

**Item 1 – Cover Page**

**ADV Part 2A: Firm Brochure**

**SMITH AFFILIATED CAPITAL CORP.**

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Revised Brochure: March 25, 2020

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

SAC is updating its brochure as of March 25, 2020 as part of its annual amendment filing. There have been no material changes to SAC's previous brochure dated March 29, 2019.

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## Item 4 - Advisory Business

Smith Affiliated Capital Corp. ("SAC", the "firm", "we", "our" or "us"), founded in 1982 by Robert G. Smith, Ph.D., is a registered investment advisory firm based in New York City. SAC is a wholly owned subsidiary of Smith Affiliated Ventures L.L.C. ("SAV"), a New York limited liability company of which the majority owner is Maria Smith and the other owners are senior management employees.

SAC provides investment advice for separately managed portfolios of individuals, including high net worth individuals and institutional investors, including, public and corporate retirement plans, corporations, foundations and government entities. SAC has numerous investment styles structured to meet the individual needs of a client (a “client” or “you” or “your”) and focuses on taxable and tax-exempt fixed income securities as well as equity investments using individual stocks and ETFs. Investment strategies can be tailored to meet a variety of investment constraints and objectives.

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 December 31, 2019, SAC managed \$2,108,540,098 in regulatory assets under management, \$1,585,480,266 of which is managed on a discretionary basis and \$523,059,832 of which is managed on a non-discretionary basis.

We offer our management services on a fee basis as a percentage 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 as well as the fees for our management services.

### **Discretionary Management Services**

When providing 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 allows our firm to determine the specific securities, and the amount of securities, to be purchased or sold without client approval prior to each transaction. Our discretionary authority can be limited by the written investment policy statement (“IPS”) that is provided to SAC, or as otherwise agreed upon by SAC and the client at the inception of SAC’s provision of advisory services.

SAC separately manages investment portfolios to seek to meet each individual client’s stated objectives and risk tolerances as communicated to SAC at the beginning of our advisory relationship. 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 to the extent communicated to SAC.

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

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

SAC also provides non-discretionary advisory services to clients. In providing these services, SAC may advise on a wide variety of topics, which may include, but are not limited to, advising on the benefits of increasing contributions and other information relating to a particular investment, such as details on the available investment options (e.g., risk and return characteristics, historical return information, prospectus terms, etc.), concepts such as types of risk (market, inflation, etc.), diversification, dollar cost averaging and compounding, and general information about asset classes as well as time horizons, risk tolerance

levels, and retirement income needs. SAC may also provide clients with asset allocation modeling, which involves providing 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.

In providing non-discretionary services, SAC may make recommendations to the client concerning matters such as asset allocation, liability analysis, investment policy, tax-efficient investment planning, crossover investing, second opinions, investment diagnostics, portfolio monitoring, and investment execution.

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

### **Advisory Fees and Compensation**

SAC charges a management fee in accordance with the fee schedules below. SAC's 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 factors.

SAC reserves the right to waive the management fee for certain accounts such as employee accounts.

In addition, 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 accounts. The specific manner in which our fees are charged is established in the signed agreement with the client. Additionally, assets may be aggregated for billing purposes for those clients who have multiple strategies with SAC or a stepped fee schedule.

### **Fee Calculation**

For fees that are billed in advance, the fee is based on the value of the client's account on the first day of the quarter. For fees that are billed in arrears, the fee is based on the value of the client's account on the last day of the quarter. In addition, for clients who use our CashPlus strategy and who maintain a high degree of daily liquidity needs, the average daily market value over a quarter is used to calculate the fee.

### **New Accounts**

For client accounts that are established during a calendar quarter, the initial 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, in which case such pro-rated fee will be billed in the current quarter.

### **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.

### **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.

### **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 the 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 broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

### **Non-Discretionary Advisory Services**

Our fee for non-discretionary advisory portfolio management services will generally be based on a percentage of your assets we manage or advise on.

Fees for our non-discretionary advisory services are negotiable depending on individual client circumstances.

### **Other Fee Considerations**

We will not require prepayment of fees more than six months in advance and in excess of \$1,200.

## Fee Schedules for Advisory Services

### **Taxable Investment Strategies**

<b>Strategy</b>	<b>Annual Fee</b>
CashPlus	25 basis points (.25 of 1%)
Non-Discretionary Services	30 basis points (.30 of 1%)
Low Duration	30 basis points (.30 of 1%)
Intermediate	35 basis points (.35 of 1%)
Core	40 basis points (.40 of 1%)
Equity and Precious Metals	75 basis points (.75 of 1%)
Preferred Stocks	50 basis points (.50 of 1%)

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

<b>Strategy</b>	<b>Annual Fee</b>
Limited Duration Municipal	35 basis points (.35 of 1%)
National Municipal	40 basis points (.40 of 1%)

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

SAC does not charge its clients 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**

SAC employs a wide range of investment objectives and strategies for its clients. These differing objectives and strategies raise potential conflicts of interest. For example, SAC may buy a security for one client account while it is selling that security for another client account. In specific instances, SAC's strategies may result in buying and selling different securities and instruments within an issuer's capital structure for different clients. Accordingly, it is possible that one client may acquire an instrument that is senior on the capital structure of an issuer relative to an instrument for a different client that is more junior on the capital structure (including common stock). In certain circumstances, such as if the credit quality of the issuer deteriorates, SAC may owe conflicting fiduciary duties to multiple clients, in that action taken to protect the interest of one set of holders may be detrimental to, or conflict with the interests of, other holders of the same issuer's securities or instruments. When SAC causes its clients to take opposite positions with respect to a particular security, or to invest in different ranks of seniority with respect to a particular issuer, action taken for the benefit of one set of clients may appear to favor that set of clients.

Accordingly, SAC has adopted and implemented policies and procedures intended to address conflicts of interest that may arise relating to the management of multiple accounts, including accounts with different fee arrangements, and the allocation of investment opportunities. SAC reviews investment decisions with the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies.

SAC seeks to allocate investment opportunities in a manner that it deems fair and equitable to its clients, taking into account their particular investment policies, limitations and restrictions.

To the extent orders are aggregated, SAC will follow its procedures regarding block trading as described in Item 12.

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

SAC provides portfolio management services to a wide variety of clients, including individuals, such as high net worth individuals, corporate pension and profit-sharing plans, charitable organizations, state and municipal government entities, insurance companies and other institutional investors.

## **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 to 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

### **Tax-Free Strategies**

- 5) Limited Duration Municipal
- 6) National Municipal

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

- 7) Preferred Stocks + Equity

We calculate portfolio changes over a series of time periods using “total-return” calculations that include the following 3 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

### **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 clients 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 a client’s 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 seeks to 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) Limiting its investing universe to instruments that it believes are high quality, investment grade stocks and bonds.
- 3) Close monitoring of monetary policy that may significantly impact our macro outlook.

#### **Item 9 - Disciplinary Action**

This item is not applicable.

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

This item is not applicable.

#### **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 our clients’ interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with our clients. All of our supervised persons are expected to adhere strictly to these guidelines. The Code of Ethics includes provisions relating to a prohibition on insider trading, restrictions on the acceptance and giving 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, CEO/CCO at (212) 644-9440 or [mariasmith@smithcapital.com](mailto:mariasmith@smithcapital.com)

## **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 personal trading policy and procedures. 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. SAC seeks to ensure 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. While SAC requires pre-clearance of transactions involving private placements of securities or investment opportunities of limited availability, transactions in publicly traded securities do not require pre-clearance, and therefore 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 to reasonably identify and address 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.

## **Item 12 - Brokerage Practices**

We maintain relationships with several broker-dealers. 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 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 broker-dealers can provide, you may pay higher commissions and/or trading costs than those that may be available elsewhere.

SAC may consider one or more of the following criteria when assessing the quality of a particular broker-dealer:

- The 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 primarily engages in fixed-income investments which do not generate soft dollar benefits (as described below). However, SAC does from time to time receive or has access to research or other products or services (i.e., “soft dollar items”) from client custodian broker-dealers. SAC will limit the use of soft dollars to products and services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended (“Section 28(e”).

Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants’ advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, to the extent SAC receives soft dollars in connection with investments, SAC will not have to pay for the products and services itself. This creates an incentive for SAC to select a broker-dealer based on its interest in receiving those products and services.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions may be used by SAC in its other investment activities, including, for the benefit of other client accounts.

During SAC's last fiscal year, SAC and/or its related persons acquired data services (including services providing real time exchange data, market data, company financial data and economic data), research reports (including market research), certain financial newsletters and trade journals, attendance at certain seminars and conferences.

### **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**

This item is not applicable.

## **Item 15 - Custody**

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 required to enter into an investment management agreement 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 for investment for a particular client, SAC refers to the investment policies, limitations and/or restrictions set forth in the applicable advisory contract. 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.

In the event of a trade error in the handling of any client transactions resulting from the firm's actions, or inaction, or actions of others, the Firm will seek to identify and correct the error as promptly as possible without disadvantaging the relevant client or benefiting the firm in any way. If the error is the responsibility of the firm, to the extent the error is related to the firm's delay or error in communicating to the custodian regarding a particular security transaction, the firm will seek to resolve or correct the delay or error, and the firm will be responsible for any client loss resulting therefrom.

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

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

Rule 206(4)-6 of the Investment Advisers Act of 1940 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**

This item is not applicable.