

# Steward Capital Management, Inc.

## FORM ADV PART 2A – DISCLOSURE BROCHURE

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May 22, 2020

*This disclosure brochure provides clients with information about the qualifications and business practices of Steward Capital Management, Inc., an independent investment advisory firm registered with the United States Securities and Exchange Commission (“SEC”). It also describes the services Steward Capital Management, Inc. provides as well as background information on those individuals who provide investment advisory services on behalf of Steward Capital Management, Inc. Please contact Steward Capital Management, Inc. at 248-901-1523 if you have any questions about the contents of this disclosure brochure.*

*The information in this disclosure brochure has not been approved or verified by the SEC or by any state securities authority. Registration with the SEC does not imply that Steward Capital Management, Inc. or any individual providing investment advisory services on behalf of Steward Capital Management, Inc. possess a certain level of skill or training. Additional information about Steward Capital Management, Inc. is available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Steward Capital Management, Inc. is 104936.*

## **Item 2 – Material Changes**

This item discusses specific material changes to the Steward Capital Management, Inc. brochure.

Pursuant to current SEC Rules, Steward Capital Management, Inc. will ensure that clients receive a summary of any materials changes to this and subsequent brochures within 120 days of the close of the firm's fiscal year which occurs at the end of the calendar year. Steward Capital Management, Inc. may further provide other ongoing disclosure information about material changes as necessary.

Steward Capital Management, Inc. will also provide clients with a new brochure as necessary based on changes or new information, at any time, without charge.

Since the date of the last annual update to this brochure (March 14, 2020), Steward Capital Management, Inc. has made the following material changes to this brochure:

## **Item 18 – Financial Information**

Due to the economic uncertainty caused by the Coronavirus (COVID-19) crisis and pursuant to the Paycheck Protection Program, Steward Capital Management, Inc. has obtained a Small Business Administration loan in the approximate amount of \$90,000 on April 16, 2020.

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## Item 4 - Advisory Business

### A. The Company

Steward Capital Management, Inc. is a privately-held Michigan corporation that has been providing investment advisory services as an SEC-registered investment adviser since 1988. Steward Capital Management, Inc. is a fee-based investment adviser. The term “fee-based” indicates that Steward Capital Management, Inc. is compensated only in the form of investment advisory fees. Throughout this disclosure brochure, the company is referred to as “SCM”.

The principal owner of SCM is Anmar K. Sarafa, CFA.

### B. Advisory Services

#### Investment Management Services

SCM provides investment management services to institutional clients, individual (including high net worth) clients and private investment funds organized as pooled investment vehicles. For individuals and high net worth clients, SCM's portfolio management approach and investment services are based on the client's information which includes, but may not be limited to, the following:

- Face-to-face meetings;
- Phone discussions; and/or
- E-mail correspondence.

Once an appropriate investment strategy is determined, an Investment Guideline Statement and Advisory Agreement are executed by both the client and SCM. These documents provide a written understanding of the investment objectives, risk tolerance, and investment strategy. The Investment Guideline Statements and Advisory Agreements may be revised and updated based on changing financial circumstances of the client, market cycles, and/or changes requested by the client.

For institutional clients, SCM's investment strategy is often determined by various factors which may include, but are not limited to, the following:

- Requests for Proposals (RFP);
- Manager searches conducted by investment consultants;
- Legal statutes governing the management of a specific institutional pension plan;
- Meetings with the Board of Trustees/Executive Committees; and/or
- Market factors, etc.

For private investment funds organized as pooled investment vehicles, SCM's investment strategy is determined by the applicable funds' offering documents.

Clients will retain individual ownership of all securities.

The following portfolio management strategies are offered to clients:

### *Global Diversified Balanced*

This investment strategy utilizes a combination of individual stocks, bonds, and mutual funds, including Exchange Traded Funds (ETF), to create a Core/Satellite portfolio. The "Core" portion typically uses major market ETFs and other asset class mutual funds, diversified across multiple economic sectors, to approximate the global capital markets. The "Satellite" portion uses individual stocks, bonds, sector ETFs, and/or other specialty ETFs and mutual funds to enhance returns when opportunities are identified due to dynamic capital market cycles. The security individual selection universe is comprised of companies listed on major and regional U.S. stock exchanges.

Overall portfolio risk is further managed by defining various equity allocation ranges for the Global Diversified Balanced portfolios. Clients may select from the following strategies, which feature various equity exposure ranges designed to address differences in risk tolerance:

- Aggressive Balanced (70% - 100% Equities)
- Moderate Balanced (60% - 80% Equities)
- Conservative Balanced (40% - 60% Equities)
- Custom Balanced (e.g., asset class ranges and/or investment criteria may be determined by specific instructions from the client)

### Investment Advisory Services

#### *High Net Worth Investor Services*

SCM periodically provides services related to wealth preservation and management to individual high net worth investors. SCM works with various centers of influence (i.e., accountants, attorneys, other advisors) to assist clients in managing their investments and financial affairs.

SCM may act as an advisor, facilitator, counter party, and/or investment manager to assist in the administration of various aspects of the client's wealth management strategies and /or transactions.

#### *Institutional Investor Services*

SCM is periodically asked to provide investment advisory services to institutional investors that pertain to strategic and tactical asset allocation decisions, individual private deals, security research, and other advice that is deemed pertinent to the institutional investor's overall management of the portfolio.

#### *Real Estate Services*

SCM periodically provides services related to real estate investment and management, both to individual and corporate clients. SCM may offer advice in order to minimize risk and maximize property values and investment returns, including identifying appropriate assets for purchase, obtaining financing, and sale of the assets.

### **C. Client Tailored Services and Client Imposed Restrictions**

SCM offers a full range of investment advisory services which can be tailored to meet the specific needs of each client. In order to provide appropriately individualized services, SCM will work with the client to obtain information regarding the client's financial circumstances, investment objectives, overall financial condition, income and tax status, personal and business assets, risk profile and other information regarding the client's financial and/or investment needs.

SCM will periodically review with clients their financial circumstances, investment objectives and risk profile. In order for SCM to provide effective advisory services, it is critical that clients provide accurate and complete information to SCM and inform SCM anytime such information needs to be updated or anytime there is a change in their financial circumstances, investment objectives and/or risk profile.

Generally, clients are permitted to impose reasonable restrictions on investing in certain securities or types of securities in their advisory accounts, provided, however, that some restrictions may not be accommodated when utilizing Exchange Traded Funds, mutual funds or with respect to certain third-party products or services made available through SCM. In addition, a restriction request may not be honored if it is fundamentally inconsistent with SCM's investment philosophy, runs counter to the client's stated investment objectives, or would prevent SCM from properly servicing client accounts.

### **D. Wrap Fee Programs**

SCM does not participate in wrap fee programs. Under a wrap fee program, advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and transaction services (*e.g.*, execution of trades) are provided for one fee. This is different than traditional investment management programs whereby services are provided for a fee, but transaction services are billed separately on a per-transaction basis.

### **E. Assets Under Management**

As of December 31, 2019, the total amount of client assets managed by SCM is approximately \$150,400,244. Approximately \$28,080,243 of those assets are managed on a discretionary basis and \$122,320,000 on a non-discretionary basis.

## **Item 5 - Fees And Compensation**

### **A. Advisory Fees**

#### Investment Management Services

Advisory fees for Investment Management Services are agreed upon at the time of engagement and are stipulated in the client Advisory Agreement.

Fees are charged quarterly in advance, unless otherwise agreed upon by the client, and are based upon the market value of the portfolio, set forth by the custodian, as of the last market day of the relevant calendar period (unless otherwise agreed upon by the client). Where services are initiated at any time other than the beginning of the calendar quarter, advisory fees shall be prorated.

Advisory fees are as follows:

<b>Portfolio Value</b>	<b>Maximum Annual Fee (%)</b>
First \$2 million	1.00%
Next \$3 million	0.85%
Next \$5 million	0.70%
Balance above \$10 million	Negotiable

The advisory fee schedule and account size may be modified due to a variety of factors at the sole discretion SCM. Payment of advisory fees will be agreed upon in the Advisory Agreement by all parties.

#### Investment Advisory Services

Fees for Investment Advisory Services are typically charged as a fixed fee and are agreed upon at the time of engagement and stipulated in the client Advisory Agreement.

#### **B. Payment Method**

There are two options a client may select to pay SCM's advisory services fees:

##### Direct Debiting

Each quarter, SCM will notify the client's qualified custodian of the amount of the fee due and payable to SCM pursuant to the firm's fee schedule and advisory agreement. The qualified custodian will not validate or check SCM's fees, its corresponding calculation or the assets on which the fee is based unless the client has retained their services to do so. With the client's pre-approval, the qualified custodian will "deduct" the fee from the client's account or, if the client has more than one account, from the account the client has designated to pay SCM's advisory fees.

Each month, the client will receive a statement directly from the qualified custodian showing all transactions, positions and credits/debits into or from the client's account. Statements sent after quarter end will also reflect the advisory fee paid by the client to SCM.

##### Billing

Each quarter, SCM will issue the client an invoice for the firm's services and the client will pay SCM by check or wire transfer. All invoices are due upon receipt.

#### **C. Additional Fees and Expenses**

##### Mutual Fund Fees

All fees paid to SCM for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without the services of SCM. In that case, the client would not receive the services provided by SCM which are designed, among other things, to assist the client in determining

which mutual fund or funds are most appropriate to each client's financial condition and objectives.

To the extent that client assets are invested in money market funds or cash positions, the fees for monitoring those assets are in addition to the fees included in the internal expenses of those funds paid to their own investment managers, which are fully disclosed in each fund's prospectus. Accordingly, the client should review both the fees charged by the funds and the fees charged by SCM to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

#### Trading and Other Costs

All fees paid to SCM for investment advisory services are separate and distinct from transaction fees charged by broker dealers associated with the purchase and sale of equity securities and fixed-income securities. In addition, fees do not include the services of any co-fiduciaries, accountants, broker dealers or attorneys. Please see the "Brokerage Practices" section of this disclosure brochure for additional information on brokerage and other transaction costs.

#### **D. Termination and Refunds**

A client agreement may be canceled at any time, by either party, for any reason upon receipt of written notice. Termination shall be effective immediately upon receipt of notice by the other party. Since fees are billed quarterly in advance, SCM will refund to the client a pro-rata share of the fees paid computed on a daily basis for the 90-day quarter.

A client's death shall not terminate the advisory agreement or the authority granted to SCM until SCM has received actual written notification of the client's death.

#### **E. Additional Compensation**

SCM is compensated solely by fees paid by its clients and does not accept commissions or compensation from any other source (i.e., mutual funds, insurance products or any other investment product).

#### **F. Additional Information**

##### Fees Negotiable

SCM retains the right to modify its fee schedule in its sole and absolute discretion, on a client-by-client basis based on the size, complexity and nature of the advisory services provided. All fees will be agreed upon in writing by the client prior to being charged.

##### Private Investment Funds

An affiliate of SCM is general partner of the following private investment funds organized as pooled investment vehicles: (i) Steward Real Estate Partners Fund I, LP and (ii) the WCERS Opportunity Fund, L.P. These funds are not open to new investors and are not offered as an investment option to either new or existing clients.

Please see the "Other Financial Industry Activities and Affiliations" section of this disclosure brochure for additional disclosures about these funds.



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

Under certain circumstances SCM is eligible to receive a performance-based fee. In addition, SCM manages client accounts where it is not eligible to receive performance-based compensation for its advisory services.

Situations – such as those described above - where SCM manages both accounts that pay performance-based compensation and accounts that do not pay performance-based compensation gives rise to certain conflicts of interest that have the potential to motivate SCM or its associated persons to favor its performance-based account clients over other clients. For example, performance-based compensation is typically significantly higher than the asset-based fees paid on traditional accounts.

In addition, because performance-based compensation is not paid unless SCM achieves a certain level of performance, the performance allocation arrangement may create an incentive for SCM to make investments that are more risky or more speculative than might be the case in the absence of an allocation based on performance.

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

SCM provides investment advisory services to individuals (including high net worth individuals), pension and profit sharing plans, trusts, estates, charitable organizations, corporations, private investment funds organized as pooled investment vehicles and other types of business entities.

### **Engaging the Services of SCM**

All clients wishing to engage SCM for investment advisory services must first complete the applicable investment advisory agreement and Investment Guideline Statement, as well as any other document or questionnaires, or information gathering provided by SCM. The investment advisory agreement describes the services and responsibilities of SCM to the client. It also outlines SCM's fee in detail. In addition, clients must complete certain broker-dealer/custodial documentation. Upon completion of these documents, SCM will be considered engaged by the client. Clients will be responsible for ensuring that SCM is informed in a timely manner of changes in investment objectives and risk tolerance.

### **Conditions for Managing Accounts**

SCM does not require that its clients maintain a minimum account size or pay a minimum annual fee for SCM's services.

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

### **A. Methods of Analysis and Investment Strategies**

#### Methods of Analysis

Methods of analysis include Fundamental analysis and Technical analysis via Bloomberg L.P. and the Credit Suisse HOLT Valuation Metrics. Bloomberg L.P. is utilized to gather fundamental and technical information. Bloomberg L.P. is a global, multimedia-based distributor of information services, combining news, data and analysis for financial markets and businesses. Bloomberg provides real-time pricing, data, history, analytics and electronic communications. By utilizing Fundamental Analysis, past records of assets, earnings, sales,

products, management and market information are assessed and used as indicators for a company's success or failure. The resulting assessment is used to determine if a particular stock is undervalued or overvalued at the current market price. This statistical financial assessment is used in conjunction with Technical Analysis, which focuses on the price and volume of movement of the stock.

Fundamental analysis is a method of evaluating securities by attempting to measure the intrinsic value of a stock. Fundamental analysts study everything from the overall economy and industry conditions to the financial condition and management of companies. Technical analysis is the evaluation of securities by means of studying statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use stock charts to identify patterns and trends that may suggest what a stock will do in the future.

In addition, SCM uses the Credit Suisse HOLT Valuation Metrics. Credit Suisse HOLT has amassed a proprietary database on over 20,000 companies in more than 64 countries. Their database is leveraged through a suite of technology driven tools that incorporate advanced accounting, financing and valuation principles. HOLT services help us gain unique insights into corporate strategy, performance, and valuation, enhancing investment decisions across the capital structure.

HOLT offers unparalleled understanding of corporate performance and valuation, emphasizing a company's cash generating ability and overall potential for value creation. HOLT employs a consistent and rigorous approach to investment analysis, providing a robust platform that allows SCM to focus on investment decision making.

The above methods of analysis are utilized in all SCM investment strategies that contain publicly traded securities. Information gathered from the client's Risk Tolerance Questionnaire and client interviews is used in coordination with the above analytical tools to construct client portfolios within the asset allocation and associated equity strategies offered by SCM.

### Investment Strategies

SCM may utilize different investment strategies, based upon the needs of the client. Any investment strategy used will be agreed upon, in writing, by the client. Investment strategies may include:

#### *Long-Term Purchases*

Securities are purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

#### *Short-Term Purchases*

Securities are purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

#### *Trading*

Securities are purchased with the expectation that they will be sold within a very short period of time, generally less than 30 days, in an effort to capture significant market gains and avoid significant market losses during a volatile market.

### *Margin Transactions*

A securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan.

### *Option Writing*

An investment strategy utilizing option writing involves selling (writing) an option. An option is the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor sells (writes) an option, he or she must deliver to the buyer a specified number of shares if the buyer exercises the option. The seller pays the buyer a premium (the market price of the option at a particular time) in exchange for writing the option.

### Types of Investments

Investment advice may be offered on any investments held by a client at the start of the advisory relationship. Recommendations for new investments will typically be limited to domestic and foreign equity securities, securities traded over-the-counter, corporate debt securities, commercial paper, certificates of deposit, municipal and United States government securities, mutual funds, exchange-traded funds, options and interests in partnerships investing in real estate.

### Sources of Information

In conducting security analysis, SCM may utilize the following sources of information: financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the U.S. Securities and Exchange Commission and company press releases.

### Investing Involves Risk

Investing in securities involves risk of loss that each client should be prepared to bear. The value of a client's investment may be affected by one or more of the following risks, any of which could cause a client's portfolio return, the price of the portfolio's shares or the portfolio's yield to fluctuate:

- *Market Risk.* The value of portfolio assets will fluctuate as the stock or bond market fluctuates. The value of investments may decline, sometimes rapidly and unpredictably, simply because of economic changes or other events that affect large portions of the market.
- *Management Risk.* A client's portfolio is subject to management risk because it is actively managed by SCM's investment professionals. SCM will apply its investment techniques and risk analysis in making investment decisions for a client's portfolio, but there is no guarantee that these techniques and SCM's judgment will produce the intended results.

- *Quantitative Tools Risk.* Some of SCM's investment techniques may incorporate, or rely upon, quantitative models. There is no guarantee that these models will generate accurate forecasts, reduce risks or otherwise produce the intended results.
- *Interest Rate Risk.* Changes in interest rates will affect the value of a portfolio's investments in fixed-income securities. When interest rates rise, the value of investments in fixed-income securities tend to fall and this decrease in value may not be offset by higher income from new investments. Interest rate risk is generally greater for fixed-income securities with longer maturities or durations.
- *Credit Risk.* An issuer or guarantor of a fixed-income security, or the counterparty to a derivatives or other contract, may be unable or unwilling to make timely payments of interest or principal, or to otherwise honor its obligations. The issuer or guarantor may default causing a loss of the full principal amount of a security. The degree of risk for a particular security may be reflected in its credit rating. There is the possibility that the credit rating of a fixed-income security may be downgraded after purchase, which may adversely affect the value of the security. Investments in fixed-income securities with lower ratings tend to have a higher probability that an issuer will default or fail to meet its payment obligations.
- *Allocation Risk.* The allocation of investments among different asset classes may have a significant effect on portfolio value when one of these asset classes is performing more poorly than the others. As investments will be periodically reallocated, there will be transaction costs which may be, over time, significant. In addition, there is a risk that certain asset allocation decisions may not achieve the desired results and, as a result, a client's portfolio may incur significant losses.
- *Foreign (Non-U.S.) Risk.* A portfolio's investments in securities of non-U.S. issuers may involve more risk than those of U.S. issuers. These securities may fluctuate more widely in price and may be less liquid due to adverse market, economic, political, regulatory or other factors.
- *Emerging Markets Risk.* Securities of companies in emerging markets may be more volatile than those of companies in developed markets. By definition, markets, economies and government institutions are generally less developed in emerging market countries. Investment in securities of companies in emerging markets may entail special risks relating to the potential for social instability and the risks of expropriation, nationalization or confiscation. Investors may also face the imposition of restrictions on foreign investment or the repatriation of capital and a lack of hedging instruments.
- *Currency Risk.* Fluctuations in currency exchange rates may negatively affect the value of a portfolio's investments or reduce its returns.
- *Derivatives Risk.* Certain strategies involve the use of derivatives to create market exposure. Derivatives may be illiquid, difficult to price and leveraged so that small changes may produce disproportionate losses for a client's portfolio and may be subject to counterparty risk to a greater degree than more traditional investments. Because of their complex nature, some derivatives may not perform as intended. As a result, a portfolio may not realize the anticipated benefits from a derivative it holds or it may realize losses. Derivative transactions may create investment leverage, which may increase a portfolio's volatility and may require the portfolio to liquidate portfolio securities when it may not be advantageous to do so.
- *Capitalization Risk.* Investments in small- and mid-capitalization companies may be more volatile than investments in large-capitalization companies. Investments in

small-capitalization companies may have additional risks because these companies have limited product lines, markets or financial resources.

- *Liquidity Risk.* Liquidity risk exists when particular investments are difficult to purchase or sell, possibly preventing SCM from selling out of such illiquid securities at an advantageous price. Derivatives and securities involving substantial market and credit risk also tend to involve greater liquidity risk.
- *Issuer Specific Risk.* The value of an equity security or debt obligation may decline in response to developments affecting the specific issuer of the security or obligation, even if the overall industry or economy is unaffected. These developments may comprise a variety of factors, including, but not limited to, management issues or other corporate disruption, political factors adversely affecting governmental issuers, a decline in revenues or profitability, an increase in costs, or an adverse effect on the issuer's competitive position.
- *Concentrated Portfolios Risk.* Certain investment strategies focus on particular asset classes, countries, regions, industries, sectors or types of investments. Concentrated portfolios are an aggressive and highly volatile approach to trading and investing. Concentrated portfolios hold fewer different stocks than a diversified portfolio and are much more likely to experience sudden dramatic prices swings. In addition, the rise or drop in price of any given holding is likely to have a larger impact on portfolio performance than a more broadly diversified portfolio.
- *Legal or Legislative Risk.* Legislative changes or court rulings may impact the value of investments or the securities' claim on the issuer's assets and finances.

## **B. Risks Associated with Investment Strategies and Methods of Analysis**

### *Risks Associated with Investment Strategies*

#### Long-Term Purchases

Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or your particular investments will decrease in value even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost (e.g., "locking-up" assets that may be better utilized in the short-term in other investments).

#### Short-Term Purchases

Using a short-term purchase strategy generally assumes that the performance of the financial markets can be accurately predicted over the short-term. The risk associated with a short-term purchase strategy is that there are many factors that may affect market performance in the short-term including interest rate fluctuations, cyclical earnings, etc. Such factors may have a smaller impact over the longer-term. In addition, short-term trading may incur a disproportionately higher amount of transaction costs compared to long-term trading.

#### Trading

Strategies involving frequent trading of securities can affect investment performance through increased brokerage and other transaction costs and taxes.

### Margin Transactions

When buying stocks on margin, you are employing leverage as an investing strategy. Leverage allows an investor to extend their financial reach by investing using borrowed funds while limiting the amount of their own cash they expend. This can involve a high degree of risk, including, but not limited to:

- Losing more money than you have invested;
- Paying interest on your loan;
- Being required to deposit additional cash or securities in your account on short notice to cover market losses;
- Being forced to sell some or all of your securities when falling stock prices reduce the value of your securities; and/or
- Having your brokerage firm sell some or all of your securities without consulting you to pay off the loan it made to you.

### Option Writing

There are numerous risks associated with transactions in options on securities or securities indexes and therefore, are not suitable for everyone. Option trading can be speculative in nature and carry substantial risk of loss of principal. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. For example, as the writer of covered call options, the client forgoes, during the option's life, the opportunity to profit from increases in the market value of the underlying security or the index above the sum of the option premium received and the exercise price of the call, but has retained the risk of loss, minus the option premium received, should the price of the underlying security decline. In the case of index options, the client incurs basis risk between the performance of the underlying portfolio and the performance of the underlying index (e.g., the underlying portfolio may decline in value while the underlying index may increase in value, resulting in a loss on the call option while the underlying portfolio declines as well).

### *Risk Associated with Methods of Analysis*

The analysis of securities requires subjective assessments and decision-making by experienced investment professionals, however, there is always the risk of an error in judgment.

SCM's securities analysis methods rely on the assumption that the companies whose securities the firm purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While SCM is alert to indications that data may be incorrect, there is always the risk that the firm's analysis may be compromised by inaccurate or misleading information.

### Fundamental Analysis

Fundamental analysis, when used in isolation, has a number of risks:

- Information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices

adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

- The data used may be out of date.
- It ignores the influence of random events such as oil spills, product defects being exposed, acts of God and so on.
- It assumes that there is no monopolistic power over markets.
- The market may fail to reach expectations of perceived value.

### Technical Analysis

The primary risk in using technical analysis is that spotting historical trends may not help predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee than SCM will be able to accurately predict such a reoccurrence.

## **C. Risks Associated with Specific Securities Utilized**

### Common Stocks

The major risks associated with investing in common stocks relate to the issuer's capitalization, quality of the issuer's management, quality and cost of the issuer's services, the issuer's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk and the issuer's ability to create shareholder value (e.g., increase the value of the company's stock price).

### Preferred Stocks

Preferred stock dividends are generally fixed in advance. Unlike requirements to pay interest on certain types of debt securities, the company that issues preferred stock may not be required to pay a dividend and may stop paying the dividend at any time. Preferred stock may also be subject to mandatory redemption provisions and an issuer may repurchase these securities at prices that are below the price at which they were purchased by the investor. Under these circumstances, a client account holding such preferred securities could lose money.

### Fixed-Income Securities

Different forms of fixed-income instruments, such as bonds, money market funds, and certificates of deposit may be affected by various forms of risk, including:

- *Interest Rate Risk.* The risk that the value of the fixed-income holding will decrease because of an increase in interest rates.
- *Liquidity Risk.* The inability to readily buy or sell an investment for a price close to the true underlying value of the asset due to a lack of buyers or sellers. While certain types of fixed-income securities are generally liquid (e.g., corporate bonds), there are risks which may occur such as when an issue trading in any given period does not readily support buys and sells at an efficient price. Conversely, when trading volume is high, there is also the risk of not being able to purchase a particular issue at the desired price.
- *Credit Risk.* The potential risk that an issuer would be unable to pay scheduled interest or repay principal at maturity, sometimes referred to as "default risk." Credit risk may also occur when an issuer's ability to make payments of principal

and interest when due is interrupted. This may result in a negative impact on all forms of debt instruments.

- *Reinvestment Risk.* With declining interest rates, investors may have to reinvest income or principal at a lower rate.
- *Duration Risk.* Duration is a measure of a bond's volatility, expressed in years to be repaid by its internal cash flow (interest payments). Bonds with longer durations carry more risk and have higher price volatility than bonds with shorter durations.

### Municipal Bonds

In addition to the risks set forth under "Fixed-Income Securities" above, municipal bonds are susceptible to events in the municipality that issued the bond or the security posted for the bond. These events may include economic or political policy changes, changes in law, tax base erosion, state constitutional limits on tax increases, budget deficits or other financial difficulties and changes in the credit rating assigned to municipal issues.

### Federal Agency Securities

Although the issuer may be chartered or sponsored by an Act of Congress, the issuer is not funded by Congressional appropriations and its debt and equity securities are neither guaranteed nor insured by the U.S. Government. Without a more explicit commitment, there can be no assurance that the U.S. Government will provide financial support to such issuers or their securities.

### Exchange Traded Funds

ETFs are subject to risks similar to those of stocks. Investment returns will fluctuate and are subject to market volatility, so that when shares are sold they may be worth more or less than their original cost. ETF shares are bought and sold at market price (not Net Asset Value) and are not individually redeemed from the fund. There is also the risk that a manager may deviate from the stated investment mandate or strategy of the ETF which could make the holdings less suitable for a client's portfolio. ETFs may also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees. In addition, while many ETFs are known for their potential tax efficiency and higher "qualified dividend income" (QDI) percentages, there are assets classes within these ETFs or holding periods that may not benefit. Shorter holding periods, as well as commodities and currencies that may be part of an ETF's portfolio, may be considered "non-qualified" under certain tax code provisions.

### Equity Funds

The major risks associated with investing in equity mutual funds is similar to the risks associated with investing directly in equity securities, including market risk, which is the risk that investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Other risks include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification and the type and amount of sector diversification within specific industries. In addition, there is the risk that a manager may deviate from the stated investment mandate or strategy of the mutual fund which could make the holdings less suitable for a client's portfolio. Also, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund



investments while not having yet sold their shares in the fund. Mutual funds may also carry additional expenses based on their share of operating expenses and certain brokerage fees, which may result in the potential duplication of certain fees.

#### Fixed-Income Funds

In addition to the risks associated with investing in equity mutual funds, fixed-income mutual funds also the same risks as set forth under “Fixed-Income Securities” listed above.

#### Indexed Funds

Indexed Funds have the potential to be affected by “tracking error risk” which means a deviation from a stated benchmark index. Since the core of a portfolio may attempt to closely replicate a benchmark, the source of the tracking error (deviation) may come from a “sample index” that may not closely align the benchmark. In addition, while many index mutual funds are known for their potential tax efficiency and higher “qualified dividend income” (QDI) percentages, there are assets classes within these funds or holding periods that may not benefit. Shorter holding periods, as well as commodities and currencies that may be part of a fund’s portfolio, may be considered “non-qualified” under certain tax code provisions.

#### Options

There are numerous risks associated with transactions in options on securities or securities indexes. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. In the case of index options, the client incurs basis risk between the performance of the underlying portfolio and the performance of the underlying index. For example, the underlying portfolio may decline in value while the underlying index may increase in value, resulting in a loss on the call option while the underlying portfolio declines as well.

#### Real Estate Related Securities

Investing in real estate related securities includes, among others, the following risks: possible declines in the value of real estate; risks related to general and local economic conditions, including increases in the rate of inflation, possible lack of availability of mortgage funds, overbuilding, extending vacancies of properties, increases in competition, property taxes and operating expenses, changes in zoning laws, costs resulting from clean up of, and liability to third-parties for damages resulting from, environmental problems, casualty and condemnation losses, uninsured damages from floods, earthquakes or other natural disasters, limitations on and variations in rents and changes in interest rates. Investing in Real Estate Investment Trusts (“REITs”) involves certain unique risks in addition to those risks associated with investing in real estate in general. REITs are dependent upon the skills of management, are not diversified and are subject to cash flow dependency, default by borrowers and self-liquidation.

**Note that there may be other circumstances not described here that could adversely affect a client’s investment and prevent their portfolio from reaching its objective.**

### **C. Cash Management**

SCM will maintain cash balances to meet foreseeable short-term client cash needs, as a temporary repository pending investment in other securities, or as a defensive position when market conditions are considered adverse. These cash balances are included in the account market value for the computation of the investment management fee.

High cash balances may be maintained for (i) new clients whose accounts initially consist of high cash positions as cash is gradually invested or (ii) for existing clients when there is an excessive inflow of cash into the client's account. SCM reserves the right to not charge a fee on large cash balances result from either (i) or (ii) above.

### **Item 9 - Disciplinary History**

SCM is required to disclose any legal or disciplinary events that are material to a client's or a prospective client's evaluation of the firm's advisory business or the integrity of SCM's management. Neither SCM nor any of its supervised persons have any reportable disciplinary history.

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

Anmar K. Sarafa, CFA, the President and principal owner of SCM, also owns Steward Capital Partners, LLC.

Anmar K. Sarafa, CFA, the President and principal owner of SCM also owns 99% of Steward Real Estate Management, LLC. The remaining 1% is owned by Haithem K. Sarafa, J.D. Steward Real Estate Management, LLC is the General Partner of Steward Real Estate Partners Fund I, LP. SCM provides investment management services to Steward Real Estate Partners I. L.P. pursuant to an investment management agreement. The fund is a partnership focused on executing and actively managing investments in diversified real estate ventures throughout the United States, typically with equity investments ranging between \$2 million and \$15 million. Because the Steward Real Estate Partners Fund I, LP only hold physical assets and not securities, there is no conflict of interest between managing the Steward Real Estate Partners Fund I, LP and the assets of SCM clients.

Anmar K. Sarafa, CFA, the President and principal owner of SCM also owns 99% of Steward Opportunity Management, LLC. The remaining 1% is owned by Haithem K. Sarafa, J.D. Steward Opportunity Management, LLC is the General Partner of WCERS Opportunity Fund, LP. SCM provides investment management services to WCERS Opportunity Fund, LP pursuant to an investment management agreement. The fund is a partnership which has the latitude to invest in various privately held securities including, but not limited to, real estate equity, real estate mortgages, and mezzanine debt.

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

#### **Code of Ethics**

SCM has adopted a Code of Ethics to prevent violations of federal securities laws. The Code of Ethics is predicated on the principle that SCM and its employees owe a fiduciary duty to its clients. Accordingly, SCM expects all employees to act with honesty, integrity and professionalism and to adhere to federal securities laws. SCM and its employees are required to adhere to the Code of Ethics. At all times, SCM and its employees must (i) place client interests ahead of SCM's; (ii) engage in personal investing that is in full compliance with

SCM's Code of Ethics; and (iii) avoid taking advantage of their position. Clients and prospective clients may request a copy of SCM's Code of Ethics by contacting SCM at 248-901-1523.

### **Prohibition on Use of Insider Information**

SCM has also adopted policies and procedures to prevent the misuse of "insider" information. A copy of SCM's Insider Trading policies and procedures is available to any client or prospective client upon request. For a copy of SCM's Insider Trading policies and procedures, please contact SCM at 248-901-1523.

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

SCM or individuals associated with SCM may buy, sell, or hold in their personal accounts the same securities that SCM recommends to its clients. To minimize conflicts of interest, and to maintain the fiduciary responsibility SCM has for its clients, SCM has established the following policy: An officer, manager, or employee of SCM shall not buy or sell securities for a personal portfolio when the decision to purchase is derived by reason of their employment with SCM, unless the information is also available to the investing public as a whole. No person associated with SCM shall prefer his or her own interest to that of any client. Personal trades in securities being purchased or sold for clients may only be made simultaneously with or after trades are made for clients. SCM personnel may not anticipate trades to be placed for clients.

## **Item 12 - Brokerage Practices**

### **A. Brokerage Selection**

#### Best Execution

Best execution has been defined by the SEC as the "execution of securities transactions for clients in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances." The best execution responsibility applies to the circumstances of each particular transaction and an investment adviser must consider the full range and quality of a broker-dealer's services, including, among other things, execution capability, commission rates, the value of any research, financial responsibility and responsiveness.

In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while SCM will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

#### Broker Analysis

SCM evaluates a wide range of criteria in seeking the most favorable price and market for the execution of transactions. These include the broker-dealer's trading costs, efficiency of execution and error resolution, financial strength and stability, capability, positioning and distribution capabilities, information in regard to the availability of securities, trading patterns, statistical or factual information, opinion pertaining to trading and prior performance in serving SCM.

Also in consideration is such broker-dealers' provision or payment of the costs of research and other investment management-related services (the provisional payment of such costs by brokers are referred to as payment made by "soft dollars", as further discussed in the "Research/Soft Dollars Benefits" section immediately below). Accordingly, if SCM determines in good faith that the amount of trading costs charged by a broker-dealer is reasonable in relation to the value of the brokerage and research or investment management-related services provided by such broker, the client may pay trading costs to such broker in an amount greater than the amount another broker might charge.

SCM's Chief Investment Officer is responsible for continuously monitoring and evaluation the performance and execution capabilities of brokers that transact orders for our client accounts to ensure consistent quality executions. In addition, SCM periodically reviews its transaction costs in light of current market circumstances and other relevant information.

#### Research/Soft Dollar Benefits

As stated above, SCM may consider a number of factors when selecting a broker or dealer to effect a transaction, including its financial strength and stability, the efficiency with which the transaction will be effected, and the value of research products and services that a broker may lawfully provide to assist SCM in the exercise of its investment discretion. SCM is authorized to pay a broker, who provides research services commissions that are higher than another broker might have charged, but which ordinarily will not be higher than the generally prevailing competitive rate, if SCM determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided. The services acquired by SCM in this manner are regarded as useful generally to all of the accounts managed by SCM. However, each specific research (soft dollar) transaction may not directly benefit the account for which the transaction is made. Consequently, SCM clients whose transactions are effected with or through research service-providing broker-dealers may be deemed to be providing a benefit to SCM's other clients whose transactions are effected with or through other broker-dealers that the client may have directed SCM to use.

While as a fiduciary SCM endeavors to act in its clients' best interests, SCM's recommendation that clients maintain their assets in accounts with these broker-dealers may be based in part on the benefit to SCM of the availability of some of the foregoing products and services and not solely on the nature cost or quality of custody and brokerage provided by these broker-dealers which may create a conflict of interest.

#### Brokerage Selection

##### *SCM Discretion*

For those clients that grant SCM discretionary brokerage authority, SCM is authorized by the client to select the broker or dealer to be used and to determine the commission rate paid. Any limitations on SCM's discretionary brokerage services by the client shall be made in writing to SCM. Any amendments to these restrictions shall be made in writing to SCM and such amendments shall take effect upon receipt of such amendments.

Please see the disclosures in the "Best Execution" and "Broker Analysis" sections of this disclosure brochure for additional information on the criteria used by SCM to select client brokerage.

### *SCM Directed Brokerage*

When SCM does not have the discretionary authority to determine the broker-dealer to be used, clients in need of brokerage will have a broker-dealer recommended to them. The determination of which broker-dealer to recommend to a client will depend on which broker-dealer offers a range of services that is better for the client. Please see the disclosures in the “Best Execution” and “Broker Analysis” sections of this disclosure brochure for additional information on the criteria used by SCM to select client brokerage.

While there is no direct linkage between the investment advice given and usage of these broker-dealers, economic benefits are received which would not be received if SCM did not give investment advice to clients (please see additional disclosures in the “Research/Soft Dollars Benefits” section directly above). SCM does not participate in any transaction fees or commissions paid to the broker dealer or custodian and does not receive any fees or commissions for the opening or maintenance of client accounts at recommended brokers.

Not all investment advisers require their clients to direct brokerage. SCM is required to disclose that by directing brokerage, SCM may not be able to achieve most favorable execution of client transactions and that this practice may cost clients more money.

### *Client Directed Brokerage*

Certain clients may direct SCM to use particular brokers for executing transactions in their accounts. With regard to client directed brokerage, SCM is required to disclose that SCM may be unable to negotiate commissions, block or batch orders or otherwise achieve the benefits described above, including best execution. Directed brokerage commission rates may be higher than the rates SCM might pay for transactions in non-directed accounts. Therefore, directing brokerage may cost clients more money.

As a general rule, SCM encourages each client to compare the possible costs or disadvantages of directed brokerage against the value of custodial or other services provided by the broker to the client in exchange for the directed brokerage designation.

## **B. Trade Aggregation/Allocation**

It is the objective of SCM to provide a means of allocating trading and investment opportunities between advisory clients on a fair and equitable basis and in compliance with all applicable state and federal guidelines. With respect to clients’ accounts with substantially similar investment objectives and policies, SCM may often seek to purchase or sell a particular security in each account. SCM will aggregate orders only when such aggregation is consistent with SCM’s duty to seek best execution and is consistent with the investment objective of each client. No client account will be unfairly favored over any other account. Each client that participates in an aggregated order will participate based on the average execution price in that particular security. All transaction costs will be allocated pro rata based on each client’s participation in the transaction. All securities purchased or sold, whether the order is filled completely or partially, will then be allocated pro rata based on the assets of each account.

## **C. Trade Errors**

Trade errors are promptly reported to the custodian and will be rectified by the custodian with no adverse financial effect on the client.

### **Item 13 - Review Of Accounts**

The reviewers include Anmar K. Sarafa, CFA, President and Chief Investment Officer, who primarily reviews institutional accounts, as well as Jessica Hite, JD, Chief Compliance Officer, who reconciles private client accounts with an SCM administrative assistant. Accounts are reviewed a minimum of once a month and reviewers are responsible for a maximum of 100 accounts.

Security analysis and portfolio investment decisions are primarily made by Anmar K. Sarafa, CFA, President and Chief Investment Officer. He is responsible for the analysis of individual securities within the industry group(s), the recommendation of purchases within those groups, and the implementation of the client-designed format of SCM's investment strategy in certain specific portfolios..

SCM has established certain minimum standards based on its quantitative approach for the consideration of an individual security but the fundamental and technical analysis is left to Anmar K. Sarafa, CFA. SCM also has established parameters for the asset allocation and the security weighting and diversification to be applied by Mr. Sarafa with consideration for the client's financial situation and individual needs. The trader is responsible for executing the transactions directed by Mr. Sarafa for each account.

As mentioned above, each account is reviewed regularly. Factors which could cause an account to be reviewed outside of that schedule would include:

1. A change in asset allocation dictated by SCM's investment model;
2. A significant move in the stock or bond market within 30 days;
3. A significant deposit or withdrawal of funds by the client; and/or
4. By request of the client.

As not all accounts are reviewed at the same time, all accounts do not necessarily pay the same price for an individual security. The trader may aggregate and place those trades being made on a particular day at a particular broker/dealer. As individual securities may remain on the "buy" list for extended periods of time, there will likely be a reasonable disparity in the acquisition costs/sale proceeds of SCM clients. Therefore, SCM clients do not all hold the same securities and their performance may differ somewhat.

Clients will receive reports directly from their individual custodian. SCM does not send out client reports or account statements.

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

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

SCM does not receive any economic benefits such as sales awards or other prizes from any non-client for providing investment advisory services to the firm's clients.

#### **B. Client Referrals**

From time to time, SCM may retain solicitors to refer clients to SCM. If a client is introduced to SCM by either an unaffiliated or an affiliated solicitor, SCM may pay that solicitor a referral fee in accordance with the all requirements of the Investment Advisers Act, and any corresponding state securities law requirements. Any such referral fee shall be paid solely

from SCM's portfolio management fee, and shall not result in any additional charge to the client.

If the client is introduced to SCM by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of their solicitor relationship, and shall provide each prospective client with a copy of this written disclosure statement together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the solicitation arrangement between SCM and the solicitor, including the compensation to be received by the solicitor from SCM. Any affiliated solicitor of SCM shall disclose the nature of their relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of this written disclosure statement.

### **Item 15 - Custody**

SCM is deemed to have custody because SCM deducts its fees directly from client accounts and because a related person has custody over certain private fund accounts.

Custody of client assets will be maintained with the independent custodian selected by the client. SCM will not have physical custody of any assets in the client's account except as permitted for payment of advisory fees. Clients will be solely responsible for paying all fees or charges of the custodian. Clients will authorize SCM to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the client's account.

Clients will receive directly from the custodian at least quarterly a statement showing all transactions occurring in the client's account during the period covered by the account statement, and the funds, securities and other property in the client's account at the end of the period. Clients are urged to carefully review the account statement sent by the broker-dealer/custodian and to compare the account statement provided by the broker-dealer/custodian with any statements provided by SCM.

In addition, an independent public accountant audits annually the pooled investment vehicle(s) that SCM manages and the audited financial statements are distributed to the investors in the pools.

### **Item 16 - Investment Discretion**

For those client accounts over which SCM has discretion, SCM requests that it be provided with written authority (e.g., limited power of attorney contained in SCM's Investment Advisory Agreement) to determine the amounts of securities that are bought or sold. Any limitations on this discretionary authority shall be included in this written authority statement. Clients may change or amend these limitations as required. All such amendments shall be submitted in writing.

SCM generally has discretionary authority to make the following determinations without obtaining the consent of the client before the transactions are effected: (1) which securities are bought and sold for the account and (2) the total amount of securities to be bought and sold. SCM's authority in making investment related decisions may be limited by account guidelines, investment objectives and trading restrictions, as agreed between SCM and the client.

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

### **Proxy Voting**

SCM believes that voting proxies solicited by companies held in its clients' portfolios is SCM's responsibility unless a client reserves the right to do so. SCM believes the central purpose of corporate governance is to manage the corporation's underlying assets and employees in such a manner as to maximize the economic best interests of its shareholders. This precept does not mean that managers should seek to reap short-term gains that would damage the long-term health of the business, but it does indicate that managers and directors should be working for the shareholders and not for their own individual interests. SCM believes that proxies should be voted with concern only for the economic interests of shareholders and does not believe that corporations should be asked to grapple with non-economic problems of our society that are better addressed by the legislative system. SCM considers only those factors that relate to clients' investments, including how its votes will economically impact and affect the value of those investments.

Proxy votes generally will be cast in favor of proposals that maintain or strengthen the shared interests of shareholders and management, increase shareholder value and maintain or increase the rights of shareholders. Proxy votes will normally be cast against proposals having the opposite effect. On each and every issue, SCM will vote in a prudent and diligent fashion and only after careful evaluation of the issues presented on the ballot. SCM maintains the books and records of proxy votes cast and this information, as well as the full text of SCM's Proxy Voting Policies and Procedures, are available by written request.

### **Class Action Settlements**

As requested, SCM will assist clients with filing the required paperwork to respond to a class action lawsuit or similar settlements involving securities owned by the client. SCM does not handle class action lawsuits on behalf of its institutional clients.

## **Item 18 - Financial Information**

### **A. Prepayment of Fees**

Because SCM does not require or accept prepayment of more than \$1,200 in fees six months or more in advance, SCM is not required include a balance sheet with this disclosure brochure.

### **B. Financial Condition**

SCM does not have any adverse financial conditions to disclose.

### **C. Bankruptcy**

SCM has never been the subject of a bankruptcy petition.



## **D. Additional Financial Disclosure**

Due to the economic uncertainty caused by the Coronavirus (COVID-19) crisis and pursuant to the Paycheck Protection Program, Steward Capital Management, Inc. has obtained a Small Business Administration loan in the approximate amount of \$90,000 on April 16, 2020.

## **Item 19 - Additional Information**

### **Privacy Notice**

SCM views protecting its clients' private information as a top priority and has instituted policies and procedures to ensure that client information is private and secure. SCM does not disclose any nonpublic personal information about its clients or former clients to any nonaffiliated third parties, except as permitted or required by law. In the course of servicing a client's account, SCM may share some information with its service providers, such as transfer agents, custodians, broker-dealers, accountants, and lawyers, etc. SCM restricts internal access to nonpublic personal information about the client to those persons who need access to that information in order to provide services to the client and to perform administrative functions for SCM. As emphasized above, it has always been and will always be SCM's policy never to sell information about current or former clients or their accounts to anyone. It is also SCM's policy not to share information unless required to process a transaction, at the request of a client, or as required by law. For the full text of SCM's Privacy Policy, please contact SCM at 248-901-1523.

### **Client Complaints**

Clients may contact SCM at 248-901-1523 to submit a complaint. Written complaints should be sent to Steward Capital Management, Inc., 21 East Long Lake Road, Suite 200, Bloomfield Hills, MI 48304.