

# Stellar Capital Management, LLC

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Phoenix, Arizona 85016

Form ADV – Part 2A  
*March 30, 2019*

This Brochure provides information about the qualifications and business practices of the registered investment adviser, Stellar Capital Management, LLC (Stellar). The information in this Brochure has not been approved or verified by the United States Securities & Exchange Commission (SEC) or by any state securities authority, and the registration of an investment adviser does not imply any particular level of skill or training. You are encouraged to research and evaluate any firm and/or people you are considering doing business with, beyond what may be a minimum required registration with federal, state or local authorities. A brochure such as this should be considered a starting point in one's quest to gain a working understanding of how a firm provides services to its clients.

If you have any questions about the contents of this Brochure, please contact us by phone at 602.778.0307, by fax at 602.277.4572, or by e-mail at [info@stellarmgt.com](mailto:info@stellarmgt.com). Additional information about Stellar Capital Management, LLC is available on the Firm's website, [www.stellarmgt.com](http://www.stellarmgt.com), or on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Stellar who are registered, or are required to be registered, as Investment Adviser Representatives of Stellar.

## Material Changes

The Securities and Exchange Commission requires registered investment advisers to amend their disclosure documents when information becomes materially inaccurate and provide clients with a description of the material changes, on at least an annual basis. However, if in the interim, we determine that a material change requires notification, we will issue a notification as needed.

*Stellar Capital Management, LLC (Stellar), made the following material changes to our ADV Part 2A since the last update of Stellar's Brochure dated March 29, 2018.*

Additional information about Stellar is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Stellar who are registered, or are required to be registered, as investment advisor representatives of Stellar.

In the past we have offered to deliver, or delivered, Form ADV II at least on an annual basis. Pursuant to SEC Rules, you will either receive a summary of any material changes to this and subsequent Brochures, or an updated Brochure within 120 days of the close of our business' fiscal year, as well as other ongoing updates about material changes as necessary. As always, this information is also available on request, and will be delivered free of charge. You may request our Brochure by contacting Sheryl Rayner, our Chief Compliance Officer, at 602.778.0307 or [srayner@stellarmgt.com](mailto:srayner@stellarmgt.com). Our Brochure is also available, on our web site [www.stellarmgt.com](http://www.stellarmgt.com).

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## **Advisory Business: About the Firm**

Stellar Capital Management is a Phoenix, Arizona based independent investment advisory firm with over 25 years of history. Our mission is to provide high quality objective financial advice and investment management to a select group of clients using practical and research driven investment strategies that are backed up by our years of experience. The Firm is known as an economically driven investment firm that is part of the noted Western Blue Chip Economic Forecast Panel and the National Association of Business Economists (NABE) Outlook panel. The Firm is owned by the Taddie Family Trust and managed by Stephen J. Taddie (Trustee of the Taddie Family Trust and Managing Partner of Stellar Capital Management). Its investment professionals have a long history of involvement in the Arizona business community, and average over 30 years of investment experience. This means we have navigated through many different markets, some challenging and some rewarding, and have over a century of collective investment experience available to our clients. Stellar provides discretionary and non-discretionary portfolio management as well as investment consulting.

### **Portfolio Management**

The minimum account size for “custom-tailored” discretionary portfolio management is \$1,000,000. We may reduce or waive this minimum at our sole discretion. We provide direct investment management of stocks, bonds, and alternative investments. These portfolios are custom managed and accommodate a client’s personal preferences, tax situation, and any gifting desires or estate planning needs. On occasion a client may hire the Firm as a non-discretionary manager, to act on an approval basis. See the *Miscellaneous* section for more information.

We develop a clear understanding of our client’s financial position, financial needs, and risk tolerance through a professional review of the client’s detailed self-assessment profile. We then recommend the best strategy to accomplish his/her goals. Our investment team applies its depth of economic and market experience to seek out appropriate investments to create and manage client portfolios to fulfill the recommended strategy. We periodically review the progress of these strategies, revisit our clients’ financial situation and recommend adjustments where needed.

### **Investment Consulting**

Stellar has provided investment management and/or advisory services to employer sponsored, self-directed retirement plans since 1987. Depending upon the needs of the plan, we serve as a 3(38) discretionary investment manager or a 3(21) nondiscretionary advisor. We may also provide additional consulting services to assist the plan sponsor with meeting its fiduciary obligation as the plan's Named Fiduciary. Stellar does not serve as the plan's Named Fiduciary. Stellar also provides sub-investment advisory and/or consulting services to its affiliated private investment fund, Stellar Investment Alliance.

### **Sub-Advisory Engagements**

Adviser may also serve as a sub-adviser to unaffiliated registered investment advisers per the terms and conditions of a written Sub-Advisory Agreement. With respect to its sub-advisory services, the unaffiliated investment advisers that engage Adviser’s sub-advisory services maintain both the initial and ongoing day-to-day relationship with the underlying client, including initial and ongoing determination of client suitability for Adviser’s designated investment strategies. Adviser's obligation shall be limited to management of the allocated assets consistent with the objective and/or strategy designated by the Adviser. If the custodian/broker-dealer is determined by the unaffiliated investment adviser, Adviser will be unable to negotiate commissions and/or transaction costs, and/or seek better execution. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case through alternative clearing arrangements recommended by Adviser. Higher transaction costs adversely impact account performance.

**Total assets under advisement, as of 12/31/2018:**

Discretionary Management: \$341,238,431.00

Non-Discretionary Management: 1,234,530.00

Non-Discretionary consulting assets as of 12/31/2018: 23,946,237.00

## MISCELLANEOUS

**Please Note: Non-Discretionary Service Limitations.** Clients that determine to engage Stellar on a non-discretionary investment advisory basis **must be willing to accept** that Stellar cannot effect any account transactions without obtaining prior verbal consent to any such transaction(s) from the client. Thus, in the event of a market correction during which the client is unavailable, Stellar will be unable to effect any account transactions (as it would for its discretionary clients) **without first obtaining the client's verbal consent.** Non-Discretionary clients will typically be contacted if a transaction is appropriate for his/her portfolio AFTER transactions for Discretionary clients are completed.

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

## Fees and Compensation

Stellar can be engaged to provide discretionary, non-discretionary investment advisory and investment consulting services on a *fee-only* basis. Our annual investment advisory fee is based on a percentage (%) of the market value of the assets advised by Stellar (between negotiable and 2.00%) and is detailed on Schedule A of the *Investment Advisory Agreement* between Stellar and the client.

Stellar charges investment advisory fees quarterly, based upon the market value of the client's assets on the last business day of the previous quarter. If an agreement starts or ends during a calendar quarter, the investment advisory fee will be prorated for that quarter. That means that a new client would only be charged a fee for the number of days in the quarter that his/her assets are under advisement, and that amount would be added to the regular fee payable in advance at the beginning of the next quarter. In the case of a termination, the unused portion of the fee is refunded to the client promptly upon proper notification of termination. Stellar may choose to reduce its account minimum and/or charge a lesser investment management fee, include or exclude certain assets, and/or charge for certain services for certain clients in arrears.

Most clients authorize Stellar to deduct investment advisory fees directly from their portfolio(s). In the limited event that Stellar bills the client directly, payment is due upon receipt of the invoice. The Investment Advisory Agreement between Stellar and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the Investment Advisory Agreement.

These advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment 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
- 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 Stellar's advisory fee. In cases where Participant Directed Retirement Plans use mutual fund share classes where commissions such as 12(b)1 fees and fees such as shareholder services fees and/or Sub TA fees are generated and paid out to the Service Providers, Stellar will only accept payment for the amount of its contracted fee.

When recommending custodians or using broker-dealers for client transactions, Stellar considers the reasonableness of their compensation (e.g., commissions, or other fees), the quality of the execution, and/or other services received that may benefit the specific client or clients of the Firm. **A more detailed explanation of this can be found in the Brokerage Practices section.**

Stellar may, in its sole discretion, determine to provide non-discretionary investment-related consulting services on a stand-alone basis. When this is the case, Stellar may charge fees based on assets, fixed amounts, or establish an hourly rate for those services. Prior to engaging Stellar, the client will generally be required to enter into a *Consulting Agreement* with Stellar which outlines the terms and conditions of the engagement, scope of the services to be provided, and the fee agreement. Under some circumstances, with *employer sponsored retirement plan clients*, "Participant Enrollment and/or Education" services may be provided by an outside firm under a contract between Stellar and that firm to provide specific services for Stellar's clients.

## Performance-Based Fees and Side-by-Side Management

Performance-based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An adviser charging performance fees to some accounts faces a variety of conflicts because the adviser may potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (e.g., and asset-based fee) As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of the account that pays a performance fee. **Stellar does not charge performance-based fees.**

## Types of Clients

Stellar provides discretionary and non-discretionary portfolio management services for Individuals and Families and their related trust accounts. We also provide management services for Charities, Foundations, Endowments, Corporate and Individual Retirement Plans, Native American Indian tribes, and investment management and/or advisory services to employer sponsored, self-directed retirement plans.

Stellar actively manages the number of client relationships handled by its representatives to ensure that the highest quality relationship is achieved and maintained. Each client works directly with a dedicated portfolio manager best suited for that client and his or her specific situation. The depth of the Firm mitigates the longevity risk encountered when dealing with many sole practitioners.

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

We offer two basic Investment Strategies:

### 1. **Discretionary Portfolio Management**

Once an appropriate investment strategy is determined, Stellar manages most of a client's investment portfolio internally. The Firm focuses on identifying significant and long-term changes in the domestic and international economies and markets. These changes may be a result of factors such as interest rates, inflation expectations, technology changes, social and political developments, or international events. This analysis guides the Firm towards market sectors or industries undergoing constructive changes that have not yet been reflected in security prices, and away from those with deteriorating prospects.

Portfolios are managed by integrating each client's specific investment objective with the prevailing opportunities and risks presented in the investment markets. In our opinion, the resulting portfolios reflect the best method of achieving a client's investment objectives.

Stocks and bonds are the primary tools used in the creation and management of investment portfolios. We incorporate large, medium, and small capitalization stocks, value and growth opportunities, high quality bonds, and managed portfolios such as ETFs, mutual funds, or separately managed accounts to focus on specific, hard to invest in areas of the market where appropriate.

Economically favored sectors are studied to find fundamentally sound companies in healthy industries positioned to grow revenue and earnings. Financial and market ratios are used to assess financial stability, and this, in combination with economic statistics and interest rates drive our internal valuation assessment. Technical trend analysis of markets, industries and specific companies compliments our ultimate decision process.

Companies fitting the criteria we use that are priced below our internal valuation projections are typically targeted for purchase and, are typically held for long-term appreciation, not short-term speculation.

Bonds, which help reduce overall volatility and provide portfolio income, are typically investment grade and consist of U.S. Treasury, Government agency, municipal, or corporate bonds. Their allocation, maturity distribution, and quality are based on the underlying economic and market environment, projected interest rate trends, and specific client needs.

Our investment process is methodical. We look to participate in market gains while avoiding as much market loss as possible. This strategy attempts to provide a "smooth ride" in the investment markets. Any time an action is taken inside a client's portfolio, Stellar typically communicates to the client what the action was and the rationale behind it. If the client approves e-mail as an acceptable method of communication, the information is most often received by the client prior to the custodian's trade confirmation. It is through communication like this that clients develop and maintain an understanding of how their portfolios are being managed, and why specific actions are being taken.

## **2. Participant Directed Retirement Plans**

Stellar uses multiple sources to conduct statistical, risk, and performance related analysis (i.e., quantitative analysis) as a first step in monitoring and recommending investment managers. Although quantitative analysis, by its very nature, is based on past actions, it does show how an investment manager performed in the past, and how he/she got there. While studies show, and disclaimers always note, "past performance does not guarantee future performance," it is important to see that a manager has at least produced competitive returns over market cycles. As such, quantitative analysis is a very good starting point.

The next step is to focus on the management philosophy, process and people related factors (i.e., qualitative analysis) that characterize investment managers. These factors include its professionals, the organizational structure, and the investment philosophy and process. We are interested in whether the firm can continue doing what it has done well in the past, and is improving on things it has not done well. We want to understand what risks the manager is taking and if those risks are being managed properly. These factors provide a deeper insight into what a firm can do in the future. This combination of quantitative and qualitative analysis is invaluable in the review, selection, and termination of investment managers.

Managers with solid investment philosophies and disciplined approaches typically achieve optimal returns with minimal risk. It is equally important to know when and why to hire a manager as it is when and why to terminate an investment manager. We strive to use managers that have, and continue to manage, assets within an acceptable range of their stated style, as well as within an acceptable range of performance. Performing consistent and routine due diligence on investment managers and menu make-up with the purpose of assessing changes in the managers used, can have a significant and positive impact on the performance. Taking care of the details is the first step in managing the big picture.

What we are on the lookout for are changes to the status quo that would trigger a manager change. Generally, triggers are associated with significant and insurmountable changes in the operation, the risk adjusted performance of the manager, or the availability of a significantly better alternative. Terminations are rarely an overnight occurrence and are the result of a methodical process that begins with a manager being placed on “watch.” Being placed on watch is the result of triggering quantitative and/or qualitative limits like a change in ownership, professional personnel, inadvertent or decided change in investment style or strategy, or increased volatility that could positively or negatively affect performance.

After careful assessment, a manager may remain on watch, be removed, or placed on probation. If placed on probation, we carefully determine what factors must improve to keep the manager engaged, or whether a manager should be terminated. As an investment fiduciary, there are some circumstances under which we cannot just “wait and see” how they will turn out. For example, a significant shift in investment strategy and style can shift the overall allocation of the portfolio outside of the policy range, or underperformance caused by flaws in the process or implementation of the process, as opposed to underperformance due to simply being out of favor. If an investment manager is faced with one of these significant and insurmountable challenges, we will attempt to replace that manager as soon as reasonably possible.

Selecting managers can be a difficult task, particularly since performance records tend to be a distraction from making the right decisions. Study after study show that there is typically significant movement between the last quarter’s worst performers and this quarter’s best. At Stellar, we strive to limit wide variations from the peer group and appropriate benchmark returns by focusing on application of consistent processes by the professionals managing the portfolios. We are forward-looking in our analysis, and are as focused on how a manager obtains a result as we are with what that result is.

## ERISA / IRC Fiduciary Acknowledgment

If the client is: (i) a retirement plan (“Plan”) organized under the Employee Retirement Income Security Act of 1974 (“ERISA”); (ii) a participant or beneficiary of a Plan subject to Title I of ERISA or described in section 4975(e)(1)(A) of the Internal Revenue Code, with authority to direct the investment of assets in his or her Plan account or to take a distribution; (iii) the beneficial owner of an Individual Retirement Account (“IRA”) acting on behalf of the IRA; or (iv) a Retail Fiduciary with respect to a plan subject to Title I of ERISA or described in section 4975(e)(1)(A) of the Internal Revenue Code: then the firm represents that it and its representatives are fiduciaries under ERISA or the Internal Revenue Code, or both, with respect to any investment advice provided by the firm or its representatives or with respect to any investment recommendations regarding an ERISA Plan or participant or beneficiary account.

## **Risks**

Currently, Stellar primarily allocates investment management assets among various individual equity and fixed income securities, Exchange Traded Funds (ETFs), mutual funds, covered calls on specific securities, alternative investments and private placements where appropriate. Investing in securities involves risks, and there is always the potential of losing money when you invest in securities. All clients and prospective clients should be aware that past performance is not indicative of future performance and that even with the most complete understanding of how a portfolio is being managed; investing in securities involves the risk of loss that clients should be prepared to bear.

## **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that are material to your evaluation of Stellar or the integrity of Stellar’s management. This item is not applicable to Stellar since, in the history of our firm, neither the firm nor any of our staff has had any legal or disciplinary events related to the services provided by our firm.

## Other Financial Industry Activities and Affiliations

### **PRIVATE FUNDS**

**Affiliated Private Fund.** Stellar is affiliated with, and serves as the investment manager of, Stellar Investment Alliance L.P, a private investment fund (the "Fund"-complete description of the terms, conditions, risks and fees associated with the Fund is set forth in the Fund's offering documents). Stellar, on a non-discretionary basis, may recommend that qualified clients consider allocating a portion of their investment assets to the Fund. The terms and conditions for participation in the Fund, including management fees, conflicts of interest, and risk factors, are set forth in the fund's offering documents. Stellar's clients are under absolutely no obligation to consider or make an investment in the Fund.

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

**Please Also Note: Conflict of Interest.** Because the Registrant and/or its affiliates can earn compensation from the Fund that may exceed the fee that the Registrant would earn under its standard asset based fee schedule referenced in Item 5, the recommendation that a client become a Fund investor presents a **conflict of interest**. No client is under any obligation to become a Fund investor. **Stellar's Chief Compliance Officer, Sheryl L. Rayner, remains available to address any questions regarding this conflict of interest.**

## Code of Ethics

Stellar's Code of Ethics includes provisions relating to:

- the confidentiality of client information
- a prohibition on insider trading
- a prohibition of rumor mongering
- restrictions on the acceptance of significant gifts
- the reporting of certain gifts and business entertainment items
- personal securities trading procedures, among other things

All supervised persons at Stellar must acknowledge the terms of the Code of Ethics annually, or as amended. Stellar has implemented an investment policy relative to personal securities transactions that, among other things, requires pre-clearance of all employee trades, restricts trading in close proximity to client trading activity, and restricts employees from participating in Initial Public Offerings (IPOs). This investment policy is part of Stellar's overall Code of Ethics which serves to establish a standard of business conduct for all of Stellar's Associated Persons that is based upon fundamental principles of openness, integrity, honesty and trust. Stellar prohibits cross-trade transactions between its employees and clients. However, Stellar may, if it is in the best interest of both parties, utilize cross trades in client accounts. This type of transaction is only authorized for non-related parties and when the custodian is able to set the cross price.

In accordance with Section 204A of the Investment Advisers Act of 1940, Stellar also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Stellar or any person associated with Stellar (otherwise known as insider trading).

Stellar anticipates that, in many circumstances, it will recommend to clients or prospective clients, the purchase or sale of securities in which Stellar, its affiliates and/or clients, directly or indirectly, have a position of interest. Stellar's employees and associated persons are required to follow Stellar's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Stellar and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for our clients. The Code of Ethics is designed to assure that the personal securities transactions, activities

and interests of the employees of Stellar will not interfere with (1) making decisions in the best interest of advisory clients and (2) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Stellar's clients. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, to reasonably prevent conflicts of interest between Stellar and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Stellar'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. Stellar 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.

**Stellar's Chief Compliance Officer, Sheryl L. Rayner, remains available to address any questions that a client or prospective client may have regarding the firm's Code of Ethics, any of the above arrangements and any corresponding perceived conflict of interest any such arrangement may create.**

## Brokerage Practices

Clients may use the broker/dealer of their choice. If asked, Stellar will arrange for the execution of securities transactions for clients' accounts through independent broker-dealers that Stellar reasonably believes will provide "best execution." In seeking "best execution," the deciding factor is not the lowest possible commission cost but whether the transaction represents the best quality execution. Stellar determines the quality of an execution by taking into consideration the full range of a broker-dealer's services including:

- the reputation and financial strength of the executing broker/dealer
- historical relationship with Stellar
- responsiveness
- execution capabilities
- commission rates
- research
- quality of service

Although the commissions and/or transaction fees paid by Stellar's clients shall comply with our duty to obtain best execution, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Stellar determines, in good faith, that the commission/transaction fee is reasonable in relation to the value of the total services received by both the client and Stellar.

If asked for a recommendation, the Firm generally recommends that clients arrange for their assets to be held with either Charles Schwab & Company ("Schwab") or National Financial Services LLC and Fidelity Brokerage Services LLC (collectively known as "Fidelity"). There is no affiliation between the Firm and either Schwab or Fidelity, however, these companies do provide independent advisers services and other tools for managing client accounts.

Schwab and Fidelity provide Stellar and our clients with access to their institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab or Fidelity retail customers. Schwab and Fidelity also make available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. These support services are generally available on an unsolicited basis and at no charge to us as long as we keep at least a certain percentage of our clients' assets in accounts at Schwab or Fidelity. The availability to us of Schwab's or Fidelity's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Transactions for each client account will generally be effected independently, unless Stellar decides to purchase or sell the same securities for several clients at approximately the same time. Stellar may (but is not obligated to) combine or "batch" such orders to obtain "best execution," to negotiate more favorable commission rates or to allocate equitably among Stellar's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among Stellar's

clients in proportion to the purchase and sale orders placed for each client account on any given day. In cases where batched orders are partially filled for the day, we will determine, on a subjective basis, how best to distribute the filled portion of the order among affected clients. The decision will be based on a combination of fairness and cost considerations for the client. Stellar shall not receive any additional compensation or remuneration as a result of the aggregation.

Over-the-Counter (OTC) securities transactions for Stellar's clients are generally effected on an agency basis, which involve the services of two separate broker-dealers: (1) a "dealer" or "principal" acting as market-maker; and (2) the executing broker-dealer that acts in an agency capacity for the client's account. Dealers executing principal transactions typically include a mark-up/down, which is included in the offer or bid price of the securities purchased or sold. In addition to the dealer mark-up/down, the client will also incur the transaction fee imposed by the executing broker-dealer. Stellar does not receive any portion of the dealer mark-up/down or the executing broker-dealers transaction fee.

### **Directed Brokerage**

The client may direct Stellar to use a particular broker-dealer (subject to Stellar's right to decline and/or terminate the engagement) to execute some or all transactions for the client's account. In such cases, the client will negotiate terms and arrangements for the account with that broker-dealer Stellar will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Stellar. As a result, the client may:

- pay higher commissions or other transaction costs or greater spreads
- receive less favorable net prices on transactions for the account than would otherwise be the case

If a client's transactions are made through a broker-dealer that refers investment management clients to Stellar, the potential for a conflict of interest exists if the account is charged a higher commission or transaction cost than it would have otherwise received had the client's transaction been made through other arrangements that may have been available through Stellar.

### **Economic Assistance/Support**

Although it is not a material consideration, when deciding whether to recommend that a client use the services of a particular broker-dealer/custodian, Stellar may receive from a broker-dealer/custodian without cost (and/or at a discount) support services and/or products, that help Stellar to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Stellar may be:

- investment-related research
- pricing information and market data
- software and other technology that provide access to client account data
- compliance and/or practice management-related publications
- discounted or gratis consulting services
- discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events
- marketing support
- computer hardware and/or software and/or other products used by Stellar to conduct its investment advisory business operations.

As indicated above, some of the support services and/or products that may be received may assist Stellar in managing and administering client accounts. Others do not directly provide such assistance, but rather assist Stellar to manage and further develop its business enterprise. Stellar's clients do not pay more for investment transactions effected and/or assets maintained at any broker-dealer/custodian as result of this arrangement. There is no corresponding commitment made by Stellar to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangements.

## **Trade Error Policy**

The client will be made whole on any errors caused by Stellar. Most trade errors are corrected through an error account held on the Stellar's behalf at the client's custodian. The correction of errors can result in a credit or a debit to that account. In cases where a debit is created, Stellar must fund the account. In cases where a credit is created, that credit may be used to offset future debits to that account.

## **"Prime Brokerage" or trading away from client's custodians**

**Tradeaway/Prime Broker Fees.** Relative to Stellar's discretionary investment management services, when beneficial to the client, individual fixed income transactions may be effected through broker-dealers other than the account custodian, in which event, the client generally will incur both the fee (commission, mark-up/mark-down) charged by the executing broker-dealer and a separate "tradeaway" and/or prime broker fee charged by the account custodian (e.g.Schwab/Fidelity).

**Stellar's Chief Compliance Officer, Sheryl L. Rayner, remains available to address any questions that a client or prospective client may have regarding the above arrangements and any corresponding perceived conflict of interest such arrangements may create.**

## **Review of Accounts**

**Discretionary Accounts:** Periodic investment reviews are important to the success of any investment strategy, as many things can change in the economy and markets. Each Stellar portfolio manager is part of the Firm's investment committee. The investment committee is responsible for overseeing the Firm's allocation and diversification objectives and then integrating those objectives with individual client strategies on an ongoing basis. Clients are routinely advised that it is their responsibility to let us know of any meaningful changes in their investment objectives and/or financial situation. They are also encouraged to comprehensively review investment objectives and account performance with us on an annual basis. Whether these reviews are in person, on the telephone, or via internet based communication, they are conducted by a member of the Firm's investment committee.

**Participant Directed Retirement Plans:** Stellar regularly reviews investments offered to plan participants by a plan sponsor and communicates menu adjustments to the plan sponsor as needed. Detailed reviews of individual investments and menu offerings are offered at least annually. Whether these reviews are completed in person, on the telephone, or via internet based communication, they are conducted by a member of the Firm's investment committee.

Overall, Clients regularly receive a variety of reports related to their investment portfolios. A client's custodian and/or trustee (and/or recordkeeper in the case of an employer sponsored retirement plan) sends transaction confirmation notices and account statements directly to clients. In many cases, the firms also offer on-line, real-time account access for clients. Stellar typically sends our clients' communication regarding each transaction (discretionary accounts), quarterly statements that detail portfolio holdings, performance, and other meaningful and/or timely information.

## **Client Referrals and Other Compensation**

If a client is introduced to Stellar by a solicitor (either affiliated or unaffiliated), we may pay that solicitor a referral fee [in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements]. Any such referral fee is paid solely from Stellar's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Stellar by an unaffiliated solicitor, the solicitor, at the time of the solicitation, shall disclose the nature of his/her/its solicitor relationship. He or she shall also provide each prospective client with a copy of Stellar's ADV Part 2A and 2B and a copy of a written statement which discloses the existence of the solicitation arrangement with the Firm, and the nature of the compensation they receive.

Revenue sharing agreements may also exist where Stellar is compensated by affiliated or non-affiliated firms for referring clients, individuals related to clients or prospective clients, and/or organizations either related or non-related to clients or prospective clients for specific services not provided by, nor contracted through Stellar. In such cases where compensation would be received, the existence and the nature of the agreement will be disclosed to those clients as required.

## **Custody**

Stellar operates in a bifurcated environment meaning that custody and investment management are provided by independent firms. This creates a built-in system of checks and balances. All client assets are held independently by unaffiliated qualified custodians. Stellar does not take physical custody of clients' assets.

Under government regulations, we are deemed to have custody of your assets in the certain situations. Examples include, but are not limited to: 1) when you authorize us to instruct your custodian to deduct our advisory fees directly from your account, 2) when you authorize us to direct checks or money transfers from your accounts to third parties; 3) if you send checks to Stellar for deposit at your custodian, but the checks are not payable to the custodian; 4) if a client appoints an employee of Stellar to serve as a trustee or gives them full power of attorney; 5) if Stellar or an affiliate serves as general partner or managing member of private funds; 6) when a client holds certain third-party issued privately offered securities where there is no qualified custodian. Your custodian maintains actual custody of your assets and sends statements, at least quarterly. Stellar urges you to take advantage of the built-in system of checks and balances by carefully reviewing custodian statements with account statements that we provide to you. Based on accounting procedures, reporting dates, or valuation methodologies of certain securities, these statements may vary slightly in inventory and/or valuation.

## **Investment Discretion**

When a client engages Stellar as a discretionary manager, the written Agreement signed by the Firm and the client grants Stellar discretionary authority to make transactions inside the client's portfolio. This discretion is then confirmed with the chosen custodians' account paperwork. This means that Stellar may select the security and determine the amount of securities to be bought or sold. In all cases, however, this discretion is to be exercised in a manner consistent with the investment strategy that was initially agreed to, or an adjusted investment strategy agreed to in subsequent review meetings for the particular client account.

That discretion may be modified to include formal or informal restrictions to accommodate personal preferences, tax concerns, business issues, diversification requirements, and other limitations and/or restrictions that could serve to limit full discretion. Modifications to full discretion are typically provided to Stellar in writing at the inception of the working relationship with the Client, but can be implemented or modified at any time during the relationship should the need or requirement arise.

Some Investment Consulting relationships, as is the case with Participant Directed Employer Sponsored Retirement Plans, while not technically a transaction, the procedure for making adjustments to the investment menu requires authorization by the investment committee or board of trustees, and typically requires a signed authorization for each change.

## **Voting Client Securities**

Stellar accepts voting authority and responsibility for voting proxies and corporate actions unless a client directs otherwise, in writing. In the event that Stellar votes proxies and corporate actions, Stellar has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Stellar receives will be treated in accordance with these policies and procedures.

Stellar considers the reputation, experience, and competence of a company's management and board of directors when it evaluates a prospective investment. In general, Stellar votes in favor of routine corporate matters, such as the re-approval of an auditor or a change of a legal entity's name. Stellar also generally votes in favor of compensation practices and other

measures that are in-line with industry norms, that allow companies to attract and retain key employees and directors, that reward long-term performance, and that align the interests of management and shareholders.

Stellar has not identified any material conflicts of interest in connection with past proxy votes. However, conflicts could arise. The following are examples of mitigating circumstances and/or conflicts of interest:

(1) the firm or its affiliate may manage a pension plan, administer employee benefit plans, or provide brokerage, underwriting, insurance, or banking services to a company whose management is soliciting proxies; (2) the firm may have business or personal relationships with participants in proxy contests, corporate directors, or candidates for directorships, etc.; (3) the firm has a business relationship not with the company but with a proponent of a proxy proposal that may affect how it casts votes on client securities; and (4) senior management's recommendation, in the opinion of the Firm, is not in the best interests of the client. If Stellar identifies a material conflict of interest regarding the vote made on behalf of its clients, it will escalate the matter to a committee consisting of Stellar's Managing Partner, Director of Research and CCO and vote the matter as a majority of the committee shall determine, in the best interest of all Stellar clients.

Stellar shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. Copies of Rules 206(4)-6 and 204-2(c)(2) are available upon written request. In addition, specific information about how the Firm voted on any specific proxy issue is also available upon written request. Any questions regarding the Firm's proxy voting policy should be directed to Sheryl Rayner, Chief Compliance Officer of the Firm.

## **Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. Stellar has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## **Miscellaneous Information**

### **Assignment**

Neither Stellar nor the client may assign the *Investment Advisory Agreement* without the prior consent of the other party. Transactions that do not result in a change of actual control or management of Stellar shall not be considered an assignment. The use of affiliated or non-affiliated individuals or firms to provide specific services under either an Advisory or Consulting Agreement does not constitute an assignment.

### **Client Obligations**

In performing its services, Stellar shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. If requested by the client, Stellar may recommend the services of other professionals for implementation purposes. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Stellar. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify Stellar if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

### **Disclosure Statement**

A copy of Stellar's written disclosure statement as set forth on Form ADV-Parts 2A & B shall be provided to each client prior to or at the time of the execution of the *Investment Advisory Agreement*. Any client who has not received a copy of Stellar's written disclosure statement at least 48 hours prior to executing the *Investment Advisory Agreement* shall have five business days subsequent to executing the agreement to terminate Stellar's services without penalty.

**ANY QUESTIONS: Stellar's Chief Compliance Officer, Sheryl L. Rayner, remains available to address any questions regarding this Part 2A.**