

## Item 1. Cover Page

### PART 2A of FORM ADV

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**This brochure provides information about the qualifications and business practices of Charlesworth & Rugg, Inc. If you have any questions about the contents of this brochure, please contact us at (818) 340-0157. 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.**

**Charlesworth & Rugg, Inc. is a registered investment adviser. However, being a registered investment adviser does not imply a certain level of skill or training and does not guarantee investment performance.**

**Additional information about Charlesworth & Rugg, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2. Material Changes**

There have been no material changes to Charlesworth & Rugg, Inc.'s ("C&R" or the "Firm") business operations since the last ADV filing on March 29, 2019.

Please feel free to contact the Firm's office if you have any questions.

### Item 3. Table of Contents

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## **Item 4. Advisory Business**

### **Firm Overview**

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

Charlesworth & Rugg, Inc. (“C&R” or the “Firm”) is a Los Angeles, California-based investment advisory firm, founded in 1976. C&R offers investment management services to individuals, high net worth individuals, trusts, estates, foundations, pension and profit-sharing plans, and various business entities like corporations, partnerships, non-profits and limited liability companies. The Firm is currently registered with the Securities and Exchange Commission (“SEC”) as an investment adviser and is registered as being able to conduct business in multiple states as reflected in Part 1 of the Firm’s Form ADV, a copy of which can be found on [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Jonathan Rugg, CFA, is the majority owner and President of the Firm.

#### **B. Types of Advisory Services Offered**

Since 1976, C&R has provided continuing advice to clients with respect to the purchase and sale of no-load and/or load-waived mutual funds, and the sale of a new client’s existing securities. More recently, C&R expanded the investment mandate to include no-load and/or load-waived mutual funds, exchange traded funds (ETFs), interval funds, closed end funds, individual bonds, individual stocks, or any other investments deemed appropriate by the investment committee (collectively, the “Investments”). This expanded mandate is captured in the Firm’s Investor Services, Private Wealth Management, and Family Office services (collectively referred to as the “Individual Services”).

Additionally, the Firm offers Financial Planning Services which can be a stand-alone consulting service or a complement to any of the Individual Services. This service includes an in-depth analysis of a client’s financial and life objectives, current financial position, financial strengths and weaknesses, and various financial planning components agreed upon by the client and advisor. These components include investment planning, estate planning, retirement planning, education planning, income tax planning and risk management planning activities.

Finally, C&R offers corporate consulting services called Corporate Services. This service provides advice and recommendations to business owners with respect to 401(k) and other ERISA retirement plan sponsors, non-qualified deferred compensation plans, stock option plans, executive financial planning, and other risk management, corporate benefits, or tax strategies. This service does not provide personal investment advice to individual plan participants within the plans offered by the plan sponsor.

Across all Individual Services, C&R is given limited authority to direct a custodian designated by the client, normally a discount brokerage firm, bank trust department, or trust company, to invest client assets into securities which we select. In some cases, clients give us limited investment authority to allocate assets under our supervision among funds in one or more specific families of funds. Finally, a client within the Individual Services may engage us to provide investment advice on a non-discretionary basis, with the client implementing or directing all investment decisions for the account.

For all Individual Services, our goal is to help achieve the investment objective of each client. Client portfolios are monitored and transactions are implemented in accordance with the previously determined investment objective of each client. We ask clients within these programs to provide us with important background information such as the additional assets and investments they may own as well as other

relevant personal and family circumstances. On occasion, clients within any program may impose restrictions on the purchase or sale of certain securities. We rely upon written notification from clients whenever important changes occur in this background information, or with any restrictions placed on the purchase or sale of certain securities.

For Corporate Services, C&R recommends to the plan sponsor a list of mutual funds and model portfolios for inclusion within the plan for all qualified and non-qualified plans. After obtaining the plan sponsor's approval, the Firm may then direct the plan record-keeper to implement the recommendations by making this pre-approved list of funds and model portfolios available to plan participants. Within this program, our goal is to assist the plan sponsor by providing a comprehensive list of investment options that is made available to the individual plan participants. This advice is tailored to each Corporate Services client in accordance with the Investor Policy Statement, which is jointly agreed upon by both the client and C&R. On occasion, clients within Corporate Services may impose restrictions on the selection of certain securities.

C&R offers six different investment advisory services:

- (1) Investor Services
- (2) Private Wealth Management
- (3) Family Office Services
- (4) Corporate Services
- (5) Real Estate Investment Advisory Services (further discussed in this section)
- (6) Financial Planning Services

The first five services are overseen by the investment committee, which evaluates the Investments, general economic and investment conditions, and specific research goals and objectives. The committee is currently comprised of three voting members – Jonathan Rugg, CFA, Shawn Hsieh, CFP, CFA, and Cyrus Amini, Esq., CFA (collectively, the “Investment Committee”). C&R's founder, Donald Rugg, PhD. provides consulting services to the Investment Committee through his firm, DDR Consulting LLC. Each member contributes their own research, analysis, and judgment with the goal of enhancing C&R's investment decision making process. While a unanimous decision is not required by the committee, the company believes that the process often results in general consensus and agreement among the members. The Investment Committee's recommendations and ideas are intended to assist the Investment Committee in making final decisions for all of the Firm's investment programs. An Investment Committee meeting may be called by any voting member with at least one day's notice to the other members. These meetings may occur via a conference call. The sixth service, Financial Planning Services, operates in accordance with C&R's compliance policies and procedures. Plans and other work product produced within this line of business are reviewed by Jamie Rugg, CERTIFIED FINANCIAL PLANNER™ practitioner, and given compliance approval by Cyrus Amini, Esq., CFA.

### **(1) Investor Services**

Through Investor Services, C&R provides investment management services to clients. Investor Services normally consists of custom portfolios tailored to meet the specific investment objectives of each client. The principals may select any mutual fund, ETF, or other Investment for inclusion into client portfolios. Clients typically choose from one of seven investment objectives according to their willingness and ability to bear risk. Clients within the same investment objective will seldom, if ever, have the exact

same funds in exactly the same proportions. However, clients within the same investment objective will have very similar, and possibly identical, funds and very similar, and possibly identical, fund allocations. If restrictions have been placed on any account, the funds selected and the asset allocations, may differ substantially. The Firm's seven investment objectives are listed and described further in Item 8 of this Brochure.

Correspondence and reports are delivered electronically to all clients within Investor Services. In addition, there may be telephonic meetings rather than in-person meetings for clients within Investor Services. If clients have questions regarding their account(s), they may call the office.

The initial minimum account size for the Investor Services is \$200,000. We may make exceptions to this, at our discretion, if the newly established accounts have the potential to exceed these amounts within a reasonable period of time due to additional contributions.

All final asset allocation, timing, and investment selection decisions and recommendations are made by the Investment Committee.

## **(2) Private Wealth Management**

Private Wealth Management provides investment management services combined with full financial planning and advanced estate planning strategies to clients. Like Investor Services, Private Wealth Management normally consists of custom portfolios tailored to meet the specific investment objectives of each client. The principals may select any mutual fund, ETF, or other Investment for inclusion into client portfolios. Clients typically choose from one of seven investment objectives according to their willingness and ability to bear risk. Clients within the same investment objective will seldom, if ever, have the exact same funds in exactly the same proportions. However, clients within the same investment objective will have very similar, and possibly identical, funds and very similar, and possibly identical, fund allocations. If restrictions have been placed on any account the funds selected and the asset allocations may differ substantially

Private Wealth Management also may access less liquid, alternative investment vehicles which are not available to Investor Services clients. These decisions are made after going through a rigorous planning and due diligence process to validate that these investments are a suitable option for clients. In instances where a client is interested in such alternative investments, C&R will ensure such clients are accredited investors and/or qualified clients as those terms are defined in Rule 501 of Regulation D of the Securities Act of 1933 and Rule 205-3 of the Investment Advisors Act, respectively.

All final asset allocation, timing, and investment selection decisions and recommendations are made by the Investment Committee.

The initial minimum account size for Private Wealth Management is \$1,000,000. We may make exceptions to this, at our discretion, if the newly established accounts have the potential to exceed these amounts within a reasonable period of time due to additional contributions.

## **(3) Family Office Services**

C&R provides a line of business called Family Office Services. These services are geared towards growing wealth and preserving it for generations to come. These advanced planning strategies may

range from cash flow management to advanced tax and estate strategies to educating younger generations on financial matters.

Clients within our Family Office Services have access to all Investor Services and Private Wealth Management services plus additional investment opportunities in private equity and other types of alternative investments. In instances where a client is interested in such alternative investments, C&R will ensure such clients are accredited investors and/or qualified clients as those terms are defined in Rule 501 of Regulation D of the Securities Act of 1933 and Rule 205-3 of the Investment Advisors Act, respectively. C&R will also perform select due diligence on certain transactions for Family Office Services clients as well.

All final asset allocation, timing, and investment selection decisions and recommendations are made by the Investment Committee.

The initial minimum account size for Family Office Services is \$10,000,000. We may make exceptions to this, at our discretion, if the newly established accounts have the potential to exceed these amounts within a reasonable period of time due to additional contributions.

Certain clients within Investor Services, Private Wealth Management, and Family Office Services may ask our Firm to manage a given portfolio to achieve a specific objective without divulging (for various reasons) their complete list of financial assets and investments or other relevant personal or financial circumstances. These clients, like all our clients, must complete the C&R Confidential Information form. For those clients who decline to provide information regarding their non-C&R managed portfolios, it is important to answer the questions in the Confidential Information Form which identify the approximate ratio of the assets managed by C&R to their total investible assets and to their overall net worth. This helps the Firm better understand the suitability of the investment objective chosen by the client with respect to their overall financial circumstances.

#### **(4) Corporate Services**

Within Corporate Services, C&R has the ability to provide any or all of the following services to corporate clients and their employees.

- A. Qualified Retirement Plans including 401(k), 403(b), 457, Pension, and profit-sharing plans.

C&R creates an investment lineup from investments located within the following three categories of investment options:

- 1) Model Portfolios
- 2) Target Date Funds
- 3) Individual Mutual Fund Lineup

Plan participants may then select any combination of model portfolios, target date funds, or non-target date funds (from the Individual Mutual Fund Lineup) to create their own individual portfolio. The platform contains a collection of pre-screened no-load and/or load-waived mutual funds, as well as one or more model portfolios, which, in turn, contain a portfolio of no-load and/or load-waived mutual funds. Clients often allow their plan participants to choose a combination of mutual funds and/or model portfolios from the above three investment categories. Thus, an individual participant may create a portfolio that consists of any combination of model portfolios, target date funds, and non-target date

mutual funds taken from the Individual Mutual Fund Lineup. This gives participants the flexibility to create a portfolio based upon their personal willingness and ability to bear risk. However, since each plan participant makes individual allocation decisions and fund selection decisions independent of C&R, the Firm is not, and cannot be responsible for the performance of personal retirement plan portfolios created by individual plan participants.

All final asset allocation, timing, and investment selection decisions for all retirement plans are made by the Investment Committee.

C&R offers assistance to clients in the following areas: 1) creation of an Investment Policy Statement 2) selection of Qualified Default Investment Alternatives (“QDIA”), 3) acting as the 3(38) ERISA fiduciary investment manager, 4) evaluating, selecting, and monitoring all investment options offered to participants, 5) managing model portfolios on behalf of the client and plan participants, and 6) providing education to plan participants during selected review meetings.

Portfolios are monitored on a regular basis and utilize the same criteria that are employed during the initial selection of investment options. This process consists of following pre-defined quantitative screening procedures and employing the judgment of C&R on an ongoing basis. If, upon evaluation, an investment option continues to be acceptable, no further action is required. If C&R determines that the option is not acceptable, removal of the investment option may result.

To assist in this overall decision-making process, C&R utilizes a third-party research service run by the Center for Fiduciary Management which specializes in providing investment monitoring services for the retirement plan industry through its Fiduciary Investment Reporting Manager. These reports help in the ongoing evaluation, selection, and monitoring of funds available in the investment lineup.

Correspondence and reports are typically delivered electronically to all Corporate Services clients (i.e. plan sponsors). In addition, there is typically an annual in-person meeting for clients and their plan participants.

The initial minimum account size for retirement plans within Corporate Services is \$2,000,000. We may make exceptions to this minimum account size, at our discretion, if the newly established account has the potential to exceed this amount within a reasonable time-period due to additional contributions.

Plan sponsors within Corporate Services must complete the C&R Confidential Information Form for Retirement Plans. In addition, C&R will work with the plan sponsor to create an Investor Policy Statement (“IPS”), which is intended to assist both the plan sponsor and C&R in making investment-related decisions and recommendations, as applicable, in a prudent manner. The IPS outlines the general processes for the selection, monitoring and evaluation of the investments in the plan, as well as the monitoring of investment-related services.

- B. Executive Compensation including Non-Qualified Deferred Compensation plans and equity stock plans.
- C. Risk Management Strategies which may include analysis of Key Man Insurance, Disability Insurance, and the evaluation of other Employee Benefits.
- D. Tax Efficiency Strategies which may include Cost Segregation analysis, Research and Development Credits, Utility Auditing, and other business deductions.
- E. Consulting which may include Buy-Sell Analysis, Succession Planning, and Business Valuation.



## **(5) Real Estate Investment Advisory Services**

C&R offers private real estate services to select clients which may include the following investment opportunities:

1. Limited Partnerships.
  - a. C&R conducts due diligence on real estate strategies that may include the purchase of commercial or residential real estate property or properties, real estate loan, bridge loan, or mezzanine debt strategies, and various other real estate strategies. These opportunities may be in the form of a Limited Partnership, interval fund, open ended evergreen fund, or other investment structures. Once approved by the Investment Committee, C&R will recommend these opportunities to select clients who meet the accredited investor, qualified client or qualified purchaser<sup>1</sup> requirements set by the various partnerships.
2. Direct Real Estate Investment.
  - a. C&R can also oversee the acquisition and management of specific commercial properties that a client chooses to own. As part of our services, C&R directs all aspects of the management for each property including operations, development, financing, leasing and capital improvements. This option allows clients to control the buying, selling, major capital renovation, and be involved in budget decisions.
3. Real Estate Consulting.
  - a. C&R can also provide real estate consulting services which may include the analysis, valuation, and due diligence of real estate opportunities as requested by a client. This is performed on a case by case basis.

## **(6) Financial Planning Services**

C&R's Financial Planning Services are intended to be a collaborative process between the Firm and our Clients. The intention is to help maximize a Client's potential for meeting life goals through Financial Advice that integrates relevant elements of the Client's personal and financial circumstances.

This service includes an analysis of a client's financial and life objectives, current financial position, investment, estate and risk management planning activities, and financial strengths and weaknesses. Where appropriate, C&R will attempt to coordinate with licensed experts such as tax attorneys, trust and estate attorneys, and insurance providers to assist in evaluating the many aspects of a client's concerns.

C&R's financial planning process follows the agreed upon Financial Planning Services contract and seeks to provide the following services:

- 1) Understand the Client's Personal and Financial Circumstances
- 2) Identify and Select Goals
- 3) Analyze the Client's Current Course of Action and Potential Alternative Course(s) of Action
- 4) Develop the Financial Planning Recommendations
- 5) Present the Financial Planning Recommendations
- 6) Implement the Financial Planning Recommendations where agreed upon and applicable
- 7) Monitor Progress and Update an ongoing plan as agreed upon in the Financial Planning Services Contract

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<sup>1</sup> As each term is defined in Rule 501 of Regulation D of the Securities Act of 1933, Rule 205-3 of the Investment Advisors Act, and Section 2(a)(51) of the Investment Company Act, respectively.

As part of the Financial Planning Services, C&R will also outline some general approaches to bring financial activities more in line with the overall objectives of each client. Financial Planning Services fees are based on a rate of \$200 per hour although an estimate is typically quoted in advance of entering into a Financial Planning Services contract. The Financial Planning Services contract outlines the scope of the engagement and the financial planning areas to be included as agreed upon by Client and C&R. This contract terminates upon delivery of the financial plan. If upon termination the client elects to become a client of the Firm's Private Wealth Management or Family Office Services, they will then become an on-going client of Financial Planning Services and may receive future Financial Planning Services at no additional charge. If the client continues to receive such services, their existing financial plan will be updated annually or when significant changes occur that should be reflected in the plan. However, an analysis performed for a specific situation will not be updated once it has been resolved.

There are no minimum account sizes for Financial Planning Services. This service is advisory in nature and no discretionary powers are given to C&R or any individuals associated with the company.

There is a potential conflict of interest because there is an incentive for advisors offering Financial Planning Services to recommend any of C&R's five investment advisory services for which the Firm receives compensation. Financial Planning Services clients are under no obligation to act upon any recommendations of the Firm, or to execute any transactions through C&R or an associated person if they decide to follow the recommendations. If clients wish to implement any recommendation, clients may select any brokerage firm, private investment firm, insurance agency, broker, or carrier, bank or any other financial service institution.

### **Other Services**

Occasionally members of our Firm may be asked to present lectures on investments or economics, to evaluate individual securities, markets or industries or to evaluate other factors related to the valuation, timing and selection of securities or other assets.

**In the event that C&R refers a client or prospective client to a third party service provider, C&R does not receive referral fees or any other compensation contingent on, or generated by, the sale of products or provision of services by such third parties. However, in certain situations, C&R may receive fixed consulting fees in return for providing introductions to third parties that provide services outside of C&R's specialized expertise. Such consulting fees are not dependent upon the volume, value, or nature of services ultimately provided to clients or prospective clients by such third parties. The client is under no obligation to act upon the investment adviser's recommendations, and if the client elects to act on any of the recommendations, the client is under no obligation to effect the transaction through the investment adviser, which is not a broker dealer and cannot sell investment products. C&R may receive referrals from third parties for which we pay no referral fees.**

## **C. Advisory Agreements**

### **1. Information Received by Individual Clients**

At the onset of the client relationship, C&R gathers information on each client's investment objectives, risk tolerance, time horizons and financial goals. C&R does not assume responsibility for the accuracy

of the information provided by the client and is not obligated to verify any information received from the client or from any of the client's other professionals (e.g., attorney, accountant, etc.). Under all circumstances, clients are responsible for promptly notifying C&R in writing of any material changes to the client's objectives, risk tolerance, time horizon, and financial goals.

## 2. Client Agreements and Disclosures

Each client is required to enter into a written Investment Advisor Agreement with C&R setting forth the terms and conditions under which the Firm shall render its services. In accordance with applicable laws and regulations, C&R will provide its disclosure brochure (ADV Part 2A), brochure supplement (ADV Part 2B) and most recent Privacy Notice to each client prior to or contemporaneously with the execution of the Investment Advisor Agreement. Neither C&R nor the client may assign the Investment Advisor Agreement without the written consent of the other party.

### D. Amount of Client Assets Under Management

As of December 31, 2019 the total regulatory assets managed by C&R are in excess of \$164,450,000.

## Item 5. Fees and Compensation

A regular quarterly fee is payable in advance at the annual rates indicated below based upon the market value of the investment capital under our supervision, including cash or its equivalent held for investment, as calculated by the custodian of the account and reviewed by C&R at the beginning of each quarterly period. Fees for consulting services are stated separately below.

### Investor Services, Private Wealth Management, Family Office Services, Real Estate Investment Advisory Services

Fees for clients with an Aggressive, High Growth, Growth, Moderate Growth, Balanced, or Diversified Income investment objectives, are based upon the following rate schedule:

<u>AMOUNT</u>	<u>ANNUAL FEE</u>
<u>Up To \$2,000,000:</u>	
For the first \$1,000,000	1.25%
For the next \$1,000,000	1.00%
<u>Over \$2,000,000:</u>	
For the first \$2,000,000	1.00%
For the next \$3,000,000	0.75%
For the next \$5,000,000	0.50%
<u>Over \$10,000,000:</u>	Negotiable

There is a minimum annual fee of \$2,500 for new clients in Investor Services, \$7,500 for new clients in Private Wealth Management, and \$50,000 for Family Office Services. These minimums apply for all Individual Services except for clients with an Income objective. All Real Estate Investment Advisory Services have the same \$2,500 minimum as Investor Services.

The fees charged for clients with an Income objective are based upon the following schedule:

For the first \$5,000,000	0.75%
For amounts over \$5,000,000	0.375%

There is a minimum annual fee of \$3,750 for clients with an Income objective.

### **Corporate Services**

Fees for clients with retirement plans within Corporate Services are based upon the following rate schedule.

Client will pay C&R a quarterly fee at the rates indicated below based on the market value of Plan assets as determined by the Plan's custodian:

**Base Fee Amount per Year: \$10,000**

<b><u>Additional Asset Based Fee Schedule:</u></b>	<b><u>Annual Percentage Fee</u></b>
For ERISA 3(38) Investment Management Services	0.20%

C&R may charge an additional fee for investment advisory services which are quoted based upon the level of service required.

The valuation of the Plan's assets for billing purposes is the amount computed by the Plan's custodian at the end of each calendar quarter. The quarterly fee is calculated by applying one-fourth of the above referenced base fee amount as well as one-fourth of the applicable annual percentage rate and multiplying this amount by the quarter-end account value as measured by the Plan's custodian. The quarterly fee is charged in advance on a calendar quarter basis.

C&R shall provide an invoice to the client within thirty business days of the end of each calendar quarter. Fees shall be due upon receipt of this billing notice. The client, at its sole discretion, may instruct custodian to calculate C&R's fees using the fee schedule referenced above and at its sole discretion may further instruct the custodian to disburse such fee to C&R. There is a minimum annual fee of \$10,000 for Corporate Services clients.

For all programs, fees for the first quarterly billing period are not payable until two weeks have elapsed from the signing of our agreement and for subsequent quarterly billing periods, until two weeks have elapsed from the beginning of each new period. For clients in the Private Wealth Management or Family Office Services, invoices may be sent directly to the client, or if the client prefers, to the custodian or broker selected for the account. For Investor Services clients, invoices are sent directly to the broker. For Corporate Services clients, invoices will be sent directly to the client unless the client specifically requests that payment be processed by the plan's record-keeper or custodian.

Under special circumstances, and at our discretion, the fees and minimums charged to certain charitable or non-profit organizations, to employees of these organizations, to accounts that are used primarily to pay for college tuition and expenses or to clients who have become disabled or incapacitated may be reduced. In addition, the above minimum fees have been waived for those who were C&R clients prior

to the establishment of the above minimum fees in 2012. As of this filing, fee schedules in existence prior to the new fee schedule are typically grandfathered in to keep their existing fee schedule and minimums.

C&R may manage accounts for principals or employees of C&R within any of our investment advisory services. In addition, C&R may manage accounts for family members of principals or employees of C&R within any of our investment advisory services. Fees and minimums for any of these clients in any of our programs may be reduced or waived at our discretion.

The fees charged by C&R within any investment advisory service may be more or less than those charged by other investment advisers for similar services. Further, clients may purchase no-load mutual fund shares, load-waived mutual fund shares, ETF shares, as well as other securities directly, without our services, through entities that are not affiliated with us. It is also important to understand that every one of the Investments also charges management fees and incurs other costs and expenses that are passed through to fund shareholders (and ultimately borne by clients whose assets are invested in such funds). In addition, custodians and broker-dealers typically impose a commission, mark-up/down or other transaction fee for effecting transactions in securities. (See Item 12, Brokerage Practices for more information.) All of these fees, costs and expenses are in addition to the fees paid to us, and we do not waive our fees proportionally to offset these fees, costs and expenses unless we are required by law to do so.

C&R does not receive 12b-1, revenue sharing, administrative or other fees from no-load mutual funds, load-waived mutual funds or ETFs, or from any of their service providers. **C&R may receive referrals from third parties for which we pay no referral fees.**

Our investment advisory agreements may generally be terminated by either the client or by C&R upon not less than thirty (30) days' written notice of such termination. C&R may choose to waive the advance notice requirement upon written request by the client. Any pre-paid management fee will be refunded pro-rata from commencement of the billing period to the date of termination.

### **Financial Planning Services**

As described in Item 4 of this brochure, C&R offers fee-only financial planning within the Financial Planning Services line of business at an estimated base rate of \$200 per hour utilizing the Financial Planning Services Contract. The rate is quoted in advance and charged in arrears.

### **Consulting Services**

Fees for all market analysis, securities analysis or economic consulting services provided by C&R are a minimum of \$300 per hour payable within ten (10) days after services have been rendered.

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

C&R does not charge performance-based fees. Our fees are described in Item 5, Fees and Compensation.

## **Item 7. Types of Clients**

C&R provides investment advisory services to a variety of clients, such as corporations, partnerships, individual investors, trusts, foundations, retirement plans, retirement plan participants, 401(k) plans and other tax-exempt entities.

To establish a new account, the initial minimum dollar investment is \$1,000,000 for Private Wealth Management and \$200,000 for Investor Services. For a new account in Corporate Services, the minimum dollar investment is typically \$2,000,000. We may make exceptions to any of these required minimums at our discretion. For example, we may make an exception if a newly established Private Wealth Management client account has an initial balance under \$1,000,000, but is expected to exceed this amount within a reasonable period of time due to additional contributions. Other examples exist where minimums may be reduced within any of our investment programs. These examples include special circumstances, such as charities and their employees, as well as disabled persons. In addition, at our discretion we may waive the minimum account size requirement for principals and employees of C&R and for members of their families.

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

### **OVERVIEW**

#### **1. Method of Analysis - Financial Planning Services**

Relevant elements of personal and financial circumstances vary from Client to Client, and may include the Client's need for or desire to: develop goals, manage assets and liabilities, manage cash flow, identify and manage risks, identify and manage the financial effect of health considerations, provide for educational needs, achieve financial security, preserve or increase wealth, identify tax considerations, prepare for retirement, pursue philanthropic interests, and address estate and legacy matters.

C&R's procedures may include 1) analyzing client objectives and risk preferences, assets, liabilities, income and budgets, 2) coordinating with licensed experts on income taxes, estate planning, and / or insurance, 3) summarizing strengths and weaknesses in the client's current financial plan (if any), and / or 4) outlining potential actions to help each client better achieve their investment objectives. Both long- and short-term planning is done based on the individual needs of the client and the agreed upon scope of the engagement as outlined in the Financial Services Contract.

#### **2. Methods of Analysis and Investment Strategies for Investment Programs**

The methods of investment analysis employed at C&R involve the following five categories for all C&R investment programs:

- 1) Defining Investment Objectives
- 2) Making Asset Allocation Decisions
- 3) Selecting an Initial Portfolio
- 4) Maintaining Portfolio Diversification
- 5) Managing Individual Portfolios Over Time

##### **1) Defining Investment Objectives**

The first step in our investment process for all programs is to help clients select an investment objective for their portfolio or portfolios. For the Individual Services, clients are encouraged to review their overall personal and financial needs. This, in turn, requires clients to review their specific income circumstances, growth objectives, risk tolerance, tax circumstances and other factors. Based upon this analysis, their preferences, and the size of their total portfolio, clients then select a service from the programs we offer, i.e. the Individual Services.

Plan participants of retirement plans within the Corporate Services are encouraged to follow a similar process when constructing their self-directed portfolios from the investment options available within their respective plan. During an annual participant information meeting conducted by the Firm, participants in attendance are encouraged to carefully reflect upon their personal circumstances and preferences before making individual asset allocation and fund selection decisions. During the meeting, the Firm also encourages participants to direct their investment into a combination of equity, fixed-income and alternative funds that are also diversified internationally.

Each client must then choose a specific investment objective within the investment program chosen by the client as follows:

### **Individual Services**

The investment objectives for the Individual Services are:

#### **Aggressive**

Aggressive investors seek growth of capital and are willing to accept high risk with minimal income.

#### **High Growth**

High Growth investors seek growth and long-term capital appreciation and are willing to accept above average risk with minimal income.

#### **Growth**

Growth investors seek long-term capital appreciation with some income and are willing to accept moderate levels of risk.

#### **Moderate Growth**

Moderate Growth investors seek some long-term capital appreciation with a combination of income, some capital preservation, and moderate growth.

#### **Balanced**

Balanced investors seek a combination of income, capital preservation and modest growth.

#### **Diversified Income**

Diversified Income investors seek capital preservation, a relatively high yield, and below average amounts of growth.

#### **Income**

Income investors seek a relatively high yield and more price stability by purchasing a larger percentage of higher income-producing investments.

Some clients request C&R to build custom, specialized portfolios. The Investment Committee evaluates these opportunities as necessary.

Although each account is placed into one of these seven broad categories, we manage each portfolio based upon the special needs and circumstances of each client. Clients within the same

investment objective will seldom, if ever, have the exact same funds in exactly the same proportions. However, clients within the same investment objective will have very similar, and possibly identical, funds and very similar, and possibly identical, fund allocations. If restrictions have been placed on any account, the funds selected, and the asset allocations may differ substantially.

### **Corporate Services**

Clients in Corporate Services who participate in a retirement plan will typically provide plan participants access to the following categories of investment options:

- 1) Model Portfolios
- 2) Target Date Funds
- 3) Individual Mutual Fund Lineup

Model Portfolios are managed by C&R and, similar to clients in the Individual Services, typically have a higher exposure to international and alternative investment asset classes. Alternative asset classes include, but are not limited to funds that invest in securities that focus upon asset allocation strategies, real estate, commodities, real assets, and liquid alternatives such as long/short, market neutral, managed futures, etc.

### **Model Portfolios**

Available portfolio objectives within the Model Portfolios are as follows:

#### **Growth**

Investors seek long-term capital appreciation with some income and are willing to accept moderate to above average levels of risk.

#### **Balanced**

Investors seek a combination of income, capital preservation, and moderate growth and are willing to accept moderate levels of risk.

#### **Conservative**

Investors seek a relatively high yield and more price stability by purchasing a larger percentage of higher income-producing investments.

### **Target Date Funds**

The target date funds which we recommend for inclusion in the plan are available as investment options and, as directed by the plan sponsor, will also serve as the Qualified Default Investment Alternative (“QDIA”) should a participant choose not to build their own customized portfolio.

### **Individual Mutual Fund Lineup**

Each participant within a plan also has the option of creating his or her own portfolio using the above model portfolios, target date funds and, in addition, non-target date mutual funds. Funds included within the Individual Mutual Fund Lineup have been approved by both C&R and the client.

The goal is to make recommendations to our clients that will help provide their plan participants with multiple investment options as well as the flexibility to try to accommodate the participant’s various circumstances, goals, time horizons and tolerance for risk.



Client portfolios within the Individual Services, and the Model Portfolios (available within Corporate Services) are managed by C&R in accordance with the process described in the remainder of this section. There is no guarantee that a client will achieve the client's chosen investment objective within any of the above services.

## **2) Making Asset Allocation Decisions for Individual Services and Corporate Services**

We believe investing in today's volatile markets requires a sophisticated and flexible approach. We also believe that a successful investment strategy not only requires diversification but also the flexibility to shift assets to a more defensive position during periods of anticipated market weakness. To assist us in seeking to identify periods of potential market strength and weakness, we conduct research with the goal of identifying major turning points in financial markets.

Our approach to asset allocation begins with three basic analyses. First, for a long-term perspective, we examine the socio-economic, demographic, political, institutional and inflationary trends that underlie the United States and world economies. This analysis seeks to provide us with insights into the long-term potential of the market and the relative attractiveness of different types of investments. Second, we review current monetary and credit conditions. Finally, we monitor certain fundamental and technical indicators that we believe may help us identify potential market trends. These indicators seek to measure such things as investor psychology, corporate profits and market cycles.

Please realize that no indicator or combination of indicators can assure the successful identification of future market trends. When viewed in the broader context of underlying U.S. and global economic, financial, demographic and political environments, it is hoped that these indicators provide useful insights into both domestic and foreign markets.

We also employ many analytical techniques, models, graphs, and statistics to help us better understand domestic and international stock, bond and currency markets. This research, in turn, assists us in making both asset allocation and fund selection decisions for client portfolios. Again, no analytical tool, model, graph, or statistic can assure the attainment of any investment objective or the avoidance of losses.

Based upon this research, and information obtained from many articles, newsletters, white papers and other data sources, we seek to adjust the allocation of client portfolios with the goal of capitalizing during important market advances and preserving capital during significant declines. In this way, we seek to achieve favorable real rates of return (after inflation) while striving to limit risks to a level consistent with each client's chosen investment objective. Although this approach is believed to be sound, neither C&R nor any other investment advisor can guarantee future performance results, the avoidance of tax liabilities or the attainment of any desired level of risk.

Asset allocation decisions involve changing investment holdings between funds that invest in different types of securities. An example of an asset allocation decision that may be made by C&R is between funds that invest in equity versus fixed income securities. Another example of an asset allocation decision is between funds that invest in securities domiciled in domestic or foreign countries. We may also change the allocation between funds that are classified by the different styles, sectors, objectives or by any other criteria.

Please realize that, by design, asset allocation decisions will normally differ for portfolios with different investment objectives. Also, since portfolios within both the Individual Services and Corporate Services may have restrictions imposed by the client, the precise asset allocations for different portfolios with the same investment objective in a specific investment program may also differ. In fact, it is unlikely that portfolios with the same objective will have the exact same asset allocation. However, clients within the same investment objective will have very similar, and possibly identical, funds and very similar, and possibly identical, fund allocations. If restrictions have been placed on any account, the funds selected and the asset allocations, may differ substantially

### **3) Selecting an Initial Portfolio**

We strive to develop a diversified portfolio consisting of a combination of Investments. A typical client portfolio within any of our programs usually contains from ten to twenty holdings. When taken as a group, these holdings are designed, in our view, to help achieve the investment objective selected by the client.

At C&R, we have developed proprietary tools that assist us in screening information on a large number of Investments. By employing these tools, we seek to screen our databases of available investment options with the goal of identifying:

- Strategies which, when combined into a portfolio, may help achieve the specific investment objective of each client.
- Strategies which, when combined into a portfolio, may help reduce overall portfolio volatility.
- Strategies which we believe have the potential to produce superior risk-adjusted performance.
- Strategies that may meet additional quantitative and qualitative tests that help determine each investment's desirability and its potential for future performance.
- Strategies with relatively low operating expense ratios given their objectives and the costs associated with achieving those objectives.

These considerations, as well as others discussed in this section, assist us in selecting investments for client portfolios.

At C&R we also restrict investments to no-load and load-waived funds that avoid all but the smallest 12b-1 fees. In addition, to avoid certain potential conflicts of interest, we never accept any 12b-1 payments or any other kind of payment from any fund or broker.

We normally limit our investment universe to those Investments that have a clearly defined objective and a history of relatively consistent adherence to this objective. We consider the quality of management, expense ratios, risk levels, the size of the investment strategy, its current cash flow characteristics and present and past performance.

For ETFs, we also consider construction methodology and fund liquidity (volume and bid/ask spreads) in addition to the other considerations discussed earlier. The precise selection techniques we utilize may vary with the type or volatility of each of the Investments.

We may select (or recommend) virtually any investment for inclusion into client portfolios. Each investment vehicle may invest in a wide variety of securities which may be categorized according to various investment styles, industry sectors, geographic areas, security types or by

other criteria. For example, funds might invest in exchange-listed securities, securities traded over-the-counter, foreign issuers, warrants, corporate debt securities, municipal securities, U.S. Government securities and options contracts on securities. These funds may also invest in commercial paper, certificates of deposit, commodities, derivatives, futures contracts, or options on futures contracts, as well as other types of securities. In addition, funds may invest from time to time in other funds. As a result, funds may be subject to a variety of investment risks, which include, but are not limited to, stock market risk, business risk, interest rate risk, credit risk, foreign investment risk, currency risk, derivatives risks, counterparty risk, geographic risks, diversification risk, political risk, liquidity risk, inflation risk, and industry concentration risk.

Once investment strategies have been identified using the above process, the Investment Committee members provide recommendations and ideas which assist the Investment Committee in using their judgment to select investments for client portfolios. The Investment Committee has final decision making authority for all asset allocation decisions, with Cyrus Amini, Esq., CFA, the Chief Investment Officer, leading the committee.

#### **Investment Decisions Regarding Target Date Funds and the Individual Mutual Fund Lineup**

Once mutual funds have been identified using the above process, the Investment Committee members provide recommendations and ideas which assist the Investment Committee in using their judgment to recommend target date funds and non-target date mutual funds to be included within the plan's Individual Mutual Fund Lineup for retirement plans within Corporate Services. Plan participants may then create their own portfolio consisting of any combination of the target date funds, individual non-target date mutual funds or Model Portfolios selected for inclusion by the plan sponsor.

The Investment Committee shares the final decision making authority for recommending the individual funds (target date funds and other non-target date mutual funds) and for managing the Model Portfolios.

For all investment management services, our goal is to select and/or recommend strategies with investment allocations that are likely, in our judgment, to benefit from the above referenced socio-economic, political, institutional, financial, demographic and other trends that underlie the United States and world economies.

The information used by C&R in formulating investment strategies may include materials prepared by mutual funds, ETFs, various U.S. Government publications and information derived from personal interviews with mutual fund managers or ETF managers. In addition, various software programs, fund databases, real-time data services and information generated by our own proprietary models may be used to assist in formulating investment strategies. Finally, as was described previously, the judgment of the Investment Committee and its individual members is an important component in formulating investment decisions for all of our investment programs.

#### **4) Portfolio Diversification**

Within all of our investment management services, we seek to limit risk by selecting a portfolio of strategies that invest in individual securities that are normally diversified across asset categories, industries, sectors, styles of money management, investment objectives and countries of the world.

A more detailed discussion of our approach to portfolio diversification follows. Please note that we discuss:

- Diversification across asset classes,
- Diversification within an asset class,
- Diversification by investment style,
- Diversification by investment objective,
- Global diversification.

a. **Diversification Across Asset Classes**

We typically diversify client portfolios into strategies that invest in securities within different asset classes. The final mix of equity, bond, and money market funds within client portfolios is typically determined using proprietary tools, various analytical measures, the input, recommendations, and judgment of the Investment Committee.

b. **Diversification Within an Asset Class**

Client portfolios are also diversified through purchasing a mix of strategies that may contain securities invested across sectors, industries and additionally, for bond funds, across varying maturities and types of issuers. The final mix of equity sectors and industries, as well as bond maturities and issuers, is typically determined using proprietary tools, analytical measures, the input, recommendations, and judgment of the Investment Committee.

c. **Diversification by Investment Style**

We seek to reduce the risk of investing in strategies which hold securities within a given asset class (e.g., equity funds) by diversifying across different styles of money management. For example, equity fund managers may employ different investment “styles” by focusing their investments into certain types of securities, e.g.:

- Defensive stocks
- Cyclical stocks
- Stocks with relatively stable earnings growth rates
- High-yield stocks
- Interest sensitive stocks
- Small company growth stocks
- Large company stocks
- Etc.

Many other styles also exist, each employing a particular strategy for selecting stocks, bonds or other types of financial assets. Styles of equity management vary considerably, as do the associated risk and historical performance results.

d. **Diversification by Investment Objective**

When appropriate, we may further diversify client portfolios by selecting strategies that employ different investment objectives, such as conservative growth, moderate growth and aggressive growth. We believe that this process may help balance the overall risk exposure of a client portfolio with the investment objective selected by the client.

e. **Global Diversification**

We may also hold strategies that invest in foreign securities. In doing so, we seek to identify opportunities that may exist or develop in various countries, regions or currencies with the goal of enhancing investment returns and/or limiting risk in client portfolios. However, no assurances can be made regarding future rates of return for securities associated with any country, currency or for the overall risk level of any portfolio that is diversified internationally.

**5) Managing Individual Portfolios Over Time**

The specific investment approach followed by C&R is to first construct a portfolio of funds designed to seek to achieve the specific investment objective selected by the client. Over time, we may purchase or sell any investment. On occasion, we may also sell securities that were previously transferred to the account by the client. In each instance, our goal is to enhance the overall risk-adjusted performance of the client's portfolio over a strategic, long-term time horizon.

The management of client portfolios is a dynamic process. We monitor current holdings and seek to upgrade to investments that we believe are more attractive whenever existing holdings no longer meet specific risk, expected performance and other fund selection criteria. Overall portfolio allocation adjustments may be made when, in our opinion, changing market conditions warrant a shift in the allocation of client assets across domestic and international equity, bond and money market strategies.

We monitor the investment positions held in client portfolios on a daily basis and review these holdings on a weekly and monthly basis. Special reviews may also be initiated whenever significant fundamental or technical developments occur, when important new information is released, upon the input, recommendations, and judgment of the Investment Committee.

The allocation of client accounts among strategies that invest in domestic and international equity, bond, and money market funds, is reviewed on a weekly and monthly basis. As was mentioned earlier, the overall allocation of client portfolios may be adjusted from time to time based upon many factors we believe to be relevant, such as changes or anticipated future changes in any of the following:

- Economic, financial and market trends.
- Fundamental and relative valuation levels between asset classes.
- Government legislation, regulations or tax laws.
- Technical condition of broad financial market indices, individual mutual funds and ETFs.
- Other factors such as evolving demographic trends or changes in the international environment.

We normally adjust client portfolios in response to changes or anticipated future changes sequentially rather than all at once.

**RISK OF LOSS**

Investing in securities involves a significant risk of loss which clients should be prepared to bear. C&R

investment recommendations are subject to various market, currency, economic, political and business risks, and such investment decisions may not always be profitable. Clients should be aware that there may be a loss or depreciation to the value of the client's account. There can be no assurance that the client's investment objectives will be obtained and no inference to the contrary should be made.

As was mentioned previously, a typical portfolio managed by C&R holds from ten to twenty investment positions. It is important for every client to understand that buying and selling all investments, and changing the asset allocation of a client portfolio, entails the risk of loss which clients should be prepared to bear. Also, some investment decisions or recommendations may result in profits and others in losses. It is also important for each client to understand that C&R cannot assure the attainment of the client's chosen investment objective within any of our investment programs. In addition, transacting in investment strategies may also result in an increase or a decrease in the tax liabilities for taxable clients and an increase in transaction costs. Past performance is not indicative of future results. Therefore, clients should never assume that future performance of any specific investment or investment strategy will be profitable.

In addition to the risks associated with changing from one strategy to another, there are also many underlying risks that may impact the individual strategies contained within client portfolios. These risks include, but are not limited to, the following:

- Risks associated with changing socio-economic, demographic, and political conditions within the United States and throughout the world.
- Risks resulting from changes in public policies, regulations, laws, international developments and technology.
- Risks attributable to fluctuations in inflation rates, interest rates, exchange rates and other variables.
- Opportunity risk that an investor may forego profits or returns from other investments.
- Risks associated with the ongoing viability, functioning and liquidity of financial markets, individual financial instruments and financial institutions – including the brokers, custodians and transfer agents associated with the investments that typically comprise client portfolios.
- Risks attributable to the changing business and operating conditions that influence the companies and government entities responsible for issuing individual securities, which, in turn, are held by the investment strategies.
- When investing in a position, clients will bear additional expenses based on their pro rata share of the investment's operating expenses, including the potential duplication of management fees. The risk of owning an investment generally reflects the risks of owning the underlying securities the investment holds. Clients will also incur brokerage costs when purchasing ETFs and may incur transaction costs when purchasing mutual funds through custodians or discount brokers unless such fees are waived.
- Other risk factors.

The above list of risk factors is not intended to be exhaustive but simply is to illustrate the many underlying risks that may impact the securities held within any of the of the investment strategies contained within client portfolios.

## **Item 9. Disciplinary Information**

Neither C&R nor its management persons have any legal or disciplinary event that is material to our management.

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

C&R does not have any other financial industry activities or affiliations. Further, neither C&R nor any of its management persons are managing financial assets outside of C&R. As of this filing C&R does not have any other financial industry activities or affiliations. However, in the near future one of the firm's management personnel plans to participate in direct investment commercial real estate projects which may be offered to C&R clients. C&R will update and disclose if and when this occurs.

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

Principals of C&R may make investments for their own accounts, for family accounts, or for the accounts of other clients that are the same as, different from, inconsistent with or in conflict with those made for, or recommended to, clients. Employees of the Firm may also make investments for their own accounts that are the same as, different from, inconsistent with or in conflict with those made for, or recommended to, client accounts. Personal investments made by principals and employees of C&R may involve securities that cannot be purchased or sold by C&R for, or recommended to, client accounts.

Principals and employees of C&R have the option, subject to the approval of C&R, to open one or more accounts within any of our investment services including the Investor Services and Private Wealth Management. Principals or employees that invest in any of these products must sign an Investment Advisor Agreement and complete a Confidential Information Form just like any other C&R client. C&R does not believe this creates a conflict of interest as principals and employees are expected to receive executions and investment results that are quite similar to those received by C&R clients who have the same objective within any of the above referenced investment services.

With respect to no-load or load-waived mutual fund shares, principals and employees of C&R may invest and trade in shares of the same no-load or load-waived mutual funds that may be purchased or sold for, or recommended to, clients. Personal transactions made by principals and employees in shares of these funds are not restricted. We believe that such transactions do not present a conflict of interest or the appearance of one because any no-load or load-waived mutual fund purchased or sold on a particular day is transacted at the same net asset value, as calculated by the no-load or load-waived mutual fund, for that day.

In the event that C&R purchases or sells shares of a stock, non-government bond, ETF, or closed-end mutual fund during a given trading day for a client account, principals and employees of the Firm may not purchase or sell the same stock, non-government bond, ETF or closed-end mutual fund for their personal accounts during that same trading day. These black out restrictions do not apply to any stocks, non-government bonds, ETFs or closed-end funds that are held in employee accounts managed by C&R.

The above-described black out restrictions do not apply to employee accounts managed by C&R since transactions for these accounts will normally be batched, when possible, with transactions placed for

other accounts within the same program and with the same objective and since the same brokerage firm is used for the execution of trades. In addition, principals and employees may not buy more shares of these securities if they are held in any account managed by C&R. We believe that permitting principals and employees to do so would invite the opportunity for principals and employees to place their interests before the interests of clients and potentially benefit from a personal securities transaction to the detriment of clients.

If a client transfers stock, non-government bond, ETF or closed-end fund shares to his or her managed account at C&R, which are also held by one or more principals or employees of C&R at the time of the transfer, the principal or employee holding these securities may not sell them on the same day they are sold for the client. In addition, principals and employees may not buy more shares of these securities as long as they are held in any account managed by C&R. We believe that permitting principals and employees to do so would invite the opportunity for principals and employees to place their interests before the interests of clients and potentially benefit from a personal securities transaction to the detriment of clients.

C&R has implemented a Code of Ethics, which incorporates the above prohibitions and restrictions, and which serves to establish a standard of business conduct for the principals and employees of our Firm. The Code of Ethics, which is monitored and enforced by the Firm's Chief Compliance Officer, also includes policies and procedures reasonably designed to prevent the misuse of material non-public information by our principals and employees.

Copies of our Code of Ethics, which includes our insider trading policies and procedures, are available to clients and prospective clients upon request.

## **Item 12. Brokerage Practices**

### **Individual Services**

If a client within any of the Individual Services seeks our assistance in selecting a broker, we normally recommend brokers that appear to offer a competitive combination of service, trading opportunities and commission rates. The final choice of broker is left to the client or to the custodian handling client assets. Under certain circumstances, the client may direct C&R to a particular broker or to a custodian that may, in turn, select a broker to execute transactions.

C&R has selected T.D. Ameritrade Institutional and Schwab Institutional to be the potential brokers for Individual Services. We believe that both T.D. Ameritrade Institutional and Schwab Institutional offer a competitive combination of service, trading resources and commission rates. A special benefit that may accrue to clients in the program is access to many institutional shares class funds; funds that are usually not available to retail customers and which often have lower expense ratios.

These brokers also offer certain ETFs and mutual funds for zero transaction costs, provided that the funds are held for a specific time period. The required holding periods are typically compatible with the investment management approach employed by C&R.

### **Corporate Services**

C&R selects from among Principal, Schwab, Empower, or T.D. Ameritrade Trust Company to be the custodian and broker for the Corporate Services platform, depending on the situation and a variety of



cost and efficiency factors. We believe these firms offer a competitive combination of service, trading resources and commission rates. A special benefit that may accrue to clients and plan participants is access to many institutional shares class funds, which are usually not available to retail customers, and which often have lower expense ratios.

### **All Services**

If C&R can negotiate a lower than normal commission schedule with a custodian or broker, the benefits are passed along to our clients. The transaction charges paid by clients of C&R to their broker for buying or selling any investment shares may be either higher or lower than those charged by other brokers.

When C&R obtains direct or third-party research reports from one or more of the brokers used by our clients, such research normally consists of economic or financial data, electronic quotations or specific research reports -- information that typically accrues to the benefit of all our clients. We do not allocate these benefits to client accounts proportionally based on the commissions generated by those accounts.

Brokers also provide C&R, free of charge, telephonic administrative assistance regarding software packages used for accessing client data and trading accounts and the ability to access a daily electronic link to client accounts. They also provide access to newsletters, conferences, due diligence meetings, web casts, special events and employees that may address overall market conditions, regulatory matters, industry developments, best business practices and other topics. This research and these products and services provide benefits to C&R because we do not have to produce or pay for them ourselves.

C&R may recommend a certain broker to effect transactions for clients because we believe that the broker's reports are particularly insightful and useful. To the extent that the transaction fees or commissions charged by that broker might be higher than those another broker might charge, in recognition of the value of such reports, we may still use such a broker. Any product or service we receive from that broker assists us in our investment decision process and, as noted, normally has value to all or many of our clients. By selecting such a broker, however, we have a conflict of interest to the extent that C&R receives valuable research that is ultimately paid for by clients through commission dollars, rather than C&R.

Principals and employees of C&R are provided access to the same trading platforms used by discretionary clients of C&R. Accounts of these principals and employees enjoy the same benefits - such as lower mutual fund transaction fees, access to institutional class funds which normally have lower expense ratios, the ability to purchase some load funds on a load-waived basis, and access to certain funds that are closed to retail accounts - and are subject to the same fee, cost and expense schedules as any C&R discretionary account. These accounts are typically held at either Charles Schwab Institutional or T.D. Ameritrade Institutional. Were it not for the business that C&R does with these brokers on behalf of its clients, access to these platforms would not be available for accounts of principals and employees of C&R. Therefore, the Firm has an incentive to continue to do business with those brokers on behalf of clients, even if doing so is not in the best interests of clients. However, we periodically evaluate the services and prices of other trading platforms and believe that our clients continue to benefit from those prices and from the overall quality of services at these organizations.

#### *Charles Schwab Custodian Arrangement*

C&R recommends that some of its clients use Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, as the qualified custodian. C&R is independently owned and

operated and not affiliated with Schwab. Schwab will hold client assets in a brokerage account and buy and sell securities when C&R instructs them to do so. While C&R may recommend that clients use Schwab as custodian/broker, clients will decide whether to do so when they open an account with Schwab by entering into an account agreement directly with them. Schwab offers independent investment advisers certain services, which include custody of securities, trade execution, clearance and settlement of transactions. C&R receives some benefits from Schwab, which are similar to the benefits outlined above.

#### *TD Ameritrade Custodian Arrangement*

C&R participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., member FINRA/SIPC. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. TD Ameritrade Institutional offers independent investment advisers certain services, which include custody of securities, trade execution, clearance and settlement of transactions. C&R receives some benefits from TD Ameritrade through its participation in the program, which are similar to the benefits outlined above.

#### *Empower Custodian Arrangement*

Empower Retirement is a subsidiary of Great West Financial and provides management services for employee-sponsored retirement plans.

#### *Principal Custodian Arrangement*

Principal is an SEC-registered financial firm. Principal offers services to a variety of retirement plans, which include plan setup and administration, custody of securities, trade execution, clearance and settlement of transactions.

### **Trade Aggregation and Allocation**

C&R may or may not aggregate orders for buying or selling shares of no-load or load-waived mutual funds within any of the investment management programs. Orders might not be aggregated since each client that transacts with a specific mutual fund with a designated broker on the same day obtains the same execution price (the fund's net asset value for that day) and pays the same transaction charge.

We normally aggregate orders for buying and selling shares of ETFs, closed-end funds, and individual stocks or bonds to ensure that clients with the same objective obtain the same execution price on a given day. This is particularly important for ETF shares. This aggregation of orders is typically implemented by placing a block trade with the broker. Please realize that block trades are sometimes separately placed with T.D. Ameritrade Institutional for clients with different objectives within the investment management programs and that they may be executed at different times of the day, and at different prices. However, unless new monies are added to (or withdrawn from) a client account on that day, all clients with the same objective will usually obtain the same execution price on a given day.

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

Market conditions and individual investments held by each client are monitored on a daily basis and reviewed on a weekly and monthly basis. Special reviews may be initiated whenever important fundamental, technical, cyclic or chart pattern developments occur or when important information sources are released, upon the input, recommendations, and judgment of the Investment Committee.

All asset allocation, timing and investment selection decisions and recommendations within all investment management programs are made upon the input, recommendations, and judgment of the Investment Committee.

The individual target date funds, the funds included in the C&R Model Portfolios, and all the mutual funds included within the Individual Mutual Fund Lineup are not managed by C&R as each fund has a separate manager. In addition, since each plan participant makes his or her own individual allocation decisions independent of C&R, the Firm is not and cannot be responsible for the suitability or performance of the personal portfolios created by plan participants. We simply manage the model portfolios and select target date and other non-target date mutual funds which we recommend for inclusion as investment options for all plan participants.

Portfolio Review reports are furnished to most clients on a semi-annual basis, based upon the review dates initially specified for each client and may be delivered via mail or electronically. A semi-annual portfolio review consists of four reports, the Market Overview, Total Portfolio - Net of Fees, Current Account Holdings, Account Overview - Net of Fees reports. The Market Overview report includes C&R's Quarterly Commentary and a table summarizing the performance of several market indices during the six-month review and year-to-date periods. The Total Portfolio - Net of Fees report shows the change in value of the portfolio during the review and year-to-date periods, two graphs - one depicting the allocation by asset class of the portfolio holdings and the second depicting the allocation of the portfolio by account, and a table showing the returns for each account within the portfolio for the review period. The Current Account Holdings report resembles a "snapshot" of each account as of the review date and provides details regarding the individual holdings such as cost basis, market value and each holding's allocation within the account. The Account Overview Net of Fees report shows a graph indicating the Allocation by Asset Class, a table noting the change in value of the account during the review and year-to-date periods, a chart depicting the portfolio value over time and a chart showing the performance of the account versus the benchmark. Formal written semi-annual reviews are prepared by the Chief Operations Officer.

Some clients request quarterly portfolio valuation reports. We may agree to provide quarterly reports at our discretion. Quarterly portfolio valuations also consist of the Market Overview, Total Portfolio - Net of Fees, Current Account Holdings, Account Overview - Net of Fees reports. These reports are virtually identical to those provided for semi-annual valuations with the exception that the Quarterly Performance and Performance Summary reports cover a period of three, rather than six, months.

Clients in the Corporate Services program receive quarterly portfolio valuation reports that are delivered either by mail or electronically by the plan record-keeper and/or custodian. These reports are similar to the reports described above and include an additional report which monitors the quarterly performance of the individual mutual funds contained within the investment options selected by the plan sponsor for the plan.

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

### **A. Economic Benefits Received**

As was mentioned in Item 12 above, the Firm generally recommends that clients use Schwab or TD Ameritrade as their custodian and broker of record. While there is no direct link between the investment advice given to a client and our recommendation to clients to use Schwab or TD Ameritrade as their

custodian, certain indirect economic benefits are received by us due to these arrangements. We receive an economic benefit in the form of the support products and services such custodians make available to us and other independent investment advisers that have their clients maintain accounts at Schwab and/or TD Ameritrade. These products and services, how they benefit us, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices). The availability to us of Schwab’s and/or TD Ameritrade’s products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

While the Firm and our associated persons endeavor at all times to put the interest of the clients first, as part of our fiduciary duty, clients should be aware that receipt of indirect economic benefits itself creates a conflict of interest. To help ensure that clients are receiving best execution and to address the conflict of interest surrounding this arrangement, we perform periodic reviews of the quality of execution and services provided by Schwab and TD Ameritrade.

### **B. Client Referrals**

At the present time, C&R does not compensate third parties for client referrals, nor receive compensation for referring clients to third parties. See also Item 4.B.6, Other Services and Item 12, Brokerage Practices.

## **Item 15. Custody and Client Communications**

C&R does not maintain possession or custody of any client funds or securities for any investment program. If requested by the client, C&R will be deemed to have constructive custody of client funds if the Firm has the authority and ability to debit its fees directly from clients’ accounts per the Firm’s signed agreement with that client. To mitigate any potential conflicts of interests, all C&R client account assets will be maintained with an independent qualified custodian and marks the bills sent to these clients to collect fees with a “Do Not Pay” stamp. Generally, C&R recommends Schwab or TD Ameritrade for custodial services, but from time to time, other custodians may be used by C&R to custody assets. Notably, in most cases a client’s broker-dealer also may act as the custodian of the client’s assets for little or no extra cost. Clients should be aware, however, of the differences between having their assets held at a broker-dealer versus at a bank or trust company. Some of these differences include, but are not limited to, custodian costs, trading issues, security of assets, client reporting and technology. We expect that each client will receive account statements and trade confirmations from the client’s broker, bank or other qualified custodian using the form of delivery previously selected by each client with their broker, bank or custodian.

### **Individual Services**

Account statements and trade confirmations are typically delivered either by mail or electronically by the client’s broker, bank or custodian. Clients should carefully review these documents, as well as any other notifications sent to them by their broker, bank or custodian. In addition, all clients are advised to carefully compare their brokerage, bank or custodian statements with the semi-annual reports they receive from C&R.

Many of our clients give us the authority to withdraw our management fees directly from their account(s), through their broker, bank or custodian. These clients should carefully review their monthly or quarterly brokerage, bank or custodial statements for such charges to ensure that they are consistent with the fee schedule designated in their signed copy of the C&R Investment Advisor Agreement.

## **Corporate Services**

Account statements and trade confirmations are typically delivered either by mail or electronically by the plan's record-keeper or custodian. Clients should carefully review these documents, as well as any other notifications sent to them by their record-keeper or custodian. In addition, all clients are advised to carefully compare their custodian statements with the quarterly reports they receive from C&R.

Some of our clients give the plan's record-keeper the authority to withdraw our management fees directly from plan assets, through their custodian. These clients should carefully review their monthly or quarterly custodial statements for such charges to ensure that they are consistent with the fee schedule designated in their signed copy of the C&R Investment Advisor Agreement – 401(k) Plan.

## **Item 16. Investment Discretion**

For most clients in Private Wealth Management, Corporate Services, and Family Office Services and all clients in the Investor Services, C&R holds discretionary investment authority over the assets in the client's account. This means that C&R has full investment discretion over (1) which securities are to be bought or sold in client accounts; (2) the amount of securities to be bought or sold in client accounts; and (3) when transactions are made. Before C&R accepts this investment authority, the client must first complete and sign our written Investment Advisor Agreement for discretionary clients. This agreement gives C&R a limited power of attorney to implement transactions on behalf of the client on a discretionary basis within our all investment management programs. For retirement plans within Corporate Services, C&R will recommend changes to the investment lineup or model portfolios. These changes are typically implemented by the record-keeper and/or the custodian.

For each discretionary account C&R manages, the client will establish a Limited Power of Attorney with their custodian authorizing the Firm to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent for the account. At the present time, most Individual Services clients establish an account with either Charles Schwab Institutional or T.D. Ameritrade Institutional. Corporate Services clients also establish an account with either T.D. Ameritrade Trust Company, Empower, or Principal. In our opinion, these institutions provide a competitive combination of efficient executions, fees and back office services. Clients within the Family Office Services need not select one of these custodians to retain C&R to manage an account. In this circumstance, however, C&R must approve the broker or custodian recommended by the client.

Clients within all of the investment management programs normally do not place any limitations on the investment discretion of C&R. However, on occasion, a client within any program may impose restrictions on the purchase or sale of certain securities. These clients must also complete a written Investment Advisor Agreement and, in addition, must specify the precise nature of the limitations placed upon our management of the account in writing.

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

For all clients, C&R generally does not vote proxies with respect to client securities held at brokerage firms or custodial banks. These brokers and custodial banks are responsible for forwarding all proxies and related materials directly to the client. Thus, each client maintains the exclusive right and responsibility for voting proxies for securities held in his or her account.

C&R shall not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client.

C&R typically does not advise or act for clients with respect to any legal matters, including bankruptcies and class actions, for the securities held in clients' accounts.

A copy of our proxy voting policy and procedures is available to clients upon request.

## **Item 18. Financial Information**

C&R does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore is not required to provide, and has not provided, a balance sheet. Currently, C&R does not have any financial condition that we believe is likely to impair our ability to meet our contractual commitments to clients.