



# FIRST REPUBLIC INVESTMENT MANAGEMENT

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## **WRAP FEE PROGRAM BROCHURE**

First Republic Investment Management, Inc. (“FRIM”)

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<https://www.firstrepublic.com/private-wealth-management/investment-management-services>

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This wrap fee program brochure provides information about the qualifications and business practices of First Republic Investment Management, Inc. (“FRIM”). If you have any questions about the contents of this brochure, please contact us at the phone number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about FRIM also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

First Republic Investment Management, Inc. is a federally registered investment adviser with the SEC. Registration of an investment adviser does not imply a certain level of skill or training.

## **Item 2 - Material Changes**

The following material updates have been made to the Wrap Fee Program Brochure since FRIM's annual update on March 28, 2018:

- Additional disclosure related to “trading away” costs (Item 4)
- Additional disclosure related to mark-ups added to trading and other fees (Item 4)
- Additional disclosure related to fees paid by SEC-registered mutual funds (Items 4, 5 and 9)
- Additional disclosure related to compensation for referrals to the Program, and recruitment and compensation of Wealth Managers (Item 4)
- Enhanced disclosure regarding FRIM's investment strategies (Item 6)
- Additional disclosure regarding Altair performance-based fee (Item 6)
- Enhanced disclosure related to cash “sweep” programs administered by First Republic Bank, FRIM's parent company (Item 9)
- Additional disclosure regarding FRIM's participation in Pershing LLC's FundVest Program (Item 9)
- Additional disclosure regarding compensation received by FRIM from third-party custodians (Item 9)
- Additional disclosure around FRB securities-backed loan program (Item 9)
- Disclosure regarding SEC Order Instituting Administrative and Cease-and-Desist Proceedings against FRIM on March 11, 2019 related to 12b-1 share class disclosure initiative (Item 9)

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## **Item 4 - Service, Fees and Compensation**

### **Program Description**

FRIM is an SEC-registered investment adviser with its principal place of business located in San Francisco, California. FRIM is the sponsor of the wrap fee program described below (the “Program”). The services and management style provided in the Program are identical to that provided through FRIM’s non-wrap service. A wrap fee program is an advisory program under which a specified fee or fees not based directly on transactions in the client’s account is charged for advisory services, including portfolio management and the execution of client transactions.

The Program is available to all accounts that are held in custody through First Republic Securities Company, LLC (“FRSC”), an affiliate of FRIM, through its clearing broker Pershing LLC (“Pershing”).

This Wrap Fee Brochure is limited to describing the services, fees and other necessary information you should consider prior to becoming a client in the Program. For a complete description of the other services offered by FRIM and the fees charged for those services, you should refer to FRIM’s Form ADV Part 2A (the “Brochure”). You may obtain a copy of the Brochure by contacting us at 415-392-1400.

In evaluating the Program, clients and prospective clients should consider the level of the wrap fee charged, the amount of portfolio activity in the client’s account, the value of custodial and other services provided under the arrangement and other factors. The wrap fee will for some clients exceed the aggregate cost of such services if they were purchased separately.

### **Investment Management Services**

Through the Program, FRIM provides full-service personalized wealth management solutions for individuals, trusts, families, foundations, endowments, pensions, defined contribution plans, profit sharing plans, banks, for-profit and not-for-profit corporations and other business entities (each, a “Client”). FRIM assists Clients in formulating long-term wealth management strategies that are customized to meet their unique needs or circumstances. These services are typically provided in the following two stages (collectively, the “Advisory Services”) as set forth in the investment management agreement (“IMA”) entered into between FRIM and the Client:

*Initial Advisory Services:* The “Initial Advisory Services” include some or all of the following, as FRIM and Client determine to be appropriate: (i) evaluating Client’s existing holdings and non-liquid assets; (ii) understanding Client’s financial circumstances and establishing investment objectives with Client for the account; (iii) exercising discretion (if granted) or making recommendations (if Client elects only non-discretionary Advisory Services) with respect to purchases and sales of equity, fixed income or other securities including, but not limited to, selecting appropriate investment managers or investment funds for same; (iv) if Client elects only non-discretionary services, proposing an asset allocation for Client’s account(s) and following client instructions(s) to implement the allocation; and (v) if discretion is granted, implementing Client’s asset allocation through making appropriate arrangements with investment managers and purchasing interests in appropriate investment funds (if applicable). Once the Initial Advisory Services have largely been completed, Advisor will coordinate with Client and any of Client’s investment managers, custodians and/or advisers to effect the transfer of any monies or securities to the investment managers or investment funds and their respective custodians as necessary to implement Client’s investment objectives as established by Client and Advisor for the account(s) and, for non-discretionary Advisory Services, upon instructions from Client. Clients can impose reasonable restrictions on investing in certain securities or types of securities subject to the approval of FRIM. FRIM does not provide legal, tax, or accounting advice.

*Ongoing Advisory Services:* FRIM provides certain “Ongoing Advisory Services,” which include some, but not necessarily all, of the following: (i) ongoing monitoring of Client’s portfolio including any of Client’s existing managers or funds that are not recommended by FRIM, but that Client has directed one of FRIM’s Investment Representatives (“Wealth Managers”) to keep as part of Client’s account(s); (ii) if discretion is granted, ongoing rebalancing of the Client’s portfolio; (iii) conducting portfolio reviews; (iv) providing performance reporting upon request; (v) adjusting any investment strategies and asset allocations used (if discretion is granted) or recommended (if Client elects only non-discretionary Services) as Client’s needs and goals change and are communicated to Client’s Wealth Manager; and (vi) working with Client to address Client’s investment objectives. Unless otherwise explicitly agreed to in writing by FRIM, it is not responsible for initial or ongoing due diligence on any investment manager, investment fund or asset that is not recommended by FRIM or on any of the account assets managed by them.

### **Investment Management Program Fee**

FRIM offers its advisory services on a fee basis, which can include a flat annual fee based on the total assets managed (i.e., not on a tiered basis) as well as an annual fee based upon a percentage of the market value of the assets subject to the fee within incremental fee tiers (i.e., on a tiered basis) (fees will generally include any accrued dividends and interest). FRIM’s annual fee is prorated and generally billed quarterly in advance, based upon the market value of the assets subject to the fee on the last business day of the previous quarter (or, in the absence of a then-current known market value, the last known market value). The annual fee varies depending upon the market value of the assets subject to the fee and the type of investment advisory services to be rendered. The fees are deducted from clients’ assets or paid directly by the client. FRIM, in its sole discretion, can waive or negotiate lower or higher management fees with different clients based upon a variety of criteria (i.e., unique client circumstances and/or requirements, level and frequency of services desired and provided, anticipated future earning potential, anticipated future additional assets, dollar amount of assets to be managed, broader business relationship between client and First Republic Bank (“FRB”) (the parent company of FRIM) or other FRIM affiliates, related accounts (including, if requested by Client and at FRIM’s discretion, the “householding” of some or all accounts of a Client individually or with their spouse, or with their siblings, parents, and children that share the same address), account composition, pre-existing client, account retention, or pro bono activities). The standard investment management fee schedule is as follows:

<b>Equity/Balanced Portfolios</b>	
<b>AUM</b>	<b>Incremental Fee</b>
First \$2 million	1.50%
\$2 - \$5 million	1.25%
\$5 - \$10 million	0.75%
\$10 - \$25 million	0.60%
\$25 million and up	0.50%

<b>Fixed Income Portfolios</b>	
<b>AUM</b>	<b>Total Fee<sup>(1)</sup></b>
\$2 - \$10 million	0.40%
\$10 < \$25 million	0.35%
\$25 million or greater	0.30%

(1) The annual fee is a “flat fee” based on the total assets managed (i.e., not on a tiered basis)

FRIM requires a \$7,500 annual fee minimum for its separate account investment management services in order to provide sufficiently individualized advisory services. Under certain circumstances, FRIM has in the past and likely will in the future provide advisory services for less than the annual minimum. The annual fee varies but will represent less than 3% of the assets under management. Fees are reduced for FRIM employees and employees of FRIM's affiliates, and employee relationships are subject to a reduced minimum fee of \$5,000 annually. FRIM reserves the right to adjust or waive the minimum fee and to impose an initial set-up fee.

A portion of the fees payable to FRIM is allocated on an ongoing basis to your Wealth Manager(s), and the percentage credited to a Wealth Manager has in the past and likely will in the future be generally 25% of the total fee for accounts referred internally to them and 40% for accounts that are self-sourced. The amount allocated to your Wealth Manager may be more than if you participated in other FRIM investment advisory programs or in a FRIM commission-based brokerage account. The Wealth Manager may have a financial incentive to recommend the Wrap Program instead of other FRIM programs and services or FRIM-affiliate programs or services. A Wealth Manager has discretion to charge a fee lower than the fee in the standard investment management fee schedule above. The fee you pay is a factor used to calculate the compensation to the Wealth Manager. Therefore, the Wealth Manager has a financial incentive not to reduce fees. A Wealth Manager receives less than the standard payout when account fees are below certain levels. This creates a financial incentive for Wealth Managers to price at or above those levels. FRIM reserves the right, and without prior notice, to change the methods by which it compensates the Wealth Managers and employees, including reducing or denying any production payout for any reason.

Investments through an advisory account into mutual funds, exchange traded funds ("ETFs"), private equity, credit, hedge, real estate funds or other pooled investment vehicles involves payment of two or more levels of investment management fees: one to the Adviser at the advisory account level, and another charged at the fund level to the manager of the investment fund with respect to its managers and service providers. If the investment fund in turn invests in other funds, there will be additional levels of fees, which in the aggregate reduce net returns.

Clients invested in pooled investment vehicles (e.g., Altair Funds or Private Funds (as described in greater detail below)) that are managed by FRIM and/or a third-party investment manager will pay the fees and expenses as agreed to under the relevant fund's offering documents, including in certain instances a performance-based fee, investment profit allocation, or fees to service providers to the fund. For direct investments in pooled investment vehicles managed by a third-party investment manager, in addition to the third-party pooled investment vehicle fees and expenses, FRIM will charge the Client an advisory fee based on assets under management in that pooled investment vehicle. Further information regarding performance-based fees and investment profit allocations can be found in Item 6 below. In addition, information regarding redemption rights and termination of an investment in Altair Funds, Private Funds or other pooled investment vehicles managed by FRIM or invested in directly can be found in the offering documents for such vehicles.

Some SEC-registered mutual funds, or some share classes thereof, or their affiliates, pay Rule 12b-1 (marketing and distribution), revenue-sharing, service and/or administrative fees to FRIM's affiliate that sells fund shares or provides services to a fund's shareholders. Rule 12b-1, service and administrative fees typically are deducted out of fund assets at the fund level and reduce a shareholder's returns. Revenue-sharing payments typically are paid by a fund's affiliate out of the fund adviser's management fees. FRIM's affiliate has earned and kept a material amount of the Rule 12b-1, revenue-sharing, service and administrative fees it has received. FRIM's affiliate generally receives less compensation when these fees are reduced or waived completely, or when there is no fee. In some years, the amount of these fees has been material to FRIM and its affiliate. In an effort to reduce client costs and minimize the conflicts of interest presented by Rule 12b-1 fees, as of July 1, 2018, FRIM's affiliate will, for all advisory account clients on a going-forward basis, credit Rule 12b-1 fees to the advisory clients' account(s). Additionally, as of July 1, 2018,

FRIM's affiliate will credit service and administrative fees received from mutual funds that do not also make revenue-sharing payments to the advisory client account(s). FRIM's affiliate keeps all revenue-sharing payments it receives as well as the service and administrative fees it receives from mutual funds that make revenue-sharing payments. These credits will be subject to the advisory fee if they remain in a client account at the time of billing.

FRIM selects the lowest-cost share class of a mutual fund for which its clients are eligible and that is available at its custodians, based on the total expense ratio shown in the fund's prospectus and without factoring in any rebates. However, because FRIM's affiliate retains revenue-sharing payments from some mutual funds' affiliates (as well as any service and administrative fees paid by such affiliates with respect to the mutual funds for which such affiliates make revenue-sharing payments), FRIM has a conflict of interest with respect to the selection and retention of those mutual funds or share classes thereof. This conflict arises because those payments and fees create an incentive for Wealth Managers to choose those mutual funds or share classes over other funds or share classes that do not make revenue-sharing payments or that make lower revenue-sharing payments (and the relevant service and administrative fees), since doing so results in higher compensation to FRIM's affiliate.

### **Other Charges**

Clients in the Program will incur additional charges imposed by third parties (including Pershing), or by FRIM or its affiliates (including FRSC), in addition to the Program Fee. These charges will include fees and expenses assessed by independent investment managers that are not affiliated with FRIM that FRIM engages to provide discretionary investment management services ("Independent Managers") for certain Clients; fees and expenses imposed directly by an unregistered pooled investment vehicle ("Private Fund") (and the funds or managers in or with which a Private Fund invests); ETFs or mutual funds in the account, which are disclosed in the fund's private placement memorandum or prospectus; deferred sales charges; "trading away" fees; odd-lot differentials; transfer taxes; margin fees and interest; wire transfer and electronic funds transfer fees; and clearing fees and other fees, expenses and taxes on accounts and securities transactions. FRIM expects that Independent Managers will trade primarily through FRSC's clearing broker, Pershing; however, in the event an Independent Manager "trades away" from Pershing, clients will bear the related costs. Clients will be responsible for commission costs incurred in connection with collateral yield enhancement strategies and other similar option overlay strategies. FRSC also marks up the following fees imposed by the clearing broker: wire, transfer and inactivity fees, reorganization fees, safekeeping fees, and fees for extension of margin. As of December 31, these FRSC mark-ups totaled approximately \$175,500 for 2018. The fact that FRSC charges mark-ups on these account fees creates a conflict of interest on behalf of FRIM, because those fees constitute additional revenue to an affiliate of FRIM. FRSC's account fees change over time but a current schedule of FRSC's account fees is available at <https://www.firstrepublic.com/~/media/frb/documents/pdfs/pwm/brokerage/frsc-schedule-of-fees-feb-2018.ashx?la=en>

Mark-ups or mark-downs that are not charged as explicit brokerage commissions and that are payable to unaffiliated investment firms are not covered by the Program Fee and will be paid by Clients rather than by FRIM or Independent Managers.

The Program is not available for accounts that are not held in custody through FRSC at Pershing. Accounts not in the Program will be charged both advisory and transaction-based fees.

### **Recruitment of Advisors**

Consistent with industry practice, FRIM from time to time recruits Wealth Managers and other employees to join FRIM and has in the past and likely will in the future enter into significant compensation

arrangements with these employees to facilitate their transition to FRIM. The amount paid to the Wealth Manager is largely based on the assets under management and revenue those assets generate at the Wealth Manager's prior firm and the Wealth Manager achieving a minimum percentage of production and asset levels within a specific time after joining FRIM. Such compensation can take different forms, such as promissory notes and special and transition bonuses, and other forms of compensation, and has in the past and likely will in the future be contingent upon the Wealth Manager satisfying certain performance-based criteria including total client assets serviced and revenue generated from those assets. These compensation arrangements create an incentive for Wealth Managers to maximize the revenue they generate from FRIM client accounts. Even if the fees a Client pays remains the same or are less than the fees paid at the prior firm, the transfer of the Client's assets to FRIM contributes to the Wealth Manager's ability to meet production targets and to receive additional compensation. This practice creates an incentive and conflict of interest for the Wealth Manager to recommend the transfer of account(s) to FRIM since a significant part of the Wealth Manager's compensation is contingent on achieving the pre-determined revenue or asset targets at FRIM. Clients should consider if the Wealth Manager's advice is aligned with the Client's investment strategy and goals.

### **Client Referrals and Other Compensation**

A Wealth Manager who recommends the Program to a Client receives compensation as a result of the Client's participation in the Program, and that compensation has been in the past and likely will in the future be more than what the person would receive if the Client participated in other FRIM programs or paid separately for investment advice, brokerage, and other services. FRIM compensates some of its employees whereby the employee upon bringing a new Client to FRIM, receives a portion of the fees paid by the Client to FRIM. The Wealth Manager and referring employees have a financial incentive to recommend the Program over other programs or services.

## **Item 5 - Account Requirements and Types of Clients**

FRIM provides full service personalized investment solutions for individuals, trusts, families, foundations, endowments, pensions, defined contribution plans, profit sharing plans, banks, for-profit and not-for-profit corporations and other business entities.

The Program is available to all accounts that are held in custody through FRSC.

FRIM requires a \$7,500 annual fee minimum, as described above in Item 4.

## **Item 6 - Portfolio Manager Selection and Evaluation**

FRIM is the sponsor and portfolio manager of the Program.

### **Advisory Business**

The services and management provided in the Program is often identical to that provided through FRIM's non-wrap service. Please see Item 4 for a description of the services FRIM provides. In addition to those services noted in Item 4, FRIM offers Eagle Invest, an automated, online investment management service, with FRIM oversight and guidance, which offers an alternative version of FRIM's advisory services. Further information can be found in the Eagle Invest Wrap Program Brochure. FRIM also provides financial planning services, insurance services and Private Funds. Further details about each service can be found in the Brochure.



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

Although FRIM does not generally charge performance-based fees or investment profit allocations (e.g., “carried interest”) on client accounts, in certain instances, it receives such fees with respect to the Altair Funds.

FRIM advises several Altair Funds that charge a performance-based fee or investment profit allocation. These funds were acquired in separate transactions, and the original fee structure was maintained as part of the acquisition. FRIM receives a performance-based fee with respect to an Altair fund that is structured as a hedge fund-of-funds. The performance-based fee is non-cumulative, is calculated based on a percentage of unrealized and realized gains of the fund, and is only paid if a certain hurdle rate is achieved. This fund is closed to new investors, but existing investors may invest additional capital. Also, investors in an Altair hedge fund pay a performance-based fee. The performance-based fee is calculated annually based on a percentage of the appreciation in each investor’s capital account, subject to a high water mark. In addition, investors pay a performance-based fee with respect to a private equity-style Altair fund that is closed to investors. The performance-based fee is calculated when cash distributions are made to investors and is based on a percentage of the cash available for distribution, subject to a specified hurdle rate.

Although FRIM generally does not charge performance-based fees for the Altair Funds that are a fund-of-funds structure (other than those specifically identified above), unaffiliated managers of the underlying Private Funds invested in by the Altair Funds will often charge performance-based fees. Such performance-based fees are in addition to advisory fees charged by the underlying Private Fund manager as well as FRIM, and they are also in addition to the expenses as agreed to in the relevant fund’s offering documents for both the Altair fund and the underlying fund.

Clients should be aware that performance-based fees give FRIM a financial incentive to achieve gains and to choose investments that are riskier or more speculative than might otherwise be chosen. Also, performance-based fee arrangements present a potential conflict of interest with respect to other client accounts that are not subject to performance-based fee arrangements because such arrangements give FRIM an incentive to favor client accounts subject to performance-based fees over client accounts that are not subject to performance-based fees by, for example, allocating our best investment ideas to accounts from which FRIM stands to earn additional compensation should the account perform well.

FRIM will only charge performance-based fees or carried interest in accordance with the provisions of Rule 205-3 of the Investment Advisers Act of 1940 and/or applicable state regulations. FRIM’s policies and procedures seek to provide that investment decisions are made in the best interests of clients and without consideration of FRIM’s (or such personnel’s) pecuniary investment or other financial interests. Further, potential conflicts of interest in relation to side-by-side management are largely mitigated due to the fact that the Altair Funds typically do not charge performance-based fees and due to the structure of the Altair Funds (as ‘fund of funds’). In a fund of funds structure, the Altair Funds invest in the interests of other Private Fund(s) that are generally not traded or available for investment for other client accounts. In a situation where interests in an underlying Private Fund are available (and suitable) for investment by both an Altair Fund and one or more FRIM clients, but the fund has capacity constraints, FRIM will seek to allocate the interests in a fair manner.

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

Clients and prospective clients should be aware that investing in securities involves risk of loss that clients should be prepared to bear.

## **Investment Strategies**

FRIM provides numerous investment management styles and strategies across various asset classes, including but not limited to, fixed income, publicly traded equities and private securities. FRIM equity strategies span various market value capitalization levels and multiple geographical regions. FRIM fixed income strategies expand across a broad range of offerings reflecting multiple combinations of geographical exposures, tenors and credit ratings. In addition, FRIM strategies are often implemented via multiple types of vehicles or a combination of vehicles that could include individual holdings, mutual funds,

ETFs or private funds. FRIM has in the past and likely will in the future develop and manage investment mandates and products involving multiple strategies, asset allocation strategies and liability-driven strategies for those mandates. Multi-asset strategies have in the past and likely will in the future utilize a wide variety of asset classes and/or investment styles, and employ a variety of techniques and investment vehicles, including Funds of Funds that invest in hedge funds (including commodity pools), private equities, ETFs and mutual funds or other categories of funds, equities, bonds, cash, alternative investments and derivatives. The investment strategies FRIM recommends to clients are based upon a comprehensive review and assessment of each client's investment objectives, financial situation, investment time horizon, risk tolerance level, taxable status, and cash flow requirements, as identified during consultations with FRIM's Wealth Managers and other representatives.

It is important to note that it is not possible to identify all of the risks associated with investing. The nature of the account, the investment strategy or strategies and the types of securities held all impact the risks applicable to a particular client.

FRIM recommends and offers a broad array of investment strategies, which will vary based on the Wealth Manager providing advice to each client. FRIM's primary investment strategies are set forth below. FRIM has in the past and likely will in the future offer additional strategies or variations of the strategies described.

## **Cash Management**

In cash management portfolios, the investment process emphasizes safety and liquidity over yield. Cash management portfolios undergo credit review, risk management and diversification analytics on an ongoing basis.

## **Fixed Income**

FRIM utilizes fixed-income strategies that are actively managed. Actively managed fixed-income mandates generally employ an active investment style that has in the past and likely will in the future emphasize rotation among different types of debt on a relative value basis, specific security selection, quantitative analysis of each security and the portfolio as a whole, and intensive credit analysis and review. Active Management has in the past and likely will in the future include security selection, duration and yield curve positioning, industry rotation, asset allocation, credit, and institutional execution.

## **Equity**

FRIM's approach to equity management combines both quantitative and qualitative research as FRIM believes the blended approach produces better results than either method alone. The quantitative approach uses multiple numeric measures to gauge a stock's relative attractiveness. Qualitative analysis extends the quantitative analysis to identify stocks suitable for the investment strategy that are trading at attractive prices. Members of the equity research team are assigned one or more sectors and conduct bottom-up research on the stocks ranked highly by quantitative measures. After undergoing qualitative research to verify a stock's relative attractiveness, an equity security is deemed eligible to be combined into Client portfolios, consistent with the objective specified in the Client's Investment Policy Statement. Wealth Managers have a level of discretion as to which eligible securities they choose consistent with the Client's investment objectives. Similarly situated clients will typically have different securities in their portfolios.

FRIM's equity strategies include a broad range of products that vary according to investment style, market capitalization and geography. The asset range has in the past and likely will in the future include sector funds, long-only and long-short portfolios, as well as products that combine different strategies to create balanced, multi-asset and asset allocation portfolios. For many clients, FRIM creates and maintains portfolios of individual securities, which change from time to time. Individual portfolio management teams have in the past and likely will in the future interact daily to review market developments, opportunities and strategies.

### **Third-Party Investment Strategies**

FRIM researches Independent Managers and provides client access to these strategies through sub-advisory relationships. The due diligence process incorporates qualitative review of the investment manager's investment team, their philosophy and process. This analysis is complemented with quantitative analysis of the manager's past performance and portfolio risks. FRIM monitors and maintains updated information on investment managers and funds through routine compliance, operational and research due diligence efforts. FRIM seeks to select managers who will deliver competitive performance versus both peers and the appropriate market benchmarks. Each sub-advisor has discretion to purchase and sell securities for their portion of an assigned portfolio. Costs associated with such transactions, which can be significant, will typically be borne by the Client.

### **Model Management**

FRIM model management is designed to maximize operational efficiencies for separately managed account investments and provide portfolio customization. It centralizes the delivery and manufacturing of proprietary and third-party model portfolios across asset classes. FRIM relies on proprietary and vended applications to assist in the ongoing management of these strategies.

### **Private Investments**

As a part of its investment advisory services, FRIM provides certain Clients with the opportunity to invest in certain private investment vehicles that present attractive investment return opportunities, typically involving longer investment horizons, limited liquidity, potential downside risk, and potential exposure to increased fees and expenses. FRIM's research approach to private investments includes in-house research and use of external consultants to provide useful and relevant information. Additionally, FRIM's team and consultants scrutinize operational aspects and risks including but not limited to counterparty risk, prime-broker relationships, and service providers (auditors and administrators). Once a potential manager is identified, an intensive due diligence process is conducted which involves quantitative and qualitative analysis.

FRIM will, from time to time and as appropriate, solicit clients to invest in such vehicles, and FRIM will decide which clients to approach for some or all of these investments, in its own discretion. Not all clients will be offered the opportunity to invest, and not all clients that were offered that opportunity will choose to invest. Similarly, not all Wealth Managers are eligible to place clients into these investments. A subscription for interests in a Private Fund should be considered only by persons who do not anticipate any short-term need for their funds. Each investor should consult his or her own advisors regarding the legal, tax, and financial suitability of private investments.

### **Voting Client Securities**

The majority of Clients that elect discretionary advisory services grant FRIM the authority to vote proxies as established by the advisory contracts or comparable documents. However, Clients can choose to receive any or all of their proxies or other solicitations directly from their custodian or a transfer agent, and vote any or all, in their sole discretion. Clients should contact their Wealth Managers directly with questions on a

particular proxy solicitation.

In accordance with FRIM's fiduciary duties, FRIM has adopted and implemented policies and procedures it believes are reasonably designed to ensure that proxies are voted in the best interest of Clients. In addition to SEC requirements governing advisers, the proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts.

It is the policy of FRIM to vote Client proxies in the best interest of the Client. It is also the policy of FRIM to disclose proxy voting policies and procedures to Clients; provide copies of the policies and procedures upon request and advise Clients how they can obtain information on how proxies were voted by FRIM. The information requested by the Client will be furnished free of charge and within a reasonable period of time. FRIM can be contacted by calling a Client's Wealth Manager. FRIM will vote in a way that it believes is consistent with its fiduciary duty and will cause the value of the issue to increase the most or decline the least. Consideration will be given to both short- and long-term implications when considering the optimal vote. FRIM has adopted Proxy Voting Guidelines which detail how FRIM will direct the vote on particular proxy issues.

Any general or specific proxy voting guidelines provided in writing by a Client or its designated agent will supersede this policy. Clients can have their proxies voted by an independent third-party or other named fiduciary or agent, at the Client's expense.

Proxies for securities in accounts managed by sub-advisors will be voted by the sub-advisors and will not be voted by FRIM, unless specifically agreed to by FRIM.

As a matter of practice, it is FRIM's policy not to reveal or disclose to any Client how FRIM voted (or intends to vote) on a particular proxy until after such proxies have been counted at a shareholder's meeting. FRIM will generally refrain from disclosing such information to unrelated third parties.

FRIM engages an unaffiliated third-party proxy vendor, Institutional Shareholder Services, Inc. (ISS), to administer proxy voting on FRIM's behalf. It is FRIM's policy to provide sufficient ongoing oversight of ISS to ensure that the proxies are voted in the best interests of its clients. To avoid material conflicts of interest, FRIM will generally vote proxies according to the ISS Proxy Voting Guidelines. There are a limited number of situations where FRIM might vote against ISS recommendations. In those situations FRIM will document the reasons FRIM chose to vote against ISS recommendations.

When a Client elects non-discretionary advisory services, the Client retains the responsibility to exercise voting rights or execute corporate actions.

### **Class Action Lawsuit Recoveries**

When a Client elects discretionary advisory services, for the sake of efficiency, FRIM has engaged the services of an unaffiliated firm, Chicago Clearing Corporation, to participate in class action shareholder lawsuits, on a best efforts basis, for securities beneficially owned by clients during relevant class action periods. Chicago Clearing Corporation earns a contingency fee of twenty percent (20%) of all monies recovered for clients through the filing and administration of class action lawsuit claims. Clients can choose to track their holdings versus relevant shareholder class action lawsuits, opt in or out, and/or complete the paperwork instead and in lieu of Chicago Clearing Corporation, in their sole discretion.

When a Client elects non-discretionary advisory services, the Client retains the responsibility to respond to or complete paperwork related to class action lawsuits pertaining to securities held or formerly held in the account or the issuers of those securities.

## **Item 7 - Client Information Provided to Portfolio Managers**

A Client's Wealth Manager(s) is a FRIM employee and, in some cases, an Independent Manager. The Client's Wealth Manager(s) has access to all of the information the Client provides including financial information, investment objectives, risk tolerance level, tax status, investment experience, financial status, and other information relating to the Client's investment profile, trading activity, and account(s). In cases where the Independent Manager or investment funds recommended by FRIM or selected by the Client, are utilized, Client information is shared to the extent necessary to conduct business.

FRIM has adopted a written Privacy Policy, in accordance with Regulation S-P under section 504 of the Gramm-Leach-Bliley Act, which restricts FRIM and FRIM employee use of and access to Client nonpublic personal information. In order for FRIM, the Wealth Manager(s) and any Independent Manager(s) to effectively manage the client account(s) and assist in meeting financial objectives, a client must update FRIM and the Wealth Manager(s) as soon as possible when any changes to personal or financial information occur. Clients may obtain a complete copy of FRIM's Privacy Policy by contacting the main office at the number on the front of this brochure.

## **Item 8 - Client Contact With Portfolio Managers**

There are no restrictions on a Client's ability to contact and consult with FRIM and their Wealth Manager(s) during normal business hours. FRIM promotes open lines of communication between the Wealth Manager(s) and Clients, encouraging the Wealth Manager's accessibility to remain available to Clients during normal business hours to discuss investment philosophy, objectives and to answer Client questions.

Clients utilizing third-party Investment Managers generally do not come in contact with the Independent Manager's portfolio managers. FRIM's representatives typically serve as the communication conduit between the Client and the Independent Manager. Clients are required to contact their Wealth Manager with any questions they have regarding their account(s).

## **Item 9 - Additional Information**

### **Disciplinary Information**

In February 2018, the SEC announced an industry-wide initiative to identify and remedy conflicts of interest that arise where investment advisers failed to make required disclosures relating to their selection of certain mutual fund share classes that paid the adviser (or its related entities) a fee pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("12b-1 fee") when a lower-cost share class for the same fund was available to clients. FRIM elected to participate in this initiative and, based on information that FRIM provided, the SEC issued an Order Instituting Administrative and Cease-and-Desist Proceedings against FRIM on March 11, 2019 (the "Order"). The SEC determined that, for the period January 1, 2014 to July 3, 2018, FRIM purchased, recommended or held for advisory clients mutual fund share classes that paid 12b-1 fees to FRIM (or its affiliated broker-dealer) instead of lower-cost share classes for the same funds for which the clients were eligible. The SEC determined that FRIM did not adequately disclose this conflict of interest, and that the failure to do so constituted breaches of FRIM's fiduciary duties and willful violations of Sections 206(2) and 207 of the Investment Advisers Act of 1940 (the "Advisers Act"). The SEC, among other things, censured FRIM and ordered FRIM to cease-and-desist from any future violations of Sections 206(2) and 207 of the Advisers Act, and to pay \$924,661.43 in disgorgement and \$80,532.82 in prejudgment interest to FRIM's affected investors, in accordance with procedures set forth in the Order.

The SEC did not order a civil monetary penalty or fine. FRIM consented to the Order without admitting or denying the SEC's findings (except as to jurisdiction, which was admitted). (On the same day that FRIM settled, the SEC settled with 78 other investment advisers for similar conduct.) Prior to the entry of the Order, in July 2018, FRIM implemented remedial measures to address the practices described in the Order, including revised disclosures and the crediting of all 12b-1 fees to advisory accounts on a going forward basis. The SEC's Order can be found at <https://www.sec.gov/litigation/admin/2019/ia-5192.pdf>.

## **Other Financial Industry Activities and Affiliations**

### **Affiliated Bank**

FRIM is a wholly owned subsidiary of First Republic Bank ("FRB"), a publicly-traded bank that offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients. FRB is a member of the Federal Deposit Insurance Corporation ("FDIC"). As a subsidiary of First Republic Bank, FRIM is under common ownership and control with several other providers of financial services, including those set forth below with which it has a material business relationship. The services provided by these affiliated companies are separate and distinct from the advisory services of FRIM, and they are provided for separate and additional compensation.

### **Affiliated Broker-Dealer**

FRIM is affiliated through common ownership and control with FRSC, a registered securities broker-dealer. The majority of FRIM management personnel and representatives are also registered representatives of FRSC. All FRIM advisory accounts participating in the Program must use FRSC for brokerage. Client accounts at FRSC are cleared on a fully-disclosed basis at Pershing, which has custody of the FRSC customer accounts. Pershing is a clearing broker that is not affiliated with FRSC or FRIM.

The majority of Wealth Managers and FRIM management and representatives are registered, or have an application pending to register, as representatives and associated persons of FRSC.

### **Affiliated Trust Companies**

FRIM is affiliated through common ownership and control with First Republic Trust Company ("FRTC"), a division of the Bank, and First Republic Trust Company of Delaware, LLC ("FRTC-DE"). Some client trust accounts are held in custody with FRTC and FRTC-DE. When appropriate, FRIM and FRTC or FRTC-DE refer clients to each other. This creates potential conflicts of interest with clients which are addressed as set forth below.

### **CFTC Registrations**

FRIM is registered as a Commodity Trading Advisor (CTA) and a Commodity Pool Operator (CPO) with the United States Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA). Certain of the Altair Funds, which are advised by FRIM, are exempt CPOs and CTAs and file these exemptions with the CFTC.

### **Relationships with Affiliates**

When appropriate, FRSC provides a broad range of brokerage services to FRIM clients for which it receives compensation. This creates conflicts of interest with clients which are addressed as set forth below.

FRSC serves as a placement agent for FRIM's Altair private investment platform. Neither the investors in

the Altair Funds nor the Altair Funds pay a fee to FRSC for serving as private placement agent. FRIM, using its own assets, reimburses FRSC for its reasonable, documented expenses in providing private placement services.

In certain instances, FRSC serves as placement agent for investments in Private Funds not advised by FRIM (“unaffiliated Private Funds”). In such instances, if a client elects to invest in an unaffiliated Private Fund through FRSC, the client has in the past and likely will in the future be charged a one-time placement agent fee in addition to the unaffiliated Private Fund’s fees (e.g., management and administration fees). FRIM or FRSC have in the past and likely will in the future also receive ongoing fees from the Private Fund for the placement.

Margin buying is buying securities with cash borrowed from a broker-dealer (including an affiliate of FRIM) by using other securities as collateral. In cases where margin is used in a client account, the marginable securities in the accounts are pledged for collateral to borrow and buy additional securities in that account. This has the effect of magnifying any profit or loss. The securities serve as collateral for the loan, and this margin loan must be repaid even if the residual value of the client account is insufficient. FRIM and its representatives will have an incentive to recommend borrowing money on a client account and pledging the assets as collateral through FRIM’s affiliated broker dealer, FRSC. Both entities are under common control, and FRSC receives compensation for use of margin. These conflicts are addressed as set forth below.

As described in Item 4 in this brochure, FRSC, an affiliate of FRIM, receives revenue-sharing, service and administrative fees for certain open-ended investment companies (mutual funds) purchased by advisory and non-advisory clients of FRIM. In addition, FRSC receives Rule 12b-1 (distribution) for non-advisory clients of FRIM.

Client assets are sometimes invested in shares of registered funds (such as mutual funds) that offer several classes of shares with different fees. Some mutual funds, or some share classes thereof, or their affiliates, charge Rule 12b-1 (distribution) fees, shareholder services fees or administrative fees and pay these fees to FRSC, and some funds and classes generate revenue-sharing fees that are paid to FRSC. Distribution payments, or 12b-1 fees, and revenue sharing fees compensate FRSC for selling registered fund shares. Shareholder services and administrative fees compensate FRSC for customer account services and administration such as account and trade detail recordkeeping, customer statement preparation and delivery, tax reporting, and other services that the registered mutual fund otherwise would have provided. Distribution, shareholder services and administrative fees typically are deducted from the mutual fund’s assets and indirectly paid by the fund’s shareholders. Revenue-sharing payments typically are paid by a fund’s affiliate out of the fund adviser’s management fee. Registered funds often offer one or more share classes that do not charge 12b-1, revenue-sharing, administrative or shareholder services fees. Clients may be able to invest in lower-cost share classes directly.

FRSC has earned and kept a material amount of the Rule 12b-1, revenue-sharing, service and administrative fees it has received. FRSC generally receives less compensation when these fees are reduced or waived completely, or when there is no fee. In some years, the amount of these fees has been material to FRIM and FRSC. In an effort to reduce client costs and minimize the conflicts of interest presented by Rule 12b-1 fees, as of July 1, 2018, FRSC will, for all advisory account clients on a going-forward basis, credit Rule 12b-1 fees to the advisory clients’ accounts. Additionally, as of July 1, 2018, FRSC will credit service and administrative fees received from mutual funds that do not also make revenue-sharing payments to advisory client accounts. FRSC keeps all revenue-sharing payments it receives as well as the service and administrative fees it receives from mutual funds that make revenue-sharing payments. These credits will be subject to the advisory fee if they remain in a client account at the time of billing.

FRIM selects the lowest-cost share class of a mutual fund for which its clients are eligible and that is

available at its custodians, based on the total expense ratio shown in the fund's prospectus and without factoring in any rebates. However, because FRSC retains revenue-sharing payments from some mutual funds' affiliates (as well as any service and administrative fees paid by such affiliates with respect to the mutual funds for which such affiliates make revenue-sharing payments), FRIM has a conflict of interest with respect to the selection and retention of those mutual funds or share classes thereof. This conflict arises because those payments and fees create an incentive for FRIM Wealth Managers to choose those mutual funds or share classes over other funds or share classes that do not make revenue-sharing payments or that make lower revenue-sharing payments (and the relevant service and administrative fees), since doing so results in higher compensation for FRSC.

Although there can be legitimate reasons that a particular client is invested in a more expensive share class, FRIM has taken steps to minimize the conflict of interest presented by FRSC's receipt of fees: through 12b-1 fee and certain service and administrative fee advisory account credits beginning on July 1, 2018, for such fees received after that date; through disclosure in this brochure; through internal policies and procedures that require investment advice to be appropriate for advisory clients; by ensuring that individual Wealth Managers are not directly compensated for recommendations to purchase share classes of registered funds that pay fees to FRSC; by restricting Wealth Managers' recommendations to funds and share classes on FRIM's approved list; and by systematically evaluating when a lower fee share class of a registered fund on FRIM's approved list is available. It will not always be possible or in the client's best interest for FRIM to select or to convert to SEC-registered mutual fund investments that do not pay fees to FRSC. Accordingly, despite the foregoing efforts to minimize conflicts of interest, FRIM clients should not assume that they will be invested in or moved to the registered fund or share class with the lowest possible fees; however between FRIM's efforts to move clients to the lowest-cost share class and the advisory account credits described above, FRIM believes its clients are invested in the share class that will be the lowest cost to clients.

FRSC makes available to clients several options for holding uninvested cash in clients' FRSC brokerage accounts. The primary option for those who qualify is the Eagle Bank Sweep Program account. The Eagle Bank Sweep Program account is an FDIC-insured deposit account opened and maintained by FRSC's clearing agent, Pershing LLC, at FRSC's affiliated bank, FRB. The FDIC insurance limit is \$250,000 per person, such that a client's other deposit relationships with FRB will count towards this limit.

FRSC earns income from cash balances that are "swept" from brokerage accounts into money market mutual funds. Any Rule 12b-1, service, administrative or revenue-sharing fees paid by these money market mutual funds to FRSC are earned and either kept or rebated in the same manner as fees received from other mutual funds, as described above. FRSC also earns income from cash balances that are "swept" from brokerage accounts into FRB deposit accounts under the Eagle Bank Sweep Program administered by FRSC on behalf of FRB. FRB (the parent company of FRSC) makes payments to FRSC in the form of a flat, per-account monthly payment. FRB also makes flat, per-account monthly payments to FRIM relating to the Eagle One Bank Deposit Sweep Program ("Eagle One BDSP"). An Eagle One BDSP account is an FDIC-insured deposit account at FRB available to investment advisory clients of FRIM whose brokerage accounts are held in custody through Fidelity Brokerage Services LLC and its affiliate, National Financial Services LLC. These payments by the Bank create a conflict of interest with FRIM clients because FRIM has an incentive to recommend that clients "sweep" cash balances to bank deposits in the Eagle Bank Sweep Program or the Eagle One BDSP, as applicable, in order to generate higher payments to FRIM or its affiliate. In addition, an affiliate of FRIM (FRSC or FRB) receives compensation from clients based on the assets in their advisory accounts, including sweep deposit balances. Further, funds swept into FRB deposit accounts under the Eagle Bank Sweep Program and the Eagle One BDSP provide a relatively low cost source of funding for the Bank. Because FRB is the parent company of both FRSC and FRIM, and cash balances that are swept to FRB accounts provide FRB a source of funds, FRB's role as the depository institution for the Eagle Bank Sweep Program and Eagle One BDSP creates a conflict of interest in that FRIM has an incentive to keep a larger



cash balance in FRIM client accounts. Information regarding the two sweep programs, including information regarding the scope of FDIC insurance coverage and the existence of the conflicts of interest with respect to the two programs has been provided to participating clients of FRSC and FRIM. These conflicts of interest are addressed as set forth below.

The asset-based management fee charged by FRIM to advisory clients covers cash and cash equivalents, including cash allocated to an Eagle Bank Sweep Program account and an Eagle One Sweep BDSP account at FRB. This fee, coupled with the payments that FRIM or FRSC receives under the Eagle Bank Sweep Program and the Eagle One BDSP, creates a conflict of interest for FRIM because it provides FRIM with an incentive to keep a larger cash balance in FRIM client accounts. The conflicts of interest created by the application of this fee to cash and cash equivalents are addressed as set forth below.

FRB offers a securities-backed loan program, and Wealth Managers refer clients to FRB's program. The loans are secured by eligible marketable securities held at FRSC or FRTC. Depending on the nature of the referral, Wealth Managers receive compensation for the referral. In addition, clients of FRIM will still incur their standard management fee for those assets being loaned out along with any borrowing fees required by the loan. These borrowing fees are paid to FRB. This creates an incentive to refer clients to FRB's securities-backed loan program which is a conflict of interest. To help mitigate any conflicts of interest associated with the referral process: Wealth Managers must determine that a securities-backed loan is suitable for the client before any referral is made for that client; FRIM personnel associated with making a referral are separated from FRB personnel involved in the approval of loans; Wealth Managers receive enhanced training on the advantages and disadvantages associated with the securities-backed loan program; FRB markets the securities-backed loan program on only a minimal basis to clients or prospects, relying instead on internal awareness of the program; all securities-backed loan applications are required to go through a formal credit review and approval process; and FRSC monitors referrals for potential issues.

FRIM refers clients to FRB for certain other financial products and services, including loans related to insurance premium financing transactions ("Premium Financings") facilitated by FRIM in its capacity as an insurance licensed entity. In connection with Premium Financings, the Bank will function as a lender and takes a security interest in the underlying policy and other collateral. As a result, FRIM will have an incentive to direct Premium Financing transactions to First Republic Bank. Specifically, both entities are under common control and First Republic Bank will receive additional compensation in the form of fees and interest on Premium Financings. These conflicts are addressed as set forth below.

### **Conflicts Related to Affiliations and Affiliated Activities**

In their separate capacities as registered representatives and/or insurance agents, FRIM management persons, Wealth Managers, and employees that are separately licensed as registered representatives with FRSC or as insurance agents will be able to effect securities transactions and/or purchase insurance and insurance-related investment products for FRIM's advisory clients, for which they will receive separate and additional compensation. Clients, however, are not under any obligation to engage these individuals when considering the purchase/sale of securities or insurance.

Clients should be aware that the receipt of additional compensation by FRIM and its employees creates a conflict of interest due to its affiliated entities that could impair the objectivity of FRIM and these individuals when making advisory recommendations. FRIM endeavors at all times to put the interest of its clients first as part of its fiduciary duty as a registered investment adviser and takes the following steps to address this and other conflicts of interest arising due to FRIM's various affiliations:

1. FRIM discloses to clients the existence of all material conflicts of interest, including the potential for FRIM and its employees to earn compensation from advisory clients in addition to FRIM's advisory

fees;

2. FRIM discloses to clients that they are not obligated to purchase recommended investment products from FRIM's employees or related companies;
3. FRIM collects, maintains and documents accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
4. FRIM's management conducts reviews of client accounts to verify that recommendations made to a client are suitable to the client's reported needs and circumstances;
5. FRIM requires that its employees seek prior approval of any outside business activity so that FRIM can ensure that any conflicts of interests in such activities are properly addressed; and
6. FRIM educates its employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

### **Conflicts Related to Unaffiliated Activities**

FRIM is also an insurance agency, DBA Eagle Private Insurance Services. The agency was created for the purpose of offering risk management services and certain insurance related products to clients not otherwise available through an affiliated entity. These services and products are offered through an agreement with FRIM and M Financial Holdings Incorporated, a Delaware Corporation and an unaffiliated entity of FRIM or its affiliates. As a result, certain FRIM supervised persons and related sales personnel are securities registered with M Holdings Securities, Inc. ("MHS"), a member firm of the Financial Industry Regulatory Authority (FINRA) and broker-dealer unaffiliated with FRIM. FRIM, supervised persons and related sales personnel receive compensation on certain insurance or securities products offered through MHS. Thus, FRIM and its supervised persons have an incentive to recommend certain insurance and securities products through MHS for which FRIM and the supervised persons receive compensation. All such compensation will be fully disclosed.

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

FRIM maintains a comprehensive Code of Ethics (the "Code") in accordance with Rule 204A-1 of the Investment Advisers Act, and other applicable laws and regulations, as well as industry best practice standards. The Code is based on the overriding principle that the employees have a fiduciary duty to FRIM clients. All activities of FRIM's employees shall be guided by, and adhere to, these fiduciary standards. The Code sets forth specific rules and procedures that are consistent with these fiduciary standards. However, all activities by Employees are required to conform to these standards regardless of whether the activity is specifically covered in the Code.

Procedures established in the Code are intended to prevent and detect any conflicts of interest and prohibited activities in connection with personal trading or certain other activities on the part of FRIM employees. The provisions of the Code are applicable to any person employed by FRIM or FRSC ("Access Persons") as well as their immediate family members living in the employee's household unless otherwise noted.

FRIM requires all Access Persons to pre-clear their personal securities transactions for securities that are covered under its Code of Ethics.

The following are restrictions on personal trading activities or conduct by Access Persons in the Code of Ethics:

- Prohibition on Initial Public Offerings and Initial Coin Offerings;
- Restrictions on Private Investments;
- Prohibition on Short-Term Trading Profits (30 day hold requirement);
- Restriction on rating changes and price target changes: One full trading day black out period for changes to FRIM's recommended list;
- For investment professionals, a prohibition on buying or selling a security of an issuer traded in an associated client account within 5 days (2 days prior to the client trade, same day or 2 days after) the client trade, except for De-Minimis trades defined as daily transactions in Covered Securities involving less than 10,000 shares or \$100,000 (whichever is greater) in securities with market capitalization larger than \$5 billion;
- Prohibition of Trading in FRC stock during the period the Firm has designated as a "Closed Period";
- Prohibition on conducting a "cross" trades or "transfer of ownership/interest" in an investment with a client;
- Limits relating to gifts & entertainment given and received from any person or entity doing business with First Republic entities;
- Restriction on trading securities on FRIM's Watch List and Restricted List;
- Pre-clearance of all outside business activities and political contributions;
- Requirements to certify to the Code and report information required by the Code.

A full copy of the aforementioned Code of Ethics is available to any client or prospective client upon request to the CCO at the address or phone number provided on the cover page of this brochure.

From time to time, FRIM invests in securities on behalf of clients that are of the same type in which FRB or FRIM employees, officers or directors also invest. Wealth Managers are exempt from pre-clearance rules when their interests are aligned, they invest in the same strategy as their client, and they trade the same way alongside their client (i.e., they buy or sell the same securities at the same time and at the same price and they aggregate and average prices on these purchases and sales).

Neither FRIM nor any related person is an issuer of any securities purchased for clients on a discretionary basis, and neither FRIM nor any related person has a material financial interest in any security purchased for any client on a discretionary basis.

Neither FRIM nor any related person acts as a general partner to a partnership in which clients are solicited to invest or offered to advisory clients, however, FRIM is an adviser to the Altair family of private pooled investment vehicles, and the conflict that this represents is described in the Private Placement Memorandum for each such fund.

Registered representatives of FRIM-affiliate FRSC recommend mutual funds and share classes that participate in Pershing's FundVest Program, through which Pershing waives transaction charges for purchases of mutual funds in brokerage accounts (not advised or managed by FRIM) that would normally carry a transaction charge. Once certain asset thresholds of FundVest mutual funds are met, Pershing shares revenue with FRSC, providing an incentive for registered representatives of FRSC to recommend mutual funds and share classes that participate in the FundVest Program. Redemptions of shares of mutual funds that participate in the FundVest Program have in the past and likely will in the future be assessed a short-term redemption fee by Pershing if sold within six months, which FRSC can absorb or increase at its discretion.

FRIM Wealth Managers also recommend mutual funds and share classes that participate in Pershing's FundVest Program, described above. The revenue shared by Pershing with FRSC creates a conflict of interest for Wealth Managers because it provides an incentive for them to recommend mutual funds and share classes

that participate in the FundVest Program. FRIM seeks to mitigate this conflict by selecting the lowest cost share class available whenever possible.

FRIM's Chief Compliance Officer is responsible for the implementation and administration of the Code. The Compliance department has the following monitoring responsibilities, including but not limited to pre-clearance of all FRIM employee personal trade requests in covered securities, monitoring of employee activity and maintenance of records in accordance with applicable laws and regulations. Any violation of the Code, including engaging in a prohibited transaction or failing to meet reporting requirements, could result in disciplinary action, up to and including, suspension or termination of employment. The Chief Compliance Officer is required to report to FRIM's Compliance Committee any circumstance of fraud, deceit, or a manipulative practice that could be found to have been practiced on a client of FRIM in connection with an employee's unapproved personal trading and other material violations of the Code.

## **Review of Accounts**

### Periodic Reviews

FRIM Wealth Managers are responsible for ongoing review of client accounts. Client portfolios are also supervised by the Investment Policy Statement Monitoring Group to review the asset allocation versus approved ranges for each investment objective guideline.

### Review Triggers

More frequent reviews are triggered by a change in investment objectives; risk tolerance; tax considerations; large deposits or withdrawals; large sales or purchases; or changes in economic climate.

### Regular Reports

Investment advisory clients receive standard account statements from their custodian at least quarterly. Some clients are provided written periodic reports that contain more details about holdings; details include but are not limited to cost basis; current market prices; rates of return; estimated annual income; and yield.

## **Client Referrals and Other Compensation**

FRB refers clients of the Bank to FRIM and vice versa. FRIM encourages Bank referrals and offers compensation, recognition and awards for bankers who refer business to FRIM. Additionally, FRSC, FRTC, and FRTC-DE refer clients to FRIM and vice versa. FRIM offers compensation to the Bank, FRSC, FRTC and FRTC-DE for these referrals, and those entities share that compensation with their employees who make the referrals.

This practice presents a conflict of interest for the Bank because an incentive exists to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, FRIM is a fiduciary and is required to act solely in the best interest of clients. FRIM addresses this conflict through disclosure in this brochure, through disclosure at the time of referral, and by adopting internal policies and procedures that require investment advice to be suitable for advisory clients (based upon the information provided by such clients).

Notwithstanding the foregoing, FRIM reserves the right to reject any referral in its sole discretion and will only offer investment advice where it can do so in a mutually beneficial manner with the client in accordance with its fiduciary duties under the Advisers Act.

Registered representatives of FRIM-affiliate FRSC recommend mutual funds and share classes that participate in Pershing's FundVest Program, as discussed above. FRSC's participation in the FundVest Program presents a potential conflict of interest because it provides an incentive for registered representatives

of FRIM-affiliate FRSC to recommend mutual funds that participate in the FundVest Program; however, FRSC has adopted internal policies and procedures that require its registered representatives to make recommendations that are suitable for clients.

FRIM Wealth Managers also recommend mutual funds and share classes that participate in Pershing's FundVest Program, described above. The revenue shared by Pershing with FRSC creates a conflict of interest for FRIM Wealth Managers because it provides an incentive for them to recommend mutual funds and share classes that participate in the FundVest Program. FRIM seeks to mitigate this conflict by selecting the lowest cost share class available whenever possible.

Pershing, in its sole discretion, will add or remove mutual funds and share classes from the FundVest Program without prior notice.

FRB offers a securities-backed loan program, and Wealth Managers refer clients to FRB's program. The loans are secured by eligible marketable securities held at FRSC or FRTC. Depending on the nature of the referral, Wealth Managers receive compensation for the referral. In addition, clients of FRIM will still incur their standard management fee for those assets being loaned out along with any borrowing fees required by the loan. These borrowing fees are paid to FRB. This creates an incentive to refer clients to FRB's securities-backed loan program which is a conflict of interest. To help mitigate any conflicts of interest associated with the referral process: Wealth Managers must determine that a securities-backed loan is suitable for the client before any referral is made for that client; FRIM personnel associated with making a referral are separated from FRB personnel involved in the approval of loans; Wealth Managers receive enhanced training on the advantages and disadvantages associated with the securities-backed loan program; FRB markets the securities-backed loan program on only a minimal basis to clients or prospects, relying instead on internal awareness of the program; all securities-backed loan applications are required to go through a formal credit review and approval process; and FRSC monitors referrals for potential issues.

### **Additional Compensation**

FRIM compensates some of its employees whereby the employee upon bringing a new client to FRIM, receives a portion of the fees paid by the client to FRIM, as described above in Item 4. Additionally, some FRIM Wealth Managers are also registered with FRSC as broker-dealer representatives. In such capacities, FRIM Wealth Managers provide brokerage and related services to clients, including the purchase and sale of individual stocks, bonds, mutual funds, private investment funds, and other securities, and sales of life insurance policies and annuities. This practice presents a conflict of interest because it gives FRIM Wealth Managers an incentive to recommend investment products based upon the compensation received rather than on a client's needs. However, when providing investment advisory services to clients, FRIM Wealth Managers are fiduciaries and are required to act solely in the best interest of clients. FRIM addresses this conflict through disclosure in this brochure and by adopting internal policies and procedures for FRIM and FRSC that require them to provide investment advice that is suitable for advisory clients (based upon the information provided by such clients).

FRIM provides investment advisory services to clients through managed account programs (dual contract) sponsored by unaffiliated broker-dealers and other financial intermediaries. In a dual contract program, FRIM provides its advisory services pursuant to an advisory agreement directly with the client. A client can separately arrange with one or more unaffiliated third parties for custody, financial advisory and certain trading services to be provided. For these accounts, FRIM is appointed to act as an investment adviser through a process generally administered or assisted by the managed account program sponsor. Clients participating in a program, generally with assistance from the sponsor, can select FRIM to provide investment advisory services for their account (or a portion thereof) for a particular strategy.

FRIM receives an economic benefit from certain third-party custodians by receiving asset-gathering incentive payments or having fees reduced or by not being charged for utilizing specialized investment adviser electronic information down loads, access to specialized institutional brokerage trading and customer service teams, and specialized batched statements. From these services, FRIM is then able to more efficiently and readily manage clients' accounts. These benefits present a conflict of interest because it gives FRIM an incentive to recommend custody based upon the benefits by FRIM received rather than on a client's needs. However, when providing investment advisory services to clients, FRIM is a fiduciary and is required to act solely in the best interest of clients. This conflict is addressed through disclosure in this brochure and by adopting internal policies and procedures that require it provide investment advice that is suitable for advisory clients.

FRIM is a party to a referral arrangement with an unaffiliated third-party manager and receives referral fees as an unaffiliated solicitor. FRIM is also party to referral arrangements with unaffiliated third-party solicitors, constructed in accordance with Rule 206(4)-3 of the Advisers Act, whereby third-party solicitors will refer potential clients to FRIM in exchange for compensation based on a percentage of advisory fees collected. The details of referral arrangements by FRIM to the third-party managers, or by third-party solicitors to FRIM, are disclosed to clients at the time of referral.

### **Financial Information**

FRIM is a wholly owned subsidiary of First Republic Bank, a publicly traded company, the balance sheet of which is publicly available.

FRIM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance and therefore a balance sheet of FRIM is not required to be disclosed.

FRIM has no financial condition to disclose that is reasonably likely to impair its ability to meet contractual commitments to clients at this time.

FRIM has not been the subject of a bankruptcy petition at any time during the past ten years.