

[Item 1 – Cover Page](#)

**ADV Part 2A: Firm Brochure**

**SMITH AFFILIATED CAPITAL CORP.**

88 Pine Street  
Wall Street Plaza, 5<sup>th</sup> Floor  
New York, New York 10005

Telephone: 212-644-9440  
[WWW.SMITHCAPITAL.COM](http://WWW.SMITHCAPITAL.COM)

Revised Brochure: 09/25/2017

This brochure provides information about the qualifications and business practices of Smith Affiliated Capital Corporation ("SAC"). If you have any questions about the contents of this brochure, please contact us at (212) 644-9440 or by email at: [info@smithcapital.com](mailto:info@smithcapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Smith Affiliated Capital is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about SAC is also available on the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). In addition, the SEC's website provides information about any persons affiliated with Smith Affiliated Capital who are registered, or required to be registered, as investment adviser representatives.

## Item 2 - Material Changes

The following is a summary of the material changes which have occurred since our last delivery or posting of this document on the SEC's public disclosure website (IAPD) on March 31, 2017. Material changes that occurred from our last posting through September 27, 2017 are as follows:

## Item 5 – Fees and Compensation

Additional Fee Schedule has been added as of June 30, 2017:

<b>Preferred Stocks</b>	<b>Annual Fee</b>
First \$500,000 - \$1,000,000	50 basis points (.50 of 1%)
Next \$1,000,00 - \$3,000,000	45 basis points (.45 of 1%)
Next \$3,000,000 - \$5,000,000	40 basis points (.40 of 1%)
Minimum Fee \$3,000	
Negotiated fee rate on market value in excess of \$5,000,000	

## Item 8 – Methods of Analysis, Investment strategies and Risk of Loss

The Preferred Stock Strategy was added 6/30/2017. Please see Item 8 for additional information on this strategy.

## Part 2 B

Maria Smith assumed the role as Chief Compliance Officer effective 9/25/2017 replacing John Smith as CCO for Smith Affiliated Capital Corp. John will be retiring from the firm effective October 2017.

You may request the most recent version of our brochure, at any time, without charge by contacting Maria Smith, Compliance Officer or Christina Coster, Manager of Client Service at (212) 644-9440.

### Item 3 - Table of Contents

Item 1	Cover Page	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4-6
Item 5	Fees and Compensation	7-10
Item 6	Performance Based Fees and Side-by-Side Management	10
Item 7	Types of Clients	10
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	11-15
Item 9	Disciplinary Information	15
Item 10	Other Financial Industry Activities and Affiliations	15-16
Item 11	Code of Ethics	16-17
Item 12	Brokerage Practices	18-19
Item 13	Review of Accounts	19
Item 14	Client Referrals and Other Compensation	19-20
Item 15	Custody	20
Item 16	Investment Discretion	21
Item 17	Voting Client Securities	21
Item 18	Financial Information	22

## Item 4 - Advisory Business

Smith Affiliated Capital Corp. ("SAC") founded in 1982 by Robert G. Smith, Ph.D. is a registered investment advisory firm based in New York City. Smith Affiliated Capital Corp ("SAC") known as the "firm" in this document, is a wholly owned subsidiary of Smith Affiliated Ventures L.L.C. ("SAV") a limited liability company registered in the State of New York and owned by senior management employees. Smith Affiliated Capital Corp (a "C" Corp) is the investment adviser and operating entity of SAV.

SAC provides investment advice for separately managed portfolios of high net worth individuals, institutions, public and corporate retirement plans, corporations, foundations and government entities. SAC has numerous investment styles to meet individual client needs using high quality taxable and tax-exempt fixed income securities as well as equity accounts using individual stocks and ETFs. Investment strategies can be tailored to meet a variety of investment constraints and objectives. We pride ourselves on being honest and transparent in our dealings with clients, their consultants, tax advisors and across our organization.

Our services can be further tailored to meet a client's imposed near and long-term liabilities, cash management, liquidity or asset allocation restrictions.

Please see Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss, for more information on these styles.

As of 12/31/16, SAC manages \$2,006,100,997 billion in discretionary AUM for its clients. SAC also advises several hundred million in AUM for our Advisory clients which are not included in our firm AUM.

We offer our management services on a fee basis as a percent of assets under management. Please see Item 5-Fees and Compensation for more information. Prior to engaging SAC, the client will be required to enter into a written agreement setting forth the terms, conditions, and objectives under which we shall render our services (the "Agreement") as well as the fees for our management services. Additionally, SAC does not custody client assets and as such our power is limited to the buying and selling of securities in a client's account and in accordance with a client's investment policy statement (IPS). The implementation of our investment management begins once the client has informed the custodian of our limited power to investment on their behalf. Clients are advised to promptly notify us if there are ever any changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon our advisory services.

### **Discretionary Management Services**

When participating in our discretionary services, we have the authority to make investment decisions on behalf of our clients, including which securities to buy and sell (referred to as "discretionary authority") consistent with each client's objectives and guidelines. Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold without approval prior to each transaction. Our discretionary authority can be limited by the written IPS that is provided to SAC, or designed and agreed upon by the client at the inception of SAC's advisory services.

SAC separately manages investment portfolios to meet each individual client's stated objectives, goals, and risk tolerances, taking into consideration each client's need for liquidity, safety, income, and growth and

any other relevant information (the "suitability information") at the beginning of our advisory relationship. We use the information gathered in our discovery phase to develop a strategy, and if not provided, to design an investment policy statement (IPS) that enables our firm to provide continuous and focused investment advice and/or to make investments on your behalf.

Typically, portfolios will align with one or more of our investment strategies as illustrated by our investment composites.

Portfolio investments and performance are actively managed and monitored on an ongoing basis. Portfolios are rebalanced as required by changes in market conditions and/or a client's financial circumstances. Any changes to the original IPS based on the stated circumstances are also documented within our client files by one of the associated persons of our firm.

SAC does not participate in any wrap fee programs at this time.

### **Non-Discretionary Management Services**

SAC offers non-discretionary management services under conditional trading authority with a highly customized or limited ability, to implement SAC's broad market investment strategies. In most cases SAC has limited control of investment management decisions.

Our non-discretionary services can include the following services: asset allocation, liability analysis, investment policy consulting, tax-efficient investment planning, crossover investing, second opinions, investment diagnostics, portfolio monitoring, and investment execution.

### **Advisory Services**

SAC's advisory services provide the following types of services intended purely for guidance and education. These services are usually provided to individuals or institutions where investment advice is provided to the client and acted upon by the client, rather than at the discretion of SAC. These customized services are but not limited to:

- *Plan-specific or funding information, liability analysis, and actuarial review* include the benefits of increasing contributions and other information, such as details on the available investment options (e.g., each risk and return characteristics, historical return information, prospectus).
- *General financial and investment education* informs clients about investing concepts such as types of risk (market, inflation, etc.), diversification, dollar cost averaging, compounding, etc. This category also includes general information about asset classes as well as determining time horizons, risk tolerance levels, and retirement income needs.
- *Asset allocation modeling* provides clients with examples of diversified portfolios based on certain investor profiles. This information may include charts, spreadsheets, and/or case studies that pertain to hypothetical individuals with differing time horizons and risk profiles.

### **Limited Consulting/Implementation Services**

Although SAC does not hold itself out as providing financial planning services, to the extent, specifically requested by a client, SAC may provide limited consultation services to its investment management clients

on investment and non-investment related matters, such as estate and tax planning and insurance that are generally ancillary to the investment management process. Any such consultation services, to the extent rendered, shall be rendered exclusively on an unsolicited basis. SAC **may** at some point determine to charge a fee for such consulting services. SAC does not serve as an attorney, accountant, or licensed insurance agent, and no portion of SAC's services should be construed as offering the same.

To the extent requested by a client, SAC may from time to time, recommend the services of other professionals for certain non-investment purposes, such as attorneys and accountants. The client is under no obligation to engage the services of any recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from SAC.

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

## **Item 5 - Fees and Compensation**

### **Advisory Fees and Compensation**

Smith Affiliated Capital charges an investment advisory fee in accordance with the fee schedules below. Our management fee is subject to negotiation depending on individual client circumstances, such as asset size, liquidity needs, number of accounts per individual relationship, and other such factors that is required to meet the mutually agreed-upon stated objectives in the investment objectives stated in the Investment Policy Statement of the client (IPS).

All fee arrangements will comply with Section 205 of the Advisers Act. We reserve the right to waive the advisory fee for certain accounts such as employee accounts.

SAC reserves the right to waive the minimum fee and or impose a minimum account size for certain investment strategies. SAC also reserves the right to negotiate lower fees. The management fee is not based on capital appreciation or performance of any type.

### **Quarterly bills for existing accounts**

Our fee is billed and payable on a quarterly basis either in advance, or in arrears for certain regulated accounts, on the first month of the quarter unless other arrangements are agreed upon. The specific manner in which our fees are charged is established in the Client Fee Agreement. Additionally, some client's assets are aggregated for billing purposes for those clients who have multiple strategies with SAC or a stepped fee schedule.

### **Fee Calculation**

Fees are based on the value of your account on the last day of the quarter in all cases with the exception of clients who use our CashPlus strategy and who maintain a high degree of daily liquidity needs. In this case the average daily market value over a quarter is used to calculate the fee. In all cases it is the client's responsibility to verify that the fee is properly calculated.

### **New Accounts**

For the initial quarter of investment management services, the fee will be calculated on a prorated basis.

### **Additional Deposits during the billing quarter**

SAC does not charge additional fees for deposits made to an existing account during the quarter unless the deposit is used to fund the initial account opening. Deposits made during a quarter for an existing account are billed in the following quarter unless the fee amount for the remainder of the quarter is greater than \$500.

### **Withdrawals to an account during the billing quarter**

There will be no credits issued in the quarter in which a withdrawal is made to an existing account, unless the fee amount for the withdrawal is greater than \$500.

Assets withdrawn during a quarter are prorated based on the number of days remaining in the quarter for unearned fees and credited in the following quarter. A client may withdraw account assets on notice to us, subject to the usual and customary securities settlement procedures.

**Termination of Services and Rebate of Fees**

Clients may terminate an advisory contract within 5 business days after execution without penalty; otherwise the contract may be terminated upon 30 days prior notice by a telephone call followed by a written notice. In such event, fees paid in advance are pro-rated to the date of termination as specified in the notice of termination and any unearned portion is refunded to the client.

For example, if you paid in advance for the quarter on April 1 and decided to terminate your contract on May 1, SAC will reimburse the pro-rata fee from May 1 plus 30 days. You will therefore receive a prorated refund of fees paid from June 1 to June 30.

**Billing**

SAC may deduct fees directly from client custodial accounts, or bill primary advisors or clients for fees with client’s preapproval. The manner in which fees are paid is detailed in the signed agreement with the client.

All clients receive an invoice or a copy of an invoice regardless of how fees are paid either directly from the client or through a client’s custodian. All invoices are due upon receipt within 30 days.

**Additional Fees and Expenses**

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by a client. Clients may incur certain charges imposed by custodians, brokers, third party investment managers and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund’s prospectus. Such charges, fees and commissions are exclusive of and in addition to our fee, and we shall not receive any portion of these commissions, fees, and costs. Advisory clients should note that they have the option to purchase investment products recommended by us through other brokers or agents that are not affiliated with us.

Item 12 further describes the factors that we consider in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

**Non-Discretionary and Advisory Services**

Our fee for non-discretionary and advisory portfolio management services is based on a percentage of your assets we manage or advice on and is set forth in the following schedule:

<b>Asset Under Management</b>	<b>Annual Fee</b>
First \$5,000,000 - \$10,000,000	35 basis points (.35 of 1%)
Next \$10,000,00 - \$50,000,000	20 basis points (.20 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)

Fees for our non-discretionary and/or advisory services are negotiable depending on individual client circumstances. SAC may also assess a fixed-rate fee only for those advisory services where we



provide detailed reports or other services outside the scope of portfolio management services as described above. The fees for such services are based on the scope and nature of the service as well as the complexity of the financial situation. In all cases, applicable fees, fee paying arrangements, and the terms of the engagement will be clearly set forth in the client agreement executed in advance of the service being rendered. Only fee paying, non-discretionary assets are included in SAC's AUM.

Advisory serve arrangements are not reflected in listings of number of clients or assets under management

**Other Fee Considerations**

When requested by a not-for-profit or a charitable organization, SAC may consider a discount of their advisory service fee. We do not charge upfront fees. We will not require prepayment of fees more than six months in advance and in excess of \$1,200.

**Fee Schedules**

**Taxable Investment Strategies**

<b>CashPlus</b>	<b>Annual Fee</b>
First \$5,000,000 - \$10,000,000	25 basis points (.25 of 1%)
Next \$10,000,00 - \$50,000,000	20 basis points (.20 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)
Minimum Fee	\$12,500

<b>Low Duration</b>	<b>Annual Fee</b>
First \$5,000,000 - \$10,000,000	30 basis points (.30 of 1%)
Next \$10,000,00 - \$50,000,000	25 basis points (.25 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)
Minimum Fee	\$15,000

<b>Intermediate</b>	<b>Annual Fee</b>
First \$5,000,000 - \$10,000,000	35 basis points (.35 of 1%)
Next \$10,000,00 - \$50,000,000	30 basis points (.30 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)
Minimum Fee	\$17,500

<b>Core</b>	<b>Annual Fee</b>
First \$5,000,000 - \$10,000,000	40 basis points (.40 of 1%)
Next \$10,000,00 - \$50,000,000	35 basis points (.35 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)
Minimum Fee	\$20,000

<b>US Treasury Inflation Protected</b>	<b>Annual Fee</b>
First \$5,000,000 - \$10,000,000	40 basis points (.40 of 1%)
Next \$10,000,00 - \$50,000,000	35 basis points (.35 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)
Minimum Fee	\$20,000

<b>Equity and Precious Metals</b>	<b>Annual Fee</b>
First \$2,000,000 - \$10,000,000	85 basis points (.85 of 1%)
Next \$10,000,00 - \$50,000,000	75 basis points (.75 of 1%)
Next \$50,000,000 +	45 basis points (.45 of 1%)
Minimum Fee	\$17,000

<b>Preferred Stocks</b>	<b>Annual Fee</b>
First \$500,000 - \$1,000,000	50 basis points (.50 of 1%)
Next \$1,000,00 - \$3,000,000	45 basis points (.45 of 1%)
Next \$3,000,000 - \$5,000,000	40 basis points (.40 of 1%)
Minimum Fee	\$3,000
Negotiated fee rate on market value in excess of \$5,000,000	

### **Tax-Exempt Investment Strategies**

<b>Limited Duration Municipal</b>	<b>Annual Fee</b>
First \$2,000,000 - \$10,000,000	40 basis points (.40 of 1%)
Next \$10,000,00 - \$50,000,000	35 basis points (.35 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)
Minimum Fee	\$10,000

<b>National Municipal</b>	<b>Annual Fee</b>
First \$5,000,000 - \$10,000,000	40 basis points (.40 of 1%)
Next \$10,000,00 - \$50,000,000	35 basis points (.35 of 1%)
Next \$50,000,000 +	15 basis points (.15 of 1%)
Minimum Fee	\$20,000

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

SAC does not charge its client's any performance based fees (i.e. fees based on a share of capital gains or capital appreciation of the assets of the client).

Side-by-Side Management - Not applicable

## **Item 7 - Types of Clients**

SAC provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, private investment funds, trust programs, sovereign funds, and other U.S. and international institutions.

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

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

The following is a summary of (i) the strategies and methods SAC uses in formulating advice or managing assets (and their material risks) and (ii) the material risks associated with the type of fixed income and equity securities that SAC primarily recommends to its clients.

### **Investment Philosophy. Method of Analysis and Investment Process**

#### **Philosophy**

SAC offers concentrated and broad market strategies (portfolio styles) using high quality fixed income, equity and precious metal securities. SAC investments are long only strategies and do not incorporate the use of leverage, options or futures.

All of our portfolio styles are in separately managed accounts. All of our portfolios are based on a client's stated investment objectives documented in the investment policy statement (IPS).

When working with clients, SAC uses a "liability-driven" approach to understanding their investment goals and risk tolerances. The objective is to inject a "holistic" approach into our investment process with an understanding of both the assets and the liabilities of a client's balance sheet.

SAC seeks to generate superior long-term returns while minimizing risk through a consistent, risk controlled framework that supports a disciplined, repeatable investment process. We seek to provide sustainable, positive outcomes over the long-term with significant liquidity to meet a client's near term liability and long-term goals.

Our process focuses on in-depth credit research, strategic yield curve positioning, bond structure analysis, duration management, portfolio diversification and zero default tolerance. The average credit quality of our client portfolios is typically A to A+.

#### **Investment Process**

1) SAC's investment process begins with a thorough understanding of our client's goals, objectives, and needs. SAC's investment process includes a thorough review of the investment policy statement.

The policy statement identifies the asset classes permitted, the liquidity and/or funding needed, and the expected total returns required within a market cycle, which is typically 3-5 years. A defined liability and/or a market benchmark is determined in view of the agreed-upon stated objectives and goals. This gives our clients the ability to measure the ongoing progress of the investment portfolio on a gross-of-fee, net-of-fee, and risk-adjusted basis.

It is possible for clients to leave out critical information during the discovery phase and development of the IPS. This can have a negative impact on the outcome associated with investing therefore; SAC makes every attempt to discuss all relevant financial and non-financial information that may affect a client's investment holdings, strategy and performance. We look to mitigate many of these risks by

providing frequent reporting and meetings with our clients.

2) Investment themes are determined by SAC's executive committee comprised of SAC's Chairman, CEO, President and Chief Investment Officer. These investment themes are developed based on SAC's outlook on the economy using a combination of fundamental, quantitative, qualitative, and technical analysis that includes an active approach to top-down and bottom-up investment analysis.

The executive committee formally meets monthly to review strategies and develop a consensus on themes and forecasts based macro-economic conditions, our interest rate and sector outlooks. Factors such Federal Reserve policy, broad economic cycles and trends, geo-political risks and market trends are assessed.

The investment committee, comprised of a broad cross section of investment professionals and the executive committee, regularly meets to review micro factors and risks affecting or impacting our outlook on fundamentals, relative value across sectors, supply/demand factors yield curve exposures and technical indicators.

Targets are established regarding duration, maturity and sector risk exposures for each strategy and communicated simultaneously to Portfolio managers and analyst.

To support our strategies and analytics process SAC has created a proprietary analytics system that enables both customization and compliance monitoring with each client's portfolio structure.

Portfolio managers are responsible for making decisions on security selection, the purchase and sale of securities, and portfolio composition consistent with the Executive Committee's outlook. They are also responsible for validating their investment decisions through the use of stress testing under multiple scenarios influenced by both macro and technical factors.

The investment universe is predetermined by the investing committee supported by our research team.

### **Fixed -Income Investment Strategies**

SAC uses *Active Bond Management* across all investment styles. Meaning we actively manage individual portfolios through an entire market cycle, typically 3-5 years, adjusting durations, maturities and sectors based on our market outlook. We do not manage passively to achieve average benchmark returns, rather we look to outperform the market on a net-of-fee basis plus a reasonable spread while avoiding risk that a client may not be fairly compensated for. Securities include US Treasury, Government Agency, Mortgage Backed Securities, Corporate bonds, taxable and tax-free municipal bonds, inflation-indexed bonds.

Our main portfolio strategies are:

#### **Taxable Strategies**

- 1) CashPlus
- 2) Low Duration
- 3) Intermediate
- 4) Core
- 5) Inflation-Protected

### **Tax-Free Strategies**

- 6) Limited Duration Municipal
- 7) National Municipal

### **Investment Grade High Yield and Equity Strategies**

- 8) Preferred Stocks + Equity

We calculate portfolio changes over a series of time periods using "total-return" calculations that include the following 4 components of "total- return" valuation for client portfolios:

- 1) Realized gains and losses
- 2) Unrealized gains and losses/changes in market value
- 3) Income earned and paid during the period
- 4) Accrued income: income earned and not yet paid during the period

### **Tax-Free Municipal Style**

SAC's tax-free municipal bond investments are generally managed over the full interest-rate cycle with high quality essential and vital service Revenue (bonds that derive their revenue streams such as water, utility, sewer, and toll-road) and General Obligation bonds with a history of timely disclosure are preferred. Properly constructed portfolios will typically have lower turnovers requiring adjustments only when fluctuations in markets or shifts in credit values occur.

For individuals and some institutions who can invest in our tax-free strategies, we consider the highest effective tax rate when investing. Our goal is to provide the most efficient after-tax yield and equivalent total return for our clients.

Tax efficient portfolios sometimes require a concentrated state portfolio to achieve the most tax-efficient outcomes.

### **Preferred Stock**

Our preferred stock investing follows the same total return philosophy as all of our strategies with a focus on higher current income and modest capital appreciation. Preferred stocks can offer a lower correlation to fixed income and equity markets providing diversification benefits to a client's overall asset allocation. They can also be considered as a high-quality alternative offering superior risk-reward characteristics and returns than similarly rated corporate debt. We maintain a high credit quality of investment grade or better modifications to credit risk can be tailored depending on each client's tolerance for risk.

### **Equity Investing**

SAC identifies investment opportunities by following a fundamental, intensive research-driven process and selects investments from a wide range of potential investments. The investment approach does not discriminate or characterize its style as value, growth, GARP, etc. as SAC simply seeks to deliver superior investment returns over the long-term, regardless of economic climate.

SAC generally seeks to invest in companies that exhibit the following characteristics:

- Share price is below fair value relative to its earnings power, providing a "margin of safety"
- Current earnings are within historic norms
- Management has a sound plan for earnings growth
- History of earning attractive long-term returns on capital invested
- Identifiable downside protection (e.g., hard assets, superior cost structures, intellectual property)

SAC may from time to time trade in both listed securities that are traded on a securities exchange and unlisted securities that are traded over-the-counter. The volume of trading in unlisted securities is generally less than that found on securities exchanges. Therefore, it may be more difficult to buy and sell these securities, which increases the volatility of their share prices. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of issuers, the market in which such companies compete as well as market conditions and general economic environments.

### **Risk Considerations**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promise that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

### **Typical risk factors associated with our strategies are**

*Interest Rate Risk* –The risk that a bond's value will change due to a change in the level of interest rates. Duration measures a portfolio's price sensitivity to changes in interest rates. However, it is only an accurate predictor of price for small, parallel shifts in the yield curve.

SAC can actively manage maturity and duration risk using a variety of different asset, sector and security allocations in the portfolio to leverage maturity and duration strategies for example:

- i) Barbell portfolios with short and long securities that will typically outperform bulleted portfolios if the yield curve flattens (spreads of long rates narrow relative to short rates), and vice-versa.
- ii) Duration neutral portfolios can have the same duration as the index but be exposed to different parts of the curve using positively convex securities (bullet securities) on the longer end of the curve for "roll down" and reduced price risk and use negatively convex securities on the shorter end of the curve to boost yield.
- iii) Duration segmentation that analyses the portfolio relative to the benchmark duration across yield curve maturities, sectors and credit quality.

These processes allow the manager greater insight into the nature of a security, portfolio or strategy exposure relative to interest rates. This also permits small incremental changes to occur in the portfolio as market and risk opportunities appear.

*Credit Default Risk* –The risk of loss of principal due to the borrower's failure to repay the loan or risk of liquidity from the decline in the borrower's financial strength. SAC uses a bottom-up process that focuses heavily on issuer and issue analysis. We rely on in-house and industry research, rather than just rating agencies, for assessing credit risk.

*Liquidity Risks* –The risk that exists when a bond's limited marketability prevents it from being bought or sold quickly enough to avoid or minimize a loss. SAC evaluates factors affecting marketability of a bond such as ratings, issuance size, coupon structure, prepayment structure, as well as other factors affecting the overall liquidity of the market.

*Call risk* –The risk an owner of a callable bond faces if the bond is redeemed prior to maturity.

*Tax Risk* –The risk that the tax-exempt status of any tax-free municipal security might change and effect the after-tax yield of a security.

*Prepayment Risk (Mortgage Backed Securities)* –The possibility that the mortgages underlying the security are repaid faster or more slowly than expected contracting or extending investment average life.

*Priority of Claim* – Preferred securities provide the investor with a higher priority of claim on assets than common stockholders should the issuer be liquidated.

**SAC seeks to mitigate the risk of losses by:**

- 1) Continuous monitoring of portfolio holdings to detect potential risks that could indicate a potential for default.
- 2) Specialize in high quality, investment grade stocks and bonds as the investable universe.
- 3) Close monitoring of monetary policy that may significantly impact our macro outlook.

## **Item 9 - Disciplinary Action**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SAC or the integrity of SAC's management. SAC has had no legal or disciplinary actions or information applicable to this item.

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

SAC nor any of its management persons is registered, or have an application to register, as a broker dealer or a registered rep of a broker dealer.

Neither SAC nor any of its management persons is registered, or has an application pending to register, as a futures commissions merchant or commodity pool operator, trading adviser or associated person.

SAC does not recommend or select other investment advisers for its clients.

Associations SAC affiliates with:

- NY Analyst Club
- Association of Benefit Administrators (ABA)
- Chartered Financial Analyst Institute (CFA)
- Connecticut Public Pension Forum (CPPF)
- Downtown Economists of New York City
- Economic Club of NY
- Fixed Income Analyst Society, Inc. (FIASI)
- Healthcare Financial Management Association (HCMA)
- International Foundation of Employee Benefit Plans (IFEBP)
- Investment Adviser Association (IAA)
- Municipal Analysts Group of NY (MAGNY)
- National Federation of Municipal Analysts (NFMA)
- Municipal Bond Club
- Municipal Forum of NY
- National Association for Business Economics (NABE)
- National Economists Club (NEC)
- Native American Finance Officers Association (NAFOA)
- New York Association for Business Economics (NYABE)
- New York Society of Security Analysts (NYSSA)
- NYS Government Finance Officers Association (NYS GFOA)
- Vermont Captive Insurance Association (VCIA)

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

### **Description of Our Code of Ethics**

SAC has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at SAC must acknowledge the terms of the Code of Ethics annually, or as amended.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting Maria Smith, COO at (212)644-9440 or mariasmith@smithcapital.com

### **Participation or Interest in Client Transactions**

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.



### **Personal Trading Practices**

SAC anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which SAC has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which SAC, its affiliates and/or clients, directly or indirectly, have a position of interest. SAC's employees and persons associated with SAC are required to follow SAC's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of SAC and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for SAC's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of SAC will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of SAC's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between SAC and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with SAC's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. SAC will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

### **Agency Cross Transactions**

It is SAC's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. SAC will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## Item 12 - Brokerage Practices

We maintain relationships with several broker-dealers. While you are free to choose any broker-dealer or other service provider, we recommend that you establish an account with a brokerage firm with which we have an existing relationship. Such relationships may include benefits provided to our firm, including but not limited to, research, market information, and administrative services that help our firm manage your account(s). We believe that recommended broker-dealers provide quality execution services for our clients at competitive prices. Price is not the sole factor we consider in evaluating best execution. We also consider the quality of the brokerage services provided by recommended broker-dealers, including the value of research provided the firm's reputation, execution capabilities, commission rates, and responsiveness to our clients and our firm. In recognition of the value of research services and additional brokerage products and services recommended broker-dealers can provide, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

SAC has established the following criteria to consider when assessing the quality of a particular broker-dealer:

- The commission rates charged by the broker in comparison to the charges of other brokers for similar transactions;
- Direct access to the broker's trading desk and the familiarity of the contact person with the adviser's business and interests;
- The extensiveness of the broker's distribution network and its ability to fulfill more difficult orders (e.g., thinly-traded or limited-availability securities);
- The ability of the broker to maintain confidentiality while executing trades to prevent the disclosure of an adviser's investment strategy or the details of an order in a way that will adversely affect the market price;
- The broker's execution abilities, including the level of accuracy in executing orders, speed of execution, and ability to obtain best net price;
- The broker's communications and administrative abilities, including efficiency of reporting, settlement efficiency, and proper correction of trade errors;
- The broker's research capabilities and ability to provide market information;
- The extent to which the broker provides the adviser with access to companies through trade shows, conferences or other contacts;
- The quality and flexibility of any custodial services provided by the broker; and
- The financial stability and regulatory record of the broker.
- The procedures may include a discussion of whether and under what circumstances the adviser will use ECNs.

### **Research and Other Soft Dollar Benefits**

SAC does not employ the use of soft dollar practices.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Directed Brokerage**

In limited circumstances, and at our discretion, some clients may instruct our firm to use one or more particular brokers for the transactions in their accounts. If you choose to direct our firm to use a particular broker, you should understand that this might prevent our firm from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on your behalf. This practice may also prevent our firm from obtaining favorable net price and execution. Thus, when directing brokerage business, you should consider whether the commission expenses, execution, clearance, and settlement capabilities that you will obtain through your broker are adequately favorable in comparison to those that we would otherwise obtain for you.

### **Block Trades**

We combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading"). We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. The distribution of the shares purchased is typically proportionate to the size of the account, but it is not based on account performance or the amount or structure of management fees. Subject to our discretion regarding factual and market conditions, when we combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by our firm or persons associated with our firm may participate in block trading with your accounts; however, they will not be given preferential treatment.

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

Smith Affiliated Capital monitors your accounts on a continuous basis and conducts regular account reviews to ensure that the advisory services provided to you and/or the portfolio mix are consistent with your current investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to: contributions and withdrawals, year-end tax planning, market moving events, security specific events, and/or, changes in your risk/return objectives. We will provide you with monthly and quarterly reports and you should receive trade confirmations and monthly or quarterly statements from your account custodian(s). Clients may request interim reviews at any time to discuss their investment account. SAC encourages clients to review their investment strategy and update SAC when changes occur in their investment objectives.

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

SAC utilizes the services of third party solicitors for introducing SAC to potential new clients. The solicitor is an "independent contractor" and not an officer, employee, agent or partner of SAC. In order to receive a cash referral fee from our firm, Solicitors must comply with the requirements of the jurisdictions in which they operate. The Solicitation agreement executed with the solicitor or introducing party is negotiated prior to any introduction to a new client. If you were referred to our firm by a Solicitor, you should have received a copy of this brochure along with the Solicitor's disclosure statement at the time of the referral. A "Solicitation Agreement" is executed in accordance and consistent with the requirements of the Investment Advisors Act of 1940.

Specifically, the required Advisor's Disclosure Statements by the Advisors Act Rule 204-3 and the Solicitor's Disclosure Statement required by the Advisors Act Rule 206(4)-3. The solicitor agrees to obtain and promptly forward to SAC prior to the time SAC enters into an advisory contract, The Solicitor's Disclosure Statement and the Acknowledgement of Receipt of these statements, signed and dated by each potential new client.

If you become a client, the Solicitor that referred you to our firm will receive a percentage of the advisory fee you pay our firm, the terms of which will be governed by the agreement between our firm and the Solicitor. You will not pay additional fees because of this referral arrangement. Referral fees paid to a Solicitor are contingent upon your entering into an advisory agreement with our firm. Therefore, a Solicitor has a financial incentive to recommend our firm to you for advisory services. This creates a conflict of interest; however, you are not obligated to retain our firm for advisory services. Comparable services and/or lower fees may be available through other firms.

Solicitors that refer business to more than one investment advisor may have a financial incentive to recommend advisors with more favorable compensation arrangements. We request that our Solicitors disclose to you whether multiple referral relationships exist and that comparable services may be available from other advisors for lower fees and/or where the Solicitor's compensation is less favorable.

### **Item 15 - Custody**

SAC does not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. Only when stipulated by you the client, your custodian may act as the paying agent for our firm. Your independent custodian will directly debit your account(s) for the payment of our advisory fees. The account statement from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy. We will also provide statements to you reflecting the amount of advisory fee deducted from your account. This ability to deduct our advisory fee from your accounts causes our firm to exercise limited custody over your funds or securities. You should carefully review your account statements for accuracy. We will also provide statements to you reflecting the amount of advisory fee deducted from your account.

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains clients' investment assets. SAC urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 - Investment Discretion**

In most instances, accounts are managed on a fully discretionary basis. Clients are generally required to enter into an investment management agreement ("IMA") prior to the establishment of an account with SAC. SAC will not enter into an investment management agreement with any prospective client whose investment objectives, guidelines, and restrictions are deemed incompatible with SAC's basic investment philosophy or strategies, or if the prospective client's investment objectives, guidelines, and restrictions are deemed unduly restrictive.

When selecting securities and determining amounts, SAC observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, SAC's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made. Investment guidelines and restrictions must be provided by a client or prospective client to SAC in writing.

SAC's investment committee's responsibility is to articulate the firm's investment strategy relating to the macro economic factors affecting the financial markets as a whole. The interest rate outlook, sector positioning and yield curve strategy, security selection, and execution are a combined process of the committee and the portfolio managers. Goals are then established by composite product categories, which the portfolio managers interpret for each client's operating needs and cash position.

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

### **Summary of Proxy Voting Policies and Procedures**

Investment Advisors Act of 1940 Rule 206(4)-6 imposes a number of requirements on investment advisers that have voting authority with respect to securities held in their clients' accounts. The SEC states that the duty of care requires an adviser with proxy voting authority to monitor corporate actions and to vote the proxies. To satisfy its duty of loyalty, an adviser must cast the proxy votes in a manner consistent with the best interest of its clients, and must never put the adviser's own interests above those of its clients.

We will not vote proxies on behalf of our advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder. In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitation to vote proxies. Upon request SAC sometimes votes proxies as part of its discretionary authority to manage accounts, depending on the clients' request. When voting proxies, SAC primary objective is to make voting decisions solely in the best economic interests of its clients. SAC will act in a manner that it deems prudent and diligent and which is intended to enhance the economic value of the underlying securities held in clients' accounts.

## **Item 18 - Financial Information**

- 1) SAC does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- 2) There are no financial conditions that are reasonably likely to impair SAC's contractual commitments to clients.
- 3) SAC has never been the subject of a bankruptcy petition.
- 4) SAC's accountant O'Connor Davies, LLP conducts an independent audits and reviews and provides an auditors letter available upon request.