

**LEE FINANCIAL**

# **Lee Financial Company**

## **Form ADV Part 2A – Brochure**

**November 15, 2019**

*This Brochure provides information about the qualifications and business practices of Lee Financial Company (LFC). If you have any questions about the contents of this Brochure, please contact Patricia Stoll, Chief Compliance Officer, at (972) 960-1001 or [pstoll@leefin.com](mailto:pstoll@leefin.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

*Additional information about Lee Financial Company is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*We are registered with the Securities and Exchange Commission, which does not imply a certain level of skill or training. The oral and written communications we provide to you, including this Brochure, is information available for you to use in your decision to hire LFC or continue a professional relationship with LFC.*

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## **ITEM 2 – MATERIAL CHANGES**

This filing of our Form ADV contains the following material changes from our last update dated June 27, 2019. This summary includes only material changes; therefore, not all changes to the document are discussed here.

### Summary of Material Changes:

Removed Julie Toler as Chief Compliance Officer. Patricia Stoll is the new Chief Compliance Officer (CCO) for Lee Financial.

### Funds Open to New Clients section:

In 2018, LFC transferred the majority of LFC Alpha, Ltd. partnership's underlying holdings to a master-feeder fund under the management of Infinity Capital Partners. LFC also transitioned administration duties for LFC Alpha, Ltd. to a third-party administrator, Essential Fund Services LLC. Due to the transition, LFC no longer receives a management fee from LFC Alpha, Ltd. Infinity Capital has waived its 0.50% management fee for LFC Alpha, Ltd. until the end of 2020.

On occasion, we will update this brochure and send you a copy or offer to send you a copy by electronic means (e-mail), through our website, or in hard copy form.

If you would like another copy of this Brochure, please download it from our website ([www.leefin.com](http://www.leefin.com)) or the Security and Exchange Commission's website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)) or contact our Chief Compliance Officer (CCO) Patricia Stoll at (972) 960-1001.

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## **ITEM 4 – ADVISORY BUSINESS**

### ***WHO WE ARE***

Lee Financial Company (LFC) was founded in 1975 by Richard R. Lee, Jr. CFP® CFA as a fee-only financial planning and investment advisory firm in Texas. LFC is independently owned and operated. Our principal owners and executive members are Richard R. Lee, Jr. CFP® CFA (CEO and Founder) and Dana L. Pingenot, CFP® CLU (President).

We offer personalized financial planning and investment management services. Financial planning is the foundation of the firm's services with most of our clients. "Fee-only" means LFC is paid through fees received from our clients. We believe if an advisor stands to gain financially from the purchase of any investment, or insurance product, there is an increased potential for conflict of interests. Our allegiance is to our clients, and our incentive is to serve our clients' best interests.

LFC has developed a team approach to provide financial planning and portfolio management services. To manage your financial assets, we believe it is necessary to understand your goals and objectives in all areas. We add value by helping you define specific goals, provide analysis for the possibility of meeting the goals, monitor your progress in reaching those goals, redefine goals as appropriate, and assist in the management of the financial assets that play a role in achieving those goals.

### ***OUR PHILOSOPHY***

We believe our success in helping individuals, families, and businesses achieve their goals lies in our holistic approach – the WholeVision™ process. WholeVision™ is a term that describes what we consider to be your complete financial picture, similar to how one would design a business plan for their company. WholeVision™ consists of four types of capital: Human Capital, Financial Capital, Fulfillment Capital and Shared Capital. Each is vitally important in its own way to overall wealth. We work closely with you to establish goals for personal growth and fulfillment while managing your financial planning needs and identifying opportunities around your vision.

### ***HUMAN CAPITAL***

Human Capital is comprised of each individual's unique talents, skills, and education. As unique individuals, we spend our lives building our Human Capital in different ways as we pursue our individual goals and objectives. Human Capital is particularly unique in that it is your most sustainable resource. It helps to define who you are and is usually the primary resource for accumulating wealth.

### ***FINANCIAL CAPITAL***

Financial Capital consists of the working capital we, as individuals, create and use daily. This is the targeted capital we save and invest for specific goals, such as financial security and education. It is also the contingency capital we use for risk management and unforeseeable events. LFC works closely with you to help protect and build your Financial Capital through careful, ongoing planning and investing.

### ***FULFILLMENT CAPITAL***

Fulfillment Capital is the most personal form of capital and is a vital component for realizing personal success. These are the most memorable and rewarding experiences that fill our hearts and minds. Finding this Fulfillment often drives and defines our goals.

### ***SHARED CAPITAL***

Shared Capital is intended for the benefit of others. We, as individuals, share this capital voluntarily with our family and community, or involuntarily through the taxes we pay. When Shared Capital is distributed, it influences our Human Capital, Financial Capital, and Fulfillment Capital.

All forms of capital interact to establish a complex and evolving picture of wealth. LFC helps manage these diverse aspects of wealth to cultivate your security, success, and fulfillment.

### ***OUR TEAM APPROACH***

LFC clients have the option to receive both financial planning and investment management services from a team of advisors. LFC has eight (8) primary types of advisors and a client's team will include a mix of these advisors or just one, depending on the client's service needs and complexity:

- Senior Financial Planner
- Financial Planner
- Associate Financial Planner
- Financial Advisor
- Senior Portfolio Manager
- Associate Portfolio Manager
- Human Capital Strategist
- Human Capital and Investment Analyst

## ***FINANCIAL PLANNING***

Our Senior Financial Planners, Financial Planners, and Associate Financial Planners make up our Financial Planning Team. To the extent that LFC is engaged by you to provide planning consistent with the terms and conditions of the Client Advisory Agreement, the Financial Planning Team will generally gather your financial information, develop your financial plan, and present and continue to monitor your plan throughout the long-term relationship. Our Financial Planning Team members do not provide portfolio management services directly; rather, they work closely with your Portfolio Manager so that your investment portfolio is built around your near and long-term goals. Our Financial Planning Team will help you establish and achieve personal and financial goals while assessing risk and helping you prepare for both planned and unexpected life events. These services can include, but are not necessarily limited to, the following:

- Goal development and tracking
- Balance sheet preparation
- Cash flow planning and budgeting
- Insurance review (life, property and casualty, disability, long-term care, health)
- Income tax review
- Financial independence/retirement planning
- Legacy development/estate planning and wealth transfer
- Education planning
- Philanthropic planning, including charitable foundation management
- Business development and succession planning

Clients will receive written and verbal recommendations from their Financial Planning team members on steps to take to achieve the goals established by the client. The Financial Planning team members will work with the client on implementation of these recommendations. On occasion, a Financial Planning team member could recommend the client create an investment account for LFC to manage. Such recommendations are a conflict of interest as they could potentially generate additional compensation to the firm.

## ***INVESTMENT MANAGEMENT***

Our Portfolio Management Team invests the capital you place in your portfolio under our management. Each portfolio is structured to meet your unique needs for liquidity (cash), stability, current income, long-term growth, tax efficiencies (as appropriate), and risk tolerance. Our Portfolio Management Team consists of the Chief Investment Officer, Senior Portfolio Managers, Associate Portfolio Managers, Investment Analysts and Associate Investment Analysts.

The Chief Investment Officer (CIO) is responsible for the investment activities of the firm and is chair of the Investment Committee (IC). The CIO oversees the overall investment policy and strategy; asset allocation strategies and risk management across portfolios; manager selection; investment due diligence; performance measurement; and communication with our Senior Portfolio Managers who meet with clients. The Partnership & Investment Group (PAIG) is an offshoot of the IC formed to manage and wind down the affiliated partnerships listed under *Item 10 – Illiquid Assets*. For certain clients who are sophisticated investors with generational capital, there is a separate servicing model with a different Family Capital Investment Committee



("FCIC") for non-traditional investments and the occasional traditional investment. The FCIC has a similar overlap of individuals as the Investment Committee and generally utilizes the investment recommendations of the Investment Committee for traditional investments.

Our Portfolio Managers advise and make recommendations on investment opportunities and manage your investment portfolio in an attempt to achieve its goals and objectives. During a typical meeting, your Portfolio Manager will discuss your investment portfolio.

The Senior Investment Analysts spend their time researching and analyzing the investment opportunities recommended to you; however, Investment Analysts are not usually actively involved in your meetings.

Investment diversification is an important means of attempting to reduce risk and provide income and growth of capital over time. As appropriate, some portfolios are further diversified for growth through alternative investment assets or strategies.

We believe that transparency is important in portfolio management. We strive to provide clear information about the portfolios we manage for you, including performance, risk, and tax-related information. We devote time in your meetings to review portfolio positions, performance, and the reasons behind any changes we recommend and implement. Our hope is for you to be familiar with the investment strategies utilized in your portfolio. We encourage you to ask questions about any simple or complex portfolio matters. You have the option to impose restrictions on investing in any security or type of security.

LFC also provides retirement plan consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, LFC shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in a Retirement Plan Consulting Agreement between LFC and the plan sponsor.

### ***INVESTMENT POLICY STATEMENT (IPS)***

Our Portfolio Managers assist in establishing your Investment Policy Statement (IPS). The IPS outlines your investment goals and objectives and the portfolio strategies your LFC Portfolio Manager will employ in the management of your investment portfolio. Your Portfolio Manager will determine how your portfolio should be allocated based on factors including, but not limited to:

- Cash flow needs;
- Liquidity;
- Taxes;
- Risk expectations;
- Time horizon; and
- Your portfolio needs and unique characteristics.

### ***UNDERSTANDING YOUR INVESTMENT POLICY STATEMENT***

An IPS is an investment guideline between you and LFC. Its purpose is to provide an overview of your current status, needs, and long-term goals. The IPS helps LFC establish an appropriate investment portfolio allocation and strategy to meet your expectations, goals and objectives within the appropriate risk/return parameters to fit your needs over a long-term time horizon. We use the following processes to complete your IPS:

- Assess your current and expected future financial situation.
- Identify your financial goals and needs.
- Acknowledge your previous investment experience and your investment time horizon.
- Set long-term investment portfolio needs and objectives.
- Identify any required or desired restrictions on your portfolio and its assets.

Additionally, the IPS helps define the responsibilities regarding the management of your portfolio. We encourage effective and routine dialogue between you and your LFC team of advisors to review and update your IPS document regularly as your circumstances, needs, and objectives change over your lifetime.

**Please Note: It must be understood that there can be no guarantee regarding the attainment of any goals or investment objectives outlined in your IPS. The IPS serves only as a guide to the process.**

## ***SPECIALIZED SERVICES***

### ***Human Capital Services***

LFC works with you to maximize your Human Capital potential. Our goal is to allow you to achieve the most benefit from your unique talents, skills, and education. The Human Capital Strategy Team is a dedicated team that handles complex client situations to address the impact of your Human Capital on your overall asset base. They provide assistance with, but are not necessarily limited to, the following:

- Develop plans for transitional business situations including the growth of an enterprise, business acquisition or sale, and/or partner buyout.
- Work in conjunction with you to grow your relationships with business and social contacts, knowledge networks, and collaborative partners.
- Conceptualize and create visual presentations and models to illustrate stock positions, business dynamics, real estate holdings, and tax implications.

Human Capital services can result in additional fees to clients depending on the scope of projects.

### ***Foundation Services***

A foundation is an organization that provides a dedicated, client specific system for philanthropic gifts. Each foundation is established with its own mission, vision, goals, and objectives. We **do not** create the legal documents required to establish a foundation. However, we do offer management services for private family foundations which can include, but are not necessarily limited to, the following:

- Assistance in the establishment of the foundation;
- Screening and evaluation of grant options;
- Creation and management of investment portfolio assets; and/or
- Coordination of foundation activities.

### ***Limitations to Financial Planning and Non-Investment Consulting/Implementation Services***

To the extent requested by a client, LFC shall generally provide financial planning and related consulting services regarding non-investment related matters, such as estate planning, tax planning, insurance, etc. LFC **does not** serve as an attorney, accountant, or insurance agent, and no portion of our services should be construed in the same manner. Accordingly, LFC **does not** prepare estate planning documents, tax returns or sell insurance products. To the extent requested by a client, we sometimes recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). You are under no obligation to engage the services of any such recommended professional. You, as the client, retain absolute discretion over all such implementation decisions and you are free to accept or reject any recommendation that we make.

**Please Note:** If the client engages any unaffiliated recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

### ***Managed Assets***

As of December 31, 2018, we managed the following client assets:

Discretionary:	\$ 1,001,575,272
Non-Discretionary:	\$ 14,542,221

“Discretionary” means LFC has your approval to manage your account(s), including placing trades, without seeking consent on each marketable securities trade. “Non-Discretionary” means LFC **does not** have your approval to manage your account(s), and you must approve every financial transaction, or you have directed an outside third-party to manage your account(s).

### ***MISCELLANEOUS***

**Please Note: Fee Differentials.** As discussed below in *Item 5 – Fees and Compensation*, we shall generally price our advisory services based upon various objective and subjective factors. As a result, our clients could pay diverse fees based upon the market value of their assets, the complexity of the engagement, related accounts with LFC, the level and scope of the overall investment advisory services to be rendered, and negotiations. As a result of these factors, similarly situated clients could pay diverse fees, and the services to be provided by LFC to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly.

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions regarding Fee Differentials. You can reach her at (972) 960-1001.**

**Please Also Note:** It remains the client’s responsibility to promptly notify LFC if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising LFC’s previous recommendations and/or services.

## ITEM 5 – FEES AND COMPENSATION

### ***FEE CALCULATION METHODS***

The base fee for LFC’s services is either a calculated fee determined by the total amount of your assets’ fair market value (*as described below*) managed by LFC, or a fixed minimum fee amount based on the complexity of the level of services you require (the annual minimum fee is only applicable to those clients also receiving financial planning services - *see below*), whichever is greater. The calculated fee is as follows:

- 1.0% of fair market value of managed assets less than \$10 million; plus
- 0.75% of fair market value of managed assets \$10 million to \$20 million; plus
- 0.50% of fair market value of managed assets \$20 million to \$30 million; plus
- 0.35% of fair market value of managed assets over \$30 million.

Your LFC managed assets (also referred to as your “assets under management (AUM)”) consist of those funds and securities over which LFC is to exercise supervision and investment authority. The fair market value (FMV) of your “assets under management” is determined on the last business day of each calendar quarter.

FMV is typically the value the assets trade at in the secondary market but could also be the valuation provided by an outside source such as an administrator, auditor or pricing service, or as valuation is described by an investment entity’s offering documents.

Fees are generally paid quarterly in advance and are deducted directly from your account but can be billed to you upon request. Clients who are paying LFC a flat fee or clients who are meeting the annual minimum fee have the option to make their payments monthly. Additional requested services will on occasion change your base fee structure or cause you to be billed in arrears versus in advance each quarter.

One exception to this fee model is investments that pay LFC an Investment Management Fee, as noted in *Item 10 – Other Financial Industry Activities* below and in the detailed disclosure of each investment vehicle. Commonly, these are affiliated partnership investments managed by LFC.

If a client directs LFC to purchase specific securities or assets in their managed account, LFC will do so to accommodate the client, but the client remains responsible for the monitoring and the future sale of this client-directed purchase. LFC sometimes continues to include such assets as part of “assets under management” for purposes of calculating LFC’s fee.

On occasion, LFC recommends private investments (that are not affiliated with LFC and DO NOT pay LFC an investment fee) to clients that cannot be sold on the open market. If a client agrees to participate in such an investment, the fair market value of that investment will be included as part of a client’s “assets under management” for purposes of calculating LFC’s fee.

Under limited circumstances, our fees are negotiable. This could occur when the services requested are outside our general service offering or have limited scope. Some clients receive a modified fee structure when their assets under management are over \$10 million, and the services needed would not justify the fee created by our standard tier structure. Services above and beyond our usual service will be assessed an additional fee.

**Please Note: Fee Minimum.** When a client engages LFC in providing financial planning as part of the investment advisory engagement, a minimum annual fee shall be imposed based on the anticipated amount of financial planning and related consulting services to be provided. It is possible for the annual fee minimum to exceed the fee due under the above tiered fee schedule.

### ***Human Capital Services Fees***

On occasion, certain Human Capital services will be included in our basic fee structure. If specialized Human Capital services are requested, an additional fee is required.

### ***Company Retirement Plan Consulting Services***

The terms and conditions of LFC's retirement plan consulting services shall generally be set forth in a Retirement Plan Consulting Agreement between LFC and the plan sponsor. LFC's retirement plan consulting fee will range from 0.35% to 0.50% and will typically be based on various factors, including related personal investment accounts held at LFC. Individual LFC clients who also engage LFC to provide retirement plan consulting services to their company's retirement plan will generally pay a fee of 0.35% of the FMV of the plan's assets under advisement, while sponsors who engage LFC to provide standalone Retirement Plan Consulting services will generally pay a fee of 0.50%.

### ***Additional Fees and Expenses***

Your fee payable to LFC **does not** include all the fees you will pay if we purchase or sell securities for your account(s). Below are some examples of fees or expenses that you pay directly to third-parties, whether a security is being purchased, sold or held in your account(s) under our management. These fees are charged by your broker-dealer or custodian. LFC is not affiliated with any broker or custodian. We do not receive, directly or indirectly, any of the fees charged to you. These fees are paid to your broker, custodian, or to the mutual fund or another investment manager depending on the investments you hold. These fees can include, but are not limited to, the following:

- Brokerage commissions;
- Transaction fees;
- Investment management fees, advisory fees, performance fees and administrative fees charged by Mutual Funds (MF), Exchange Traded Funds (ETFs), sub-advisors, hedge funds, or other investment vehicles;
- Custodial fees;
- Deferred sales charges (for mutual funds or annuities);
- Transfer taxes; and/or
- Wire transfer and electronic fund processing fees.

LFC **does not** directly or indirectly receive any compensation from the sale of securities or investments purchased or sold for your account(s). Since we are a “fee only” investment advisor, our investment decisions are not influenced by any additional compensation from your custodian or the assets we manage.

We **do not** participate in wrap fee services, which service bundle investment advisory and brokerage fees into a flat fee structure. This means that LFC **does not** collect any brokerage fees, since we are not a brokerage firm.

### ***Tradeaway/Prime Broker Fees***

Relative to its discretionary investment management services, when beneficial to the client, individual equity and/or fixed income transactions will occasionally be effected through broker-dealers other than the account custodian, in which event, the client generally will incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate “tradeaway” and/or prime broker fee charged by the account custodian.

### ***Independent Managers (including Separate Account Managers)***

LFC will on occasion recommend that a client allocate a portion of their assets among certain independent investment manager(s) who will manage the designated assets on a day-to-day discretionary basis (the “*Independent Manager(s)*”). LFC will continue to provide investment advisory services to the client relative to the ongoing monitoring and review of the *Independent Manager(s)*, account performance, asset allocation and client investment objectives. Factors which LFC will consider in recommending *Independent Manager(s)* include the manager’s investment objective(s), management style, performance, and reputation. The fees charged by the *Independent Manager(s)* are in addition to LFC’s fees and custodian fees and commissions.

**Please Note: LFC clients are under absolutely no obligation to engage any *Independent Manager(s)*.**

### ***Affiliated Private Investment Funds***

LFC is affiliated with several private investment funds (*as disclosed below in Item 10 – Liquid Assets and Illiquid Assets*). On a non-discretionary basis, LFC will occasionally recommend that qualified clients consider allocating a portion of their investment assets to the *affiliated funds*. LFC Alpha, Ltd. is the only open affiliated fund and LFC does not anticipate any new affiliated funds. The terms and conditions for participation in the *affiliated funds*, including fees, conflicts of interest, and risk factors, are outlined in each fund's offering documents.

**Please Note: LFC clients are under absolutely no obligation to consider or make an investment in an affiliated private investment fund(s).**

### ***Unaffiliated Private Investment Funds***

LFC also provides investment advice regarding unaffiliated private investment funds. At times LFC, on a non-discretionary basis, recommends that certain qualified clients consider an investment in unaffiliated private investment funds. LFC's role relative to the private investment funds shall be limited to initial and ongoing due diligence and investment monitoring services. If a client decides to become a private fund investor, then the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of calculating LFC's fee.

**Please Note: LFC clients are under absolutely no obligation to consider or make an investment in an unaffiliated private investment fund(s).**

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

### ***Self-Directed Employer Retirement Plans - No Obligation/Conflict of Interest***

A client or prospective client is under absolutely no obligation to engage LFC as the investment adviser for their employer sponsored retirement account. Rather, a client can continue to self-direct the retirement account with his or her employer. If the client determines that they would like LFC's assistance, then LFC could potentially charge a separate and additional fee for its ongoing advisory services. The client will not incur this separate and additional advisory fee if the client determines to continue to self-direct his or her account. As a result, any recommendation by LFC that a client engage LFC to manage his or her retirement account presents a conflict of interest since LFC shall derive an economic benefit from such engagement.

**Please Note: LFC's clients are under absolutely no obligation to engage LFC as the investment adviser for their retirement account.**

### ***Contract Termination***

Your contract can be terminated with written notice by you or LFC. Thirty (30) days after your contract is terminated, any prepaid but unearned fees are refunded to you. Refunded fees are prorated by day.

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client may have regarding his or her prospective engagement and the corresponding conflict of interest presented by such engagement. You can reach her at (972) 960-1001.**



## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

A performance-based fee is a fee charged on top of an advisory fee when the advisor meets certain benchmarks that have been set. LFC **does not** charge or accept any performance-based fees.

## **ITEM 7 – TYPES OF CLIENTS**

We are currently accepting new clients. Our clients are thoughtful people who make careful, intelligent decisions for themselves and their families. As our client, we realize that you are unique and thus deserve an approach designed specifically for you. At LFC, our method is not a formula or a static procedure, but a constantly evolving process designed to take full advantage of available resources and help you make decisions that will assist you in achieving your important goals.

Our typical client has the ability and human capital to grow their wealth and is committed to integrating both financial planning and investment management to meet their goals. Our experience has shown that clients that meet both of these criteria are poised to benefit most from our services. Clients have the ability to choose the services they receive from LFC, such as investment advisory only or financial planning only. Services are based on what is typically needed for an individual at various wealth levels. We anticipate that LFC will continue as an Investment Advisor to clients whose assets are declining in size (e.g. those clients that take regular distributions from their portfolio) until the asset size decreases to \$50,000. However, we will use our best judgment to determine if we believe a client can still benefit from our services at amounts different than the amount listed above.

LFC also provides services to:

- Trusts;
- Estates;
- Charitable organizations;
- Private equity;
- 401(k) and Defined Benefit Plans – investment selections only; and
- Corporations or other business entities.

LFC, in its sole discretion, can charge a lesser investment management fee and/or waive or reduce its minimum annual fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.)

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### ***OUR INVESTMENT STRATEGIES AND METHODS OF ANALYSIS***

LFC has an Investment Committee (IC) chaired by our Chief Investment Officer (CIO) that provides oversight and ensures consistency in overall investment strategy. This committee also discusses core investment themes relevant to how client portfolios are managed. The Partnership & Investment Group (PAIG) is an offshoot of the IC formed to manage and wind down the affiliated partnerships listed under *Item 10 – Illiquid Assets*. For certain clients who are sophisticated investors with generational capital, there is a separate servicing model with a different Family Capital Investment Committee (“FCIC”) for non-traditional investments and the occasional traditional investment. The FCIC has a similar overlap of individuals as the Investment Committee and generally utilizes the investment recommendations of the Investment Committee for traditional investments.

The Investment Committee is responsible for:

- Evaluating mutual funds, ETFs, separately managed accounts, hedge funds, individual stocks, bonds, and private illiquid investments.
- Structuring and upholding the due diligence process established for investments.
- Establishing macro and micro views.
- Setting portfolio construction and risk-based asset allocation guidelines.
- Periodically recommending portfolio actions.
- Underwriting investments based on reporting and risk parameters set by the committee.
- Establishing the monitoring and reporting process for selected investments.

Some of the factors the committee will consider when analyzing due diligence for investment strategies utilized include the following:

- A review of the diversification benefits of the investment, partnership, or fund.
- A review of the objective and constraints of the investment, partnership, or fund.
- A review of qualitative and quantitative factors of the investment, partnership or fund.
  - Qualitative factors include a review of available information regarding manager tenure, competitive profile, track record, and established history.
  - Quantitative factors include a review of available information regarding the investment, partnership, or fund’s risk/return profile, and correlation to relevant benchmarks and other investments.
- A review of the outlook of the manager and positioning of the investment, partnership, or fund.
- A review of potential investment risks and relevant documentation, potentially including a due diligence questionnaire (DDQ) and a manager's Form ADV.
- An assessment of the strength of third-party relationships, back office, and investor reporting capabilities.
- An assessment of tax efficiency and review of tax related documents.
- A review of fees, costs, or constraints such as availability, minimums, and terms.

LFC primarily utilizes the following fundamental investment strategies when implementing investment advice given to clients:

- Long-Term Purchases (securities held at least a year);
- Short-Term Purchases (securities sold within a year); and/or
- Trading (securities sold within thirty (30) days).

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

**Please Note: Use of Mutual Funds:** Most mutual funds are available directly to the public. Thus, a prospective client can obtain many of the mutual funds that might be recommended and/or utilized by LFC, independent of engaging LFC as an investment advisor. However, if a prospective client determines to do so, he/she will not receive LFC's initial and ongoing investment advisory services.

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

LFC's primary investment strategies – Long-Term Purchases, Short-Term Purchases, and Trading – are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer-term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter-term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, occasionally incur higher transactional costs when compared to a longer-term investment strategy. Trading (an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period) involves a very short investment time period but will incur higher transaction costs when compared to a shorter-term investment strategy, and substantially higher transaction costs than a longer-term investment strategy.

In addition to the fundamental investment strategies discussed above, LFC will also implement and/or recommend, as appropriate for client needs, margin transactions (use of borrowed assets to purchase financial instruments). Given the high level of inherent risk (*see discussion below*) associated with these strategies, LFC **does not** consider these transactions as a normal course of business. That being said, certain types of managers employed by LFC may utilize these strategies as a normal course of their business practices.

On occasion, an opportunity (new issue) becomes available to invest in a private company who has decided to go public through an Initial Public Offering (IPO). LFC does not recommend or allocate to new issues and does not expect to do so in the future. However, in the event there is a time in the future where LFC needs to allocate a scarce or limited number of shares during an IPO, and where some clients are eligible to place a conditional offer for purchase but there aren't sufficient shares to meet our client's indication of interest, then the Allocation Policy will follow these guidelines:

- Suitability: Degree which the investment will meet client's specific portfolio needs and objectives.
- Revenue: Client's with longer tenure and higher revenue will be given higher priority.

The size of a Client's indication of interest is not considered during the allocation other than the fact that we will not allocate more than the client requested or less than the minimum subscription amount.

In the event of a scarce investment opportunity, whether public or private, the investment team and a client's relationship team will work together to consider the unique needs of each of LFC's clients and distribute the opportunity among as many suitable clients as possible in a fair and equitable manner. LFC utilizes numerous factors to determine each client's suitability for any investment which includes scarce investment opportunities.

If after determining client suitability there are still more clients than the investment size, the allocation methodology will be done as fairly and equitably as possible, and allocations will be evaluated and ranked based on the following:

- Minimum investment size – Is the minimum investment size an appropriate risk allocation for the client?
- Client allocation size – Will a pro-rata allocation result in client allocations that are too small (in terms of dollars or percent of the client portfolio) to warrant an investment?
- AUM and fees by client and related accounts – Clients paying LFC a greater fee often receive more services due to their increased fee amount; as such, an investment would fall under these services.
- Tenure of client – We believe that longer-term clients have more experience with these types of investments and have reached a point where such an investment would be a better fit for their portfolio than those clients who have not been with LFC as long.
- Relationship with sponsoring entity – Clients who have a pre-existing relationship with the sponsoring entity will be given priority due to their familiarity with the investment.

- Client's historical participation in similar investment structures – We believe that clients who have shown a propensity to invest in similar types of investments would be a better fit for this in their portfolio rather than clients who don't have this history.

LFC uses trading software known as Advisor Rebalancer for client trading. We consolidate all trades for our clients and send them to their respective custodian, where they execute the trades as block orders. Advisor Rebalancer allocates the trades to the clients once executed. LFC recommends highly liquid securities for client portfolios and does not actively trade; as such, it is a rare event that purchases for a client's portfolio are not executed in full on the same day. In the rare event that a security block order can't be filled on a particular date in its entirety, LFC will, in most cases, allocate on a pro-rata basis. No client, despite their cash needs or specific circumstance, should be shown preferential treatment.

Availability of fixed income securities is limited. When fixed income securities are purchased, they will be allocated to accounts as equitably as possible. Fair allocation will be determined by evaluating the needs of each account, the characteristics of the bond, size of the position, and the appropriateness of the security relative to the overall risk and construction of the portfolio.

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin.

**Please Note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by LFC in the management of the client's investment portfolio, the market value of the client's account and could cause the corresponding fee payable by the client to LFC to be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the conflict of interest whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to LFC. Accordingly, the decision to employ margin is left to the discretion of the client.

On occasion, a client may apply for a loan from a banking institution (LFC does not lend money) and use their LFC account(s) as collateral for that loan if allowed by the bank. LFC generally does not recommend clients obtain such collateralized loans and, as such a recommendation is a conflict of interest. In the event the client desires to participate in a collateralized loan structure, LFC will work with the client and the banking institution to accommodate this request.

**Please Note:** To the extent that a client authorizes the use of an LFC account as collateral for a loan with a banking instruction, and such collateralization is accommodated by LFC, the market value of the client's account and the corresponding fee payable by the client to LFC has the potential to be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the collateralizing of their LFC account for a loan, clients authorizing such collateralization are advised of the conflict of interest whereby the client's decision to employ such a strategy *may* correspondingly increase the management fee payable to

LFC. Accordingly, the decision to employ collateralized account lending from a banking institution using their LFC account is left to the discretion of the client.

LFC recommends asset allocations based on a particular client's: economic situation, liquidity needs, risk tolerance, proposed investment period, need for diversification, reliance upon current income, present and anticipated tax situation. LFC also considers historical yields, potential appreciation and marketability before making investment recommendations. LFC recommends and manages many types of asset allocations, including: separately managed accounts, open ended mutual funds, private investment vehicles, ETFs, and exchange-listed securities and private placements of securities on a discretionary and/or non-discretionary basis in accordance with the client's designated investment objective(s).

## **ITEM 9 – DISCIPLINARY INFORMATION**

LFC does not have any legal, financial or other disciplinary items to report. We are obligated to disclose any disciplinary event that would be material to you when evaluating LFC to initiate a client/advisor relationship, or to continue a client/advisor relationship with LFC. This information applies to our firm and our employees.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### ***INDUSTRY AFFILIATIONS AND ASSOCIATIONS MEMBERSHIP OUR STAFF ARE MEMBERS OF***

- CERTIFIED FINANCIAL PLANNER™ (CFP®)
- CFA Societies Texas
- CFA Society of Dallas-Fort Worth
- Chartered Alternative Investment Analyst (CAIA)
- Chartered Advisor in Philanthropy® (CAP®)
- Chartered Financial Analyst (CFA) Institute
- Chartered Life Underwriter® (CLU®)
- Collaborative Law Institute of Texas
- Dallas Chapter of Certified Public Accountants
- Dallas Council of Charitable Gift Planners
- Dallas Estate Planning Council (DEPC)
- Dallas/Fort Worth Financial Planning Association (FPA)
- Entrepreneurs for North Texas
- Estate Planning Council of North Texas
- National Association of Charitable Gift Planners
- National Association of Personal Financial Advisors (NAPFA)
- National Financial Planning Association (FPA)
- Texas Society of Certified Public Accountants (TSCPA)
- Texas Tech Alumni Association
- Texas Tech Personal Financial Planning Alumni Advisory Board (PFP AAB)
- Young Presidents Organization (YPO)

## ***OTHER FINANCIAL INDUSTRY ACTIVITIES***

LFC serves as the General Partner, manager, or administrator to partnerships (*listed below*) that we offer or have offered in the past to our clients for investment purposes. LFC created these partnerships so our clients could participate in a broader investment universe within private investment opportunities for a lower minimum investment size than if our clients attempted to invest directly in the same assets individually.

**Please Note: LFC clients are not required to invest in any of our partnerships.**

As the General Partner of an affiliated fund, LFC typically receives an Investment Management Fee. Generally, LFC collects a management fee at the partnership level; client assets invested in those partnerships are not included in their billable assets to avoid the potential of overbilling. We view "double billing" on client assets invested in these affiliated partnerships and on total assets as a conflict of interest (described in *Item 5 – Fees and Compensation*). In an attempt to mitigate conflicts of interest related to this, we subtract the affiliated partnership assets from client billable assets. At LFC's discretion, we will administer the partnerships or hire a third-party administrator to manage the funds, and the partnerships pay for the administrative costs of the partnership.

For any partnership open to new investors, we've included the fees charged by LFC and the fees charged by the underlying managers in which the funds are invested. The partnership assets pay the fees charged by underlying managers. The fees charged by outside underlying managers are not shared with LFC in any way and are charged regardless if the client were to invest directly in that underlying asset or by utilizing one of LFC's partnership pools. Investment recommendations into partnerships are accompanied by a Private Offering Memorandum which describes all the terms and conditions.

The following section provides a listing of partnerships (by category) but is **not** an offering of partnership interests.



## ***LIQUID ASSETS***

### ***Funds Open to New Clients***

LFC manages and receives compensation (management fees and/or administration costs) on the following assets that are open to new investors.

LFC Alpha, Ltd. is a Texas Limited Partnership that will invest in First Tier Limited Partnerships, which will be organized to invest across the asset spectrum. The strategies employed by First Tier Investments include capital structure arbitrage, deep value-oriented, event-driven special situations, distressed, credit opportunistic and relative value. The First Tier Investments may invest globally across the debt capital structure, which includes performing or non-performing debt, distressed debt, structured products, sovereign debt, reorganizations and bank debt. The First Tier Investments might also invest in currencies, equities, futures, options, commodities and derivatives. The focus of the First Tier Investments is capital appreciation, while simultaneously preserving capital through strict risk management.

Prior to 2018, LFC served as general partner of LFC Alpha, Ltd. and received a management fee. In 2018, LFC transferred the majority of that partnership's underlying holdings to a master-feeder fund under the management of Infinity Capital Partners. LFC also transitioned administration duties for LFC Alpha, Ltd. to a third-party administrator, Essential Fund Services LLC. Due to the transition, LFC no longer receives a management fee from LFC Alpha, Ltd. Infinity Capital has waived its 0.50% management fee for LFC Alpha, Ltd. until the end of 2020.

Management fees payable by the LFC Alpha, Ltd. to underlying hedge funds generally range from 1.5% to 2% per annum of "assets under management" and from 0% to 20% of profits in respect of performance fees or allocations. Performance fees or allocations are subject to a "high water mark." Underlying hedge funds sometimes charge a fee on contributions and withdrawals.

LFC Alpha has one side-pocket investment in Highland Crusader L.P. This manager is paid a 2% management fee plus 20% of net appreciation of a Limited Partners (LP) account.

## ***ILLIQUID ASSETS***

LFC manages and/or administers the following bulleted assets that are closed to new investors. LFC receives compensation for such management and/or administration from the fund directly. LFC is the General Partner or manager of the assets listed below.

### ***Real Estate***

- LFC Borders, Ltd. – a Texas Limited Partnership
- LFC Century, Ltd. – a Texas Limited Partnership
- LFC Horizon, Ltd. – a Texas Limited Partnership
- LFC Island Partners, Ltd. – a Texas Limited Partnership
- LFC Province, Ltd. – a Texas Limited Partnership
- LFC Regions, Ltd. – a Texas Limited Partnership
- LFC Stanford, Ltd. – a Texas Limited Partnership
- LFC Target Performance Fund, Ltd. – a Texas Limited Partnership
- LFC Terra, Ltd. – a Texas Limited Partnership

### ***Energy and Infrastructure***

- LFC Energy Resources, Ltd. – a Texas Limited Partnership
- LFC Energy Royalty, Ltd. – a Texas Limited Partnership
- LFC Matrix Resources, Ltd. – a Texas Limited Partnership
- LFC Summit Resources, Ltd. – a Texas Limited Partnership

### ***Private and Other Investments***

- LFC Delta Fund, Ltd. – a Texas Limited Partnership
- LFC Novus, Ltd. – a Texas Limited Partnership
- LFC Omega, Ltd. – a Texas Limited Partnership
- LFC Orion, Ltd. – a Texas Limited Partnership
- LFC Quik Way Shell DFW, Ltd. (Level A and B) – a Texas Limited Partnership
- LFC Structured Settlement Fund, Ltd. – a Texas Limited Partnership.

**Please Note: LFC clients are under absolutely no obligation to consider or make an investment in any private investment fund(s).**

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client or prospective client may have regarding the above illiquid and liquid assets. You can reach her at (972) 960-1001.**

## ***POTENTIAL CONFLICTS OF INTEREST***

### ***Investments in LFC partnerships that relate to client investments or ownership***

Many LFC clients have significant and diverse business interests. LFC will on occasion invest in companies or entities where our clients are employed, hold ownership rights, or may be otherwise involved. A related and common occurrence of this would be if a client owned ABC stock or worked for ABC Company and LFC recommended ABC stock to other clients. Another example would be if a client who runs a real estate fund and one of LFC's affiliated funds invested in the client's real estate fund. Every investment is made on the merits of the investment opportunity; however, if a client holds an ownership interest or manages one of the funds, it can give the impression that LFC is investing partnership assets to benefit that client, which would be a conflict of interest. LFC has specific procedures in place to address this potential conflict by carefully scrutinizing and monitoring situations when this type of scenario comes up. If it is determined that a true conflict of interest exists, LFC will either choose not to participate in the investment or will notify the clients involved of the conflict.

**Please Note: LFC clients are under absolutely no obligation to consider or make an investment in any private investment fund(s).**

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client may have regarding this potential for conflict of interest. You can reach her at (972) 960-1001.**

### ***Retirement Rollovers-Potential***

A client or prospective client leaving an employer typically has four options regarding an existing retirement plan (and may engage in a combination of these options): (i) leave the money in the former employer's plan, if permitted, (ii) roll over the assets to the new employer's plan, if one is available and rollovers are permitted, (iii) roll over to an Individual Retirement Account ("IRA"), or (iv) cash out the account value (which could, depending on the client's age, result in adverse tax consequences). If LFC recommends that a client roll over his or her retirement plan assets into an account to be managed by LFC, such a recommendation creates a conflict of interest if LFC will earn an advisory fee on the rolled over assets. When acting in such capacity, LFC serves as a fiduciary under the Employee Retirement Income Security Act (ERISA).

**Please Note: LFC clients are under absolutely no obligation to rollover retirement plan assets to an account managed by LFC.**

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client or prospective client may have regarding the potential for conflict of interest presented by such rollover recommendation. You can reach her at (972) 960-1001.**

### ***Legal Representation***

Our corporate general counsel is Marty Lehman, an attorney with Palmer & Manuel, PLLP. Our corporate human resources (HR) counsel is Simon D. Whiting, an attorney with Burford & Ryburn, LLP. Our securities counsel is Tom Giachetti with Stark and Stark. On occasion, LFC continues to use its previous corporate council, Curtis Swinson with Malouf Nakos Jackson & Swinson, PC to prepare private placement memorandums and amendments required for partnerships where LFC is the General Partner. LFC clients occasionally request an attorney to assist them with legal issues, and LFC often recommends several different attorneys to clients, including Mr. Lehman, Mr. Whiting and Mr. Swinson for legal assistance on client specific matters. These matters may regard contracts or other business needs that are unrelated to our investment management practice. There is no incentive to recommend any of the above or any other attorney. However, clients should be advised that we also have a business relationship with Mr. Lehman, Mr. Whiting and Mr. Swinson.

### ***Income Tax Preparation***

LFC utilizes the services of Tim Carmody, CPA for its income tax returns and all tax returns for which LFC serves as General Partner of an affiliated partnerships. LFC clients occasionally request a CPA to assist them with federal or local tax issues, and LFC often recommends several different CPAs to clients, including Mr. Carmody for tax assistance on client specific matters. These matters may regard federal income tax returns, state income tax returns or other tax needs that are unrelated to our investment management practice. There is no incentive to recommend Mr. Carmody or any other CPA. However, clients should be advised that we also have a business relationship with Mr. Carmody.

**Please Note: LFC clients are under absolutely no obligation to consider an engagement of any recommended professional.**

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client may have regarding this potential for conflict of interest. You can reach her at (972) 960-1001.**

### ***Fiduciary Appointments***

On occasion, when requested by a client and with CCO or DCO approval, an employee can serve in their individual capacity as a trustee for a trust created by or for the benefit of a client. There are also times, when requested by a client and with CCO or DCO approval, an employee can serve as an appointed agent for a client's financial matters through a durable or springing power of attorney document. Conflicts arise in these roles when a trustee or agent decision would result in an increase to the fee the client pays to LFC.

### ***Board Seats***

Richard R. Lee, Jr. is a member of the Advisory Board of Wynne/Jackson Inc. a real estate development firm located in Dallas and is compensated for his services. Some clients of LFC may be owners or employed by Wynne/Jackson Inc. He also serves on the Strategic Advisory Committee for the CFA Society of Dallas-Fort Worth. Mr. Lee is not compensated for his services.

Danny R. Boyce is a Trustee of the Phillip Dorr Endowment Fund at Baylor University. He is not compensated for his services.

Jaime N. Boyles serves on the Texas Tech Personal Financial Planning Alumni Advisory Board (PFP AAB). She is not compensated for her services.

Shirley A. Ogden serves on the CFA Society of Dallas-Fort Worth Board of Directors and the CFA Societies Texas Advocacy Committee. She is not compensated for her services.

William A. Luckey II is a manager of DFW Secure, LLC; DFW Secure, LLC is the owner of a Signal 88 Security franchise in the Dallas Fort Worth metroplex; a client of LFC is also a manager and member of DFW Secure, LLC. He is reimbursed for expenses incurred in the performance of his duties. Bill is also a member of the Board of Directors of Promontory Insight, LLC, a private company in which an LFC client owns an interest. He is reimbursed for expenses incurred in the performance of his duties.

### ***Ownership in Client Related Businesses or Funds and Other Compensation***

Shirley A. Ogden is also employed by Tim Carmody, CPA, assisting with tax return review, tax research and tax planning. Tim Carmody serves as the CPA for LFC and prepares the tax returns for which LFC is General Partner. Shirley's employment by Tim Carmody creates a potential conflict of interest and, while we don't think it is material, we are mitigating the potential by disclosing her participation.

William A. Luckey II is a 5 percent owner, manager and member of DFW Secure, LLC; DFW Secure, LLC is the owner of a Signal 88 Security franchise in the Dallas Fort Worth metroplex; a client of LFC is also a manager and member of DFW Secure, LLC. He is reimbursed for expenses incurred in the performance of his duties. Bill is also a 7.5 percent owner and member in 18<sup>th</sup> & Vine, a Texas LLC which owns and operates a restaurant in which an LFC client owns an interest. Outside of his employment with LFC, Bill also provides real estate consulting and financing for compensation. Service in these roles could create a potential for conflicts of interest, and while we don't think it is material, we are mitigating the potential by disclosing his participation.

### ***LFC Management's Ownership in Entities***

LFC Holding Co. was formed in 2016 and is owned jointly by Richard R. Lee, Jr. and Dana L. Pingnot, principals of LFC. LFC Holding Co. is a majority owner of LFC.

LFC Holding Co. holds an interest in LQP Collateral Company, LLC, which was formed in 2012 and holds investments in a number of LFC and outside partnerships, as well as cash. The partnerships owned by LFC Holding Co.: LFC Structured Settlement Fund, LFC Island Partners and LFC Province. The partnerships owned by LQP Collateral Company, LLC are: Hall-Houston Exploration Fund III, Ltd., Hall-Houston Exploration Fund IV, Ltd., LFC Alpha, Ltd., LFC Borders, Ltd., LFC Energy Royalty, Ltd., LFC Island Partners, Ltd., LFC Matrix Resources, Ltd., LFC Novus, Ltd., LFC Province, Ltd., LFC Quik Way Shell DFW, Ltd., and LFC Summit Resources, Ltd.

Some LFC employees are invested in one or more of LFC partnerships including:

- LFC Alpha, Ltd.
- LFC Assignment Fund, Ltd.
- LFC Borders, Ltd.
- LFC Century, Ltd.
- LFC Delta Fund, Ltd.
- LFC Energy Resources, Ltd.
- LFC Horizon, Ltd.
- LFC Island Partners, Ltd.
- LFC Matrix Resources, Ltd.
- LFC Orion, Ltd.
- LFC Province, Ltd.
- LFC Quik Way Shell DFW, Ltd. (Level B)
- LFC Regions, Ltd.
- LFC Stanford, Ltd.
- LFC Structured Settlement Fund, Ltd.
- LFC Terra, Ltd.

### ***Valuations***

If LFC references private investments owned by a client on any client statements prepared by LFC, the values of such private investments will rely on information provided by the underlying investment managers of such private investments. This information is generally based on the most recent valuation period. These valuations are often prepared according to the documents that govern the private investments. LFC considers this to be a reliable representation of fair value. However, in certain circumstances, LFC will estimate the value of such investments based on available reliable information it considers material. On occasion, LFC will independently provide adjustments to supplied net asset valuations where in our best judgment we cannot verify its accuracy or where liquidity is restricted. Because of the potential uncertainty found in the valuation process for private investments, the estimated fair values used for these investments will in some cases differ significantly and/or materially from values later realized upon the actual liquidation of the investments.

We reference ASC Topic 820-10 (*see below*) for guidance in cases where LFC adjusts information supplied by the underlying investment manager of private investments or makes the fair value determination in situations where fair market value (FMV) information is not supplied by the underlying investment manager.

#### Fair Value of Financial Instruments

The Financial Accounting Standards Board (FASB) and the Accounting Standards Codification (ASC) Topic 820-10 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used.

The three levels are defined as:

- Level 1 — Observable inputs that are based on quoted market prices for identical assets or liabilities in active markets.
- Level 2 — Observable inputs (other than Level 1) that are based on quoted market prices for similar assets or liabilities, quoted prices in inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.
- Level 3 — Inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

#### *National Advisor Trust Company (NATC) Ownership*

LFC has an immaterial ownership in National Advisor Trust Company (NATC), which sometimes serves as a custodian or trustee for our clients. Please see *Item 15 – Custody* for more details on this relationship.

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client or prospective client may have regarding the above potential conflicts of interest and disclosures. You can reach her at (972) 960-1001.**

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

### ***CODE OF ETHICS***

We owe you a fiduciary duty while conducting your affairs to avoid:

- Serving our personal interests ahead of yours;
- Allowing employees to take inappropriate advantage of their position with the firm; and
- Actual or potential conflicts of interest or abuse of a position of trust and responsibility.

Our name and reputation are a direct reflection of the conduct of our employees. The purpose of our Code of Ethics is to avoid activities that could lead to, or give the appearance of, conflicts of interest, insider trading, and other forms of prohibited or unethical business conduct. According to Section 206 of the Advisers Act, we are prohibited from engaging in fraudulent, deceptive, or manipulative conduct. We are subject to the following fiduciary obligations during our relationship with you:

- The duty to provide a reasonable and independent basis for our investment advice;
- The duty to obtain the best execution whenever we direct your brokerage transactions;
- The duty to ensure our investment advice meets your individual objectives, needs and circumstances; and,
- A duty to be loyal to you, and act solely in your best interest.

We require our employees possess certain qualifications of experience, education, intelligence, and judgment. All employees are expected to demonstrate the highest standards of moral and ethical conduct. Our Code is distributed to each employee at the time of hire and annually thereafter. We supplement our Code with annual training and continuous monitoring of employee activities.

### ***PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS***

On occasion, we recommend that a client buys or sells equity securities or investment products in which our firm or employees have some financial interest. This could create a potential conflict of interest. To avoid conflicts of interest, we do not trade in conflict with the investment interests of our clients.

Since holding an employee's trade until after a client trade is placed could allow an employee trade to be executed at a better price, employee trades (for those employees whose accounts are managed by an LFC Portfolio Manager) are treated the same as clients. Most days, LFC only trades once at the end of the day. For a particular investment (ETF's most likely), LFC block trades and everyone gets the average price. No client or employee is favored.

Our employees must have prior approval from our Chief Compliance Officer (CCO) or Designated Compliance Officer (DCO) before they can invest alongside clients in partnerships or other private investments. Prior approval is based, in part, on whether the partnership is illiquid or liquid. For illiquid partnerships, shares are limited; therefore, LFC clients receive first priority to invest. After



LFC clients are given first priority, employees may invest alongside our clients' partnership interests. For liquid partnerships, shares are unlimited, so employees may generally invest alongside clients' partnership interests.

### ***PRE-CLEARANCE FOR EMPLOYEE SECURITY PURCHASES***

LFC defines all employees as access people, thus requiring prior approval from our CCO or DCO for the personal purchase or sale of all equity securities. Approved transactions must be completed within twenty-four (24) hours of approval. Employees are prohibited from seeking approval for an equity security transaction after the transaction has been made.

Pre-clearance requirement exceptions for employees are made if a signed written agreement is in place between the employee and the employee's portfolio manager stating that the portfolio manager will NOT take any client directed trades from a client without preclearing this trade with the employee's compliance department first. If the employee's portfolio manager is also an employee of LFC, then the LFC trader must also sign the written agreement.

Our CCO or DCO monitors employee transactions to avoid transactions that are in conflict with our Code of Ethics, which includes front running a trade. An example of front running is, if an employee personally buys a stock before LFC purchases that stock for our clients, the employee could gain from an increase in the value of the stock when our clients purchase it.

### ***PERSONAL TRADING - REPORTING REQUIREMENTS***

Rule 204-2(a)(12) of the Advisers Act requires employees to report their personal securities transactions within thirty (30) calendar days following the end of each quarter. Employees are also required to provide initial and annual holdings reports and are encouraged to request their broker-dealer or custodian send duplicate trade confirmations of all securities transactions to our CCO. If the broker-dealer **does not** send trade confirmations by mail (such as internet-based broker-dealers), the employee is required to provide copies of trade confirmations of reportable transactions from their accounts.

Your interests are placed ahead of our employee interests. If we determine that an employee transaction is likely to have a material impact on market prices, then your transactions are completed before any LFC employee transaction is allowed. An example of this would be mass purchasing or selling of a security for our client accounts. We do not allow managed employee accounts to participate in this as we don't want employees to get better pricing from the earlier trades. In such an instance, the employee trades will be pushed to the following trading day.

For employees, whose accounts are not managed by an LFC employee, the trader confirms whether a client trade in that security is pending. If so, the trader pushes the trade through before the employee is approved to trade in that particular security.

Employees are allowed to trade in open-end mutual funds simultaneously with you since transactions in mutual funds are not competitively priced.

LFC **does not** purchase securities from clients nor do we sell securities to clients. We refrain from personally holding client funds or securities or acting in any capacity as a custodian for client accounts. A custodian is a bank, trust company, or other organization that holds and safeguards an individual's investment assets for them. We are prohibited from borrowing money or securities, or lending money to clients.

Outside employment, directorships, or other business activities by employees are allowed as long as they do not interfere with, are material to, or compete with the company or their employment activities at LFC. All of our employees are required to disclose to LFC if they are involved in any outside employment activities and interests. All new LFC employees sign a confidentiality agreement with the firm at the time of employment. All LFC employees are required to sign the Code of Ethics each year.

Any LFC employee that violates our Code of Ethics and other policies and procedures will be subject to the firm's corrective action policies, including possible termination of employment.

**Please contact our Chief Compliance Officer, Patricia Stoll, for a copy of our Code of Ethics if you want additional details. You can reach her at (972) 960-1001.**

## ITEM 12 – BROKERAGE PRACTICES

### ***SELECTING BROKERS***

If a client requests that LFC recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that direct LFC to use a specific broker-dealer/custodian), LFC recommends that investment management accounts be maintained at *Fidelity*, *NATC*, and/or *Schwab*. Before engaging LFC to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with LFC setting forth the terms and conditions under which LFC shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/custodian (account application).

Factors that LFC considers in recommending *Fidelity*, *NATC*, and/or *Schwab* (or any other broker-dealer/custodian to clients) include a historical relationship with LFC, financial strength, reputation, execution capabilities, ease of administration/management, security, pricing, research, and service. Although the commissions and/or transaction fees paid by LFC's clients shall comply with LFC's duty to obtain the best execution, a client will on occasion pay a commission/fee that is higher than another qualified broker-dealer might charge to effect the same transaction where LFC determines, in good faith, that the commission/transaction fee is reasonable. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although LFC will seek competitive rates, it will not always obtain the lowest possible commission rates for client account transactions. The brokerage commissions or transaction fees charged by the designated broker-dealer/custodian are exclusive of, and in addition to, LFC's investment management fee. LFC's best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close.

### Research and Additional Benefits

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, LFC *could* receive from *Fidelity*, *NATC*, and/or *Schwab* (or another broker-dealer/custodian, investment manager, platform or fund sponsor) without cost (and/or at a discount) support services and/or products, certain of which assist LFC to better monitor and service client accounts maintained at such institutions. For example, LFC *sometimes* receives support services including investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by LFC in furtherance of its investment advisory business operations.

As indicated above, certain of these support services and/or products assists LFC in managing and administering client accounts. Others do not directly provide such assistance, but rather assist LFC to manage and further develop its business enterprise.

LFC's clients do not pay more for investment transactions effected and/or assets maintained at *Fidelity*, *NATC*, and/or *Schwab* as a result of this arrangement. There is no corresponding commitment made by LFC to *Fidelity*, *NATC*, and/or *Schwab* (or any other any entity) to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

Electronic Confirmations/Account Statements:

*Fidelity*, *NATC*, and *Schwab* offer reduced transaction fee charges to clients who elect to receive electronic trade confirmations and account statements rather than by regular mail. Unless you advise LFC to the contrary, in writing, LFC will advise the custodian that the client elects to receive electronic trade confirmations and account statements.

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements. You can reach her at (972) 960-1001.**

***TRADING METHODS***

As appropriate, we will aggregate orders for the purchase or sale of securities when executing trades across multiple client accounts. When we execute trades for multiple client accounts at the same time, we want to acquire the best price for all of our clients. We maintain the discretion to either aggregate trades or not aggregate as appropriate. For example, due to the size of an order or the liquidity in a particular security, we will execute some orders over a period of time. In this case, the price can either increase or decrease during the time it takes to complete the entire order. Majority of times orders are filled on the same day and have different prices. Trades executed at a particular custodian are compiled to an average price and then allocated to clients. There are occasions where trades are placed and allocated as entered, where averaging of prices **does not** occur such as those directed by a client, or certain trades are executed outside of normally grouped trading of multiple accounts.

On occasion, clients will pay additional commissions on Over-the-Counter (OTC) Trades, or trades in foreign markets. OTC Trades are marketable securities that trade "by appointment" only. These are not traded on an open exchange and cannot be readily purchased and sold. To make an OTC trade, the trader must first contact a "dealer" who creates a market for the trade(s) and charges a fee for connecting buyers and sellers. OTCs are usually needed when the market for a security is not adequate; this typically occurs with securities that have very light volume or a small supply.

### ***CLIENT-DIRECTED TRADING AND DIRECTED BROKERAGE***

From time to time, clients direct LFC to place unsolicited trades for them in LFC managed accounts by specific verbal request per trade. Unsolicited trades are trades in securities that we did not recommend or research. On occasion, we provide this service for the convenience of our clients but do not recommend it or offer it as a routine part of our services. Clients who frequently direct trades may receive letters from our Compliance Department reminding them that this was not a recommended purchase or sell by LFC, is not being monitored by LFC, and the responsibility of such purchase or sell remains with the client.

Some clients request directed brokerage for trades affected in their accounts. Directed brokerage is whenever a client requests trades being handled through a specific broker. Those clients will potentially be charged higher commissions and/or fees than the negotiated fees and discounted commissions LFC has established with other broker-dealers or custodians, can limit a client's ability to participate in block trading, and/or limit LFC's ability to achieve the best execution.

## **ITEM 13 – REVIEW OF ACCOUNTS**

Each investment advisory account is normally reviewed and analyzed by our Senior Portfolio Managers on a quarterly or as needed basis. Your accounts are analyzed to determine if they are being managed according to your objectives. Investment selections are reviewed with your entire portfolio's objectives in mind. Portfolio performance, risk profile, potential tax effects, and cash flows are also analyzed. Typical events that may cause LFC to re-analyze your accounts more often than a quarterly basis include:

- Death of a spouse, parent, child, or another immediate family member;
- Marriage or divorce;
- Birth or adoption of a child;
- Disability;
- Purchase or sale of a business;
- Change in employment status; and/or
- Market dislocation or correction.

Accounts are reviewed within the context of “The Prudent Man Rule” and “The Prudent Investor Rule.” The Prudent Man Rule requires an advisor to act with caution, discretion, loyalty, and care when reviewing a financial plan. However, this Rule **does not** restrict the investment of assets. The Prudent Investor Rule applies this standard of responsibility to the entire portfolio rather than to just individual investments. It also identifies the central trade-off between risk and return in a portfolio.

All clients receive mailed or electronic statements directly from the custodians monthly or quarterly. Additionally, clients that are invested in private investments, not custodied at a qualified custodian are provided an updated portfolio statement prepared by LFC on a quarterly basis. Information contained in the LFC prepared quarterly reports account performance, holdings, and transactions for individual and consolidated accounts for each quarter and year-to-date. Portfolio information is also available on our website. Furthermore, LFC mails and/or post to our client portal the client’s quarterly invoice for their management fees.

## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

We have numerous sources of client referrals including our existing client base, collaborative partners, business associates, other advisory firms, and friends and family members. We do not offer or accept any form of compensation for referrals of potential clients to our firm except, in certain circumstances, those that come from current employees of LFC.

## ITEM 15 – CUSTODY

We request that clients utilize independent qualified custodians or broker-dealers to hold their assets (i.e., cash, securities, etc.). An independent custodian is a financial institution not affiliated with LFC that has the legal responsibility for safeguarding your securities. We use the following custodians:

- Schwab;
- Fidelity;
- National Advisors Trust Company (NATC)
- TD Ameritrade; and
- Matrix Trust

You may have an account with one or more of these (or other) custodians. Your custodian(s) will send you a monthly or quarterly statement. If invested in non-registered assets, LFC will send you statements on a quarterly basis that contain some of the same information on your custodian statements.

We urge our clients to review and compare account statements received from their independent qualified custodians to those provided by LFC for accuracy. The comparison of non-registered assets listed on the statements will depend on the independent qualified custodian's determination of whether they can hold those assets and if the asset has been purchased through the custodian. Non-registered assets include partnerships such as real estate, private equity, or hedge funds and would include, but is not limited to those where LFC serves as the General Partner. Non-registered entities where LFC serves as the General Partner will send audited financial statements upon completion each year. Custodians typically charge additional fees for non-registered assets.

### ***NATIONAL ADVISORS TRUST COMPANY (NATC) /CONFLICT OF INTEREST***

LFC is a shareholder of National Advisor Holdings, Inc. (NAH), a Delaware corporation organized in August 1999. LFC holds less than 1.0% in the aggregate of the outstanding stock of NAH. NAH has chartered an institution through the Office of Thrift Supervision known as National Advisors Trust Company (NATC). NATC provides custody, banking, and trust services to clients of registered investment advisory firms, such as LFC, across the United States. Dana Pingent (President, LFC) is a former member of the NATC Board of Directors and Trust Committee.

Because LFC has an interest in NAH, and therefore indirectly has an interest in NATC, a small amount of the fees earned by NATC may accrue to the benefit of shareholders and thus create a conflict of interest. The LFC ownership percentage is not a material amount to LFC or NATC. Both LFC and NATC entities are completely independent operationally from each other. LFC recommends NATC to certain clients for custody and trustee services when LFC determines NATC's services are appropriate for those clients.

Our clients make their own determination to use custodial or trust services provided by NATC and can choose to use another custodian and still retain LFC to provide investment advice.

**LFC has Custody:** LFC engages in practices and/or services on behalf of its clients (*see prior disclosure regarding Trustee Services and serving as the General Partner of various affiliated private investment funds*) that require disclosure in the Custody section of Part 1A of Form ADV (*found online*). Practices and/or services are subject to an annual surprise CPA examination in accordance with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940, and/or an annual certified financial audit by a PCAOB certified public accountant.

**ANY QUESTIONS: LFC's Chief Compliance Officer, Patricia Stoll, remains available to address any questions that a client or prospective client may have regarding custody-related issues. You can reach her at (972) 960-1001.**

## **ITEM 16 – INVESTMENT DISCRETION**

Trading discretion is used to assist in a timely portfolio management process between when investment decisions are made and can be executed. Trading discretion means that LFC will place trades on your behalf in your accounts at will and without additional permission granted by you. You give LFC discretionary authority to trade securities on your behalf by signing a Power of Attorney. You have the ability to place restrictions on your accounts to limit this authority by restricting particular securities, types of securities by industry, or whole asset classes (e.g. ABC stock, energy stocks, all stocks); all restrictions of securities must be submitted in writing to LFC.

Discretionary authority includes, but is not limited to:

- Which securities are traded (bought or sold);
- The amount of securities purchased or sold;
- Which broker-dealer is utilized if executed outside of custodian platform; and/or
- What commission rates are paid (if negotiable).

**Please Note:** LFC will not take discretionary authority or exercise control over any private investment transactions, such as purchase or sale of partnership interests. Investments made in private assets are done only by direct and written client approval on each investment.



## **ITEM 17 – VOTING CLIENT SECURITIES**

To the extent authorized to do so by the client, LFC shall vote proxies for client securities consistent with LFC's proxy voting policies.

LFC frequently assists clients in completing applicable forms and compiling the necessary documentation to grant the custodian authority to send proxy materials directly to LFC. These instructions are generally incorporated into the custodian's account application, which is completed by the client when a new account is opened.

Our designated Investment Analysts responsible for proxy voting will review the proxy materials, and vote proxies in a manner that we believe is consistent with enhancing the economic and/or social value of the underlying investment. Investment Analysts will generally vote in favor of routine corporate proposals such as the election of directors and selection of auditors, absent any conflicts of interest that arise due to a director's outside activities or an auditor's non-audit services. Proxies are typically voted the same way for each client and completed in a timely manner. Additionally, clients can provide LFC instructions on how they would like LFC to vote their proxies on their behalf, and request information on how we voted their securities by contacting a member of their client relationship team.

Non-routine corporate proposals include matters involving corporate governance and capital structures, adoption and/or amendments to incentive and compensation plans, social issues and/or corporate responsibility, and mergers and acquisitions (M&A) transactions. In addition to proxy materials, Investment Analysts gather additional information on these non-routine corporate proposals from news services and SEC filings to make informed voting decisions. Our Investment Analysts will also review board recommendations and their appropriateness for each of the proposals. With regard to M&A transactions, our Investment Analysts will also perform additional research as needed on proposed takeover valuations, including utilizing the opinions of independent shareholder advisory firms and/or large shareholders in formulating voting decisions. This can also include an evaluation of how the investment has performed under specific client ownership and, if reasonable, value can be realized from the proposed transaction.

### ***CONFLICTS OF INTEREST***

Conflicts of interest potentially arise when a proxy represents a public company for whom we:

- Manage that company's pension plan;
- Administer that company's employee benefit plan; and/or
- Manage money for an employee group of that company.

It would be a conflict of interest if an LFC employee is a close relative of, or has a personal or business relationship with:

- An executive or director of a company;
- A person who is a candidate to be an executive or director of a company; and/or
- A participant in a proxy contest vote.

As conflicts are identified, our Investment Analysts will make a decision to either have other designated LFC employees vote the proxy or forward the proxy directly to the clients for them to vote the proxy. Investment Analysts responsible for voting proxies are required to report to LFC's CCO any attempts by LFC employees to influence proxy voting decisions that are inconsistent with the best interests of our clients. If one of LFC's Executive Officers or Management Team members is the person attempting to influence proxy voting, that conflict should be reported to one or more of our other Executive Officers or Management Team members. The Investment Analysts are required to report to the CCO all conflicts of interest that arise in connection with proxy voting decisions and any conflicts that occurred in the past that has come to their attention.

#### ***PROXY VOTING RECORDS AND REQUESTS FOR PROXY VOTING INFORMATION***

LFC uses a third-party proxy voting service, Broadridge ProxyEdge, to electronically vote client proxies when available. LFC maintains:

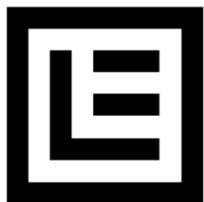
- Documentation of proxy voting records and any material used in making proxy voting decisions;
- Client requests for information as to how we voted a particular proxy, and a copy of the response from LFC to any requests for information; and
- Proxy voting policies and procedures.

A copy of our proxy voting procedures, proxy voting records and any supplemental documentation material, if applicable, is available to clients upon request to our CCO.

#### **ITEM 18 – FINANCIAL INFORMATION**

We do not have any financial conditions limiting our ability to serve you throughout our relationship.

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# LEE FINANCIAL

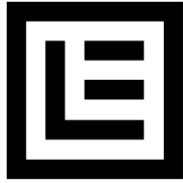
We are pleased to provide you with a copy of our current Form ADV, which contains important information about our firm and the services we offer to you. We are providing the information in accordance with Rule 204-3 of the Investment Advisers Act of 1940 that requires a registered investment adviser to supply a written disclosure document to individuals before entering any advisory relationship. You may request additional detailed information about the content contained in this brochure by contacting our Chief Compliance Officer (CCO), Patricia Stoll, at (972) 960-1001.

Thank you for choosing Lee Financial Company.

Respectfully yours,

A handwritten signature in black ink that reads "Dana L. Pingenot". The signature is written in a cursive, flowing style.

Dana L. Pingenot, CFP<sup>®</sup>, CLU  
President



# LEE FINANCIAL

## FORM ADV 2019 RECEIPT

I acknowledge receipt of Lee Financial Company's Amended Form ADV dated November 15, 2019 on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Printed Name*

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Printed Name*

**Please date, sign, and return this receipt to:**

Email: [pstoll@leefin.com](mailto:pstoll@leefin.com)

Or

Mail to: Lee Financial Company  
Attn: Compliance Department  
8350 North Central Expressway, Suite 1800  
Dallas, Texas 75206