential conflicts of interest, we have adopted the following policies:

- We receive no commissions or transaction fees when recommending the purchase or sale of securities.
- Any services provided by SCI may be available elsewhere at fees lower than those the firm customarily charges. It is therefore the policy of the firm to disclose all fees and other expenses before execution of any Customer Service Agreement.
- We may recommend various insurance products to certain clients. While SCI principals are licensed and appointed to place such business, no commissions on such transactions shall be accepted by the firm or its employees.
- When clients receive investment, insurance or planning advice from us that indicates the advisability of the purchase or sale of securities or insurance products, clients may implement these recommendations with our assistance, or may, in their sole discretion, seek the assistance of unaffiliated firms. We shall provide full disclosure of all expenses that would be borne by the client, and compensation that would be received by us, were these transactions to be effected with the assistance of our personnel. Clients may thus make an informed election.
- It is probable that we will from time to time provide investment advice pertaining to securities in which personnel of SCI themselves have positions, or which they plan to purchase or sell for their own personal accounts. Such a situation could give rise to a conflict of interest. Any situation that could reasonably be expected to result in such conflicts of interest shall be fully disclosed.
- In the event that SCI or any of its supervised personnel were to accept the office of Trustee or Executor in respect to a corpus of assets also subject to a Client Service Agreement with the firm, a conflict of interest could arise. No SCI employee therefore may accept such offices, with the exception of assets owned or controlled by clients who enjoyed a friendly or familiar relationship with a supervised person of the firm prior to the inception of any supervisory engagement. In no case may such offices be accepted without the written approval of two officers of the firm.
- We may utilize the services of unaffiliated professionals, as needed, in completing work for clients, but only with the client's prior approval. Lower fees for the same or similar services may be available elsewhere. In no case is any client obliged to do business with a third party we suggest.
- We may at times enter into agreements with unaffiliated registered investment advisors who wish to utilize the firm's services for their clients. Such agreements customarily provide that a portion of our fee for the services in question be paid to the unaffiliated registered investment advisor as a referral fee. All such fees shall be disclosed to the client in writing before any Client Service Agreement is executed. In such cases, we make good faith efforts to ensure delivery to the client of the unaffiliated advisor's ADV Part 2, in addition to our own.
- Unaffiliated advisors may execute transactions for the clients they have referred to us, in connection with implementing advice we have rendered. We recognize our duty of best execution to clients; in all such cases, we shall disclose all transaction costs that would be borne

by the client were they to be executed with our assistance. The client bears final responsibility for deciding which firm to utilize.

- The minimum standard for personnel authorized by the Investment Committee to act as SCI advisers is generally a college degree, three years of experience in investments, financial planning, or tax planning, licenses to sell general securities and insurance, or other equivalent professional qualifications, including professional certifications such as CFA, CFP,<sup>®</sup> CLU, or ChFC.
- Client Service Agreements may generally be terminated by any party by thirty (30) days' written notice, delivered personally or by postage prepaid, certified mail, return receipt requested. In the event a client terminates the Agreement, fees paid in advance are prorated to the date of termination set forth in the written notice, and the client is refunded any unearned portion thereof. If we terminate the Agreement, any such prorated fees are refunded.
- In every business there is potential for error or conflict. Should any controversy or claim arise, including but not limited to errors and omissions arising from or related to any service or products provided under a Client Service Agreement executed by SCI or its personnel, then, to the extent not inconsistent with applicable law, the firm generally settles the matter by arbitration in accordance with the rules then in effect of the Arbitration Committee of the Financial Industry Regulatory Authority, Inc., or the American Arbitration Association, or the Board of Arbitration of the New York Stock Exchange, as the client may elect. The client agrees to make such an election by registered mail postmarked within five (5) business days of receipt by SCI of the client's request for arbitration. In the event that the client does not make an election in the manner outlined above, the firm's Client Service Agreements authorize SCI to make the election on behalf of the client. SCI Client Service Agreements further stipulate that any claim of \$10,000 or more be heard before at least three arbitrators, that the award of their majority be final, and that judgment upon the award rendered may be entered in any court, state or federal, having jurisdiction. Federal and state securities laws impose liabilities under certain circumstances on persons who act in good faith, and therefore, nothing herein, or in any SCI Client Service Agreement, shall in any way constitute a waiver or limitation of rights which the client may have under federal and state securities laws.

## REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Investment advisors with more than \$100 million under advisement are registered and regulated by the SEC, those with less by the states in which they do business. We are an SEC-registered advisor. Thus, while we have filed courtesy notices with the several states in which we do a volume of business sufficient to warrant such notices, we do not labor under any particular regulatory requirements of those states.

## MANAGEMENT & CONTROL

The shareholders of SCI are also executives of the firm, and each supervises a major area of the firm's activities.

**Patrick J. Collins** (02/18/48), President & Director of Research: Mr. Collins is a financial advisor with over twenty five years' experience. Mr. Collins received a Ph.D. from the University of California at Berkeley, and a Chartered Financial Analyst designation from the CFA Institute. He also holds a Professional Designation in Financial Planning from U.C. Berkeley and both a Chartered Life Underwriter degree and advanced Certification in Business Tax Planning, Estate Planning, and Employee Benefit Planning from the American College in Bryn Mawr, PA. Prior to joining SCI, he was an Account Manager and Investment Advisory Associate of the Acacia Group and Calvert Securities Corp. (member FINRA) for three years. Previously he had for eight years practiced as an independent registered investment advisor. He has published over thirty scholarly articles in such journals as the *Journal of Investments*, *Real Property Probate and Trusts*, *ACTEC Journal*, *Trusts and Estates*, the *Banking Law Journal*, the *Journal of Financial Planning*, and the *Maryland Bar Journal*, among others. He has provided MCLE-approved Continuing Education to attorneys through programs sponsored by the Bar Association of San Francisco, has taught at all levels of the CFA program for the Security Analysts of San Francisco, and teaches a graduate course in economics as part the University of San Francisco's Masters in Financial Analysis program.

**Kristor J. Lawson** (04/24/55), Managing Shareholder, Secretary/Treasurer, and Chief Compliance Officer: Mr. Lawson has been a financial advisor since 1982. He has advised legal and accounting firms, charitable institutions, and entrepreneurs on investments, planned giving, executive benefits, estate and retirement planning. As Manager of the Bay Area Branch of Transamerica Financial Resources, Inc., (member FINRA), from 1989 to 1993 he supervised 25 financial consultants, assisting with their most difficult financial and estate planning cases. From 1993 to 1995 he played a similar role as Director of Financial Center Development for the Bay Area Financial Center of the Acacia Group and Calvert Securities, Inc., (member FINRA). Mr. Lawson studied philosophy, economics, and psychophysiology at Indiana University (Bloomington). He is certified as a Financial Planner by the CFP Board of Standards, and holds the Chartered Financial Consultant, Chartered Life Underwriter, and Registered Employee Benefits Consultant degrees from the American College in Bryn Mawr, PA. His articles have been published in the *Journal of Asset Protection* and the *Journal of Financial Planning*.

## ADVISORS

**Dale W. Schultz** (02/06/51), Principal Emeritus and Director of Private Client Advisory Services: Mr. Schultz has worked as an investment advisor for over twenty five years. From our founding in 1995 until his resignation as shareholder, director, and officer of the Company in 2016, he served as President of Schultz Collins. He has also served in various managerial positions at several other financial services firms. During his first decade in the industry, Mr. Schultz set about differentiating his practice by being among the first to adopt a fee-based approach to providing investment advice while serving in a fiduciary capacity. At the same time he researched various investment and asset management approaches that formed the framework for the firm's investment counsel.

In addition to managing individual and institutional portfolios, Mr. Schultz has been retained as an advisor to law firms, professional and industry associations, school districts and corporations with respect to the investment policy and structure of their retirement savings plans. Mr. Schultz has also focused on the evolving regulation of participant-directed qualified plans under ERISA. He is a co-author of a definitive book on the subject. Mr. Schultz is an active member of the Western Pension & Benefits Conference.

Mr. Schultz studied philosophy at Michigan State University and holds a Professional Designation in Financial Planning from the University of California at Berkeley.

**Kenneth A. Clift** (07/02/1969), Senior Advisor: Mr. Clift has been a financial advisor since 1990, and joined SCI in 2010. For the prior 17 years, he had worked in several capacities for Charles Schwab & Company. His most notable experience was in performing research and analysis, and providing commentary, on the fixed income markets and the real estate investment trust market to Schwab investment professionals. He also represented Schwab's Fixed Income Department on that firm's Investment Strategy Council. The Council's objective was to analyze global equity and fixed income markets and provide strategic and tactical strategies to Schwab Financial Consultants and clients. Mr. Clift holds a BS degree in Applied Economics and a Masters Degree in Financial Analysis, both from the University of San Francisco.

**Jeremy S. Wolf** (03/05/1970), Senior Advisor: Mr. Wolf has been working in financial services since he joined SCI in 2001. As an SCI Advisor, Mr. Wolf participates in every aspect of portfolio supervision for the firm's clients, having served for many years as both senior analyst and head trader of the firm. He is expert in the utilization of indices in the statistical analysis and evaluation of investment vehicles and client portfolios. Prior to joining SCI, Mr. Wolf was a business consultant both to small private and large public firms. From 1994 to 1997, he was Associate Director of the International Group of Philip Services, Inc. He studied environmental sciences and chemistry at the University of California at Berkeley, and holds an MBA from Columbia University. He is fluent in Spanish and Portuguese.

**M. Michael Lane** (11/05/1981), Advisor: Mr. Lane (Advisor) began his career as an investment advisor with Morgan Stanley in 2012. Prior to joining Schultz Collins in 2016, Mr. Lane worked as a senior member of a financial planning team at Ameriprise Financial. His experience included assisting in the design, implementation, and rebalancing of investment portfolios, as well substantial trading activities. He has a strong interest in the quantitative and statistical aspects of portfolio construction, and continues to study their applications to wealth management.

Mr. Lane attended the University of California, San Diego, where he studied psychology and the philosophy of law and society. He holds a Master of Science in Financial Analysis from the University of San Francisco. He is a proud military veteran; before he began his career in finance, he served four years in the United States Navy as a member of an elite Naval Special Warfare unit.