

Item 1 - Cover Page

Smart Portfolios, LLC  
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This brochure provides information about the qualifications and business practices of Smart Portfolios, LLC. If you have any questions about the contents of this brochure, please contact us at 206-686-3636. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Smart Portfolios, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Smart Portfolios, LLC is an SEC registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

Smart Portfolios updates this document annually, or more frequently in the event of material changes. This section outlines and summarizes the specific changes made to this brochure since our last update.

Smart Portfolios' Clients may request a full copy of the latest version of this brochure, free of charge, by contacting Kristin Copper, Chief Compliance Officer, at (206) 686-3636 or [kcopper@smartportfolios.com](mailto:kcopper@smartportfolios.com). A complete copy is also available online at web site [www.smartportfolios.com](http://www.smartportfolios.com).

## **Material Changes**

- ▲ Updated Chief Compliance Officer – Kristin Copper
- ▲ Updated AUM as of December 31, 2019

### Item 3 -Table of Contents

Item 1 – Cover Page .....	1
Item 2 - Material Changes.....	2
Item 3 -Table of Contents .....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	10
Item 6 – Performance-Based Fees and Side-By-Side Management .....	12
Item 7 – Types of Clients.....	12
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	12
Certain Material Risks: .....	18
International Securities.....	18
Trading .....	19
ETNs .....	19
Item 9 – Disciplinary Information .....	19
Item 10 – Other Financial Industry Activities and Affiliations .....	19
Item 11 – Code of Ethics .....	20
Item 12 – Brokerage Practices .....	21
Item 13 – Review of Accounts.....	24
Item 14 – Client Referrals and Other Compensation.....	24
Item 15 – Custody .....	24
Item 16 – Investment Discretion .....	25
Item 17 – Voting Client Securities.....	25
Item 18 – Financial Information.....	25

#### **Item 4 – Advisory Business**

**Smart Portfolios, LLC** is an SEC-registered investment advisor, which was founded in April 2005. Its sole shareholder is Shield Holdings, LLC, whose principal owner is Bryce James. As of December 31, 2019, Smart Portfolios managed \$201,619,195 on a discretionary basis and \$1,487,043 on a non-discretionary basis.

Smart Portfolios' core focus is providing sub-advisory services to Registered Investment Advisors (RIAs). It also provides custom trading algorithms ("signals") to RIAs and has retail clients. Smart Portfolios specializes in the development of asset allocation models, which are selected by RIAs for their clients, or by Smart Portfolios for retail clients. In some limited cases, retail clients may receive model recommendations delivered as signals, or choose to have a customized 'strategy' solution.

Each of Smart Portfolios' seven asset allocation models is developed to invest in one or more predetermined universes of securities. This may include, depending on the model, exchange-traded funds, mutual funds and collective investment trusts of insurance companies or TIAA, each with a pre-established risk objective. Client accounts are invested only in accordance with the model(s) selected for the Client.

The models developed by Smart Portfolios are based on the application of Dynamic Risk Theory, which uses advanced mathematics to calculate the risk, return, and correlation of securities (the relationships between the price movements of securities) in a portfolio, to create a more real-time efficient frontier through its Dynamic Portfolio Optimization (DPO)<sup>™</sup> asset allocation system. The DPO system is used in each of the models. In addition to the models, Smart Portfolios may use fundamental analysis, macro-economic analysis, or technical analysis, in which it charts price movements of securities and adjusts allocation appropriately.

The Macro-Tides models offered by Smart Portfolios, and developed by Jim Welsh, use a combination of Macro-economic and technical analysis to allocate assets.

With the Acquisition of Sampson Investment Management, Smart Portfolios' includes Litman Gregory Fund Research as a foundation for their mutual fund based models. The mutual fund models use a combination of asset allocation and fund selection to balance risk and opportunity to achieve long-term investment goals.

Each of Smart Portfolios' advisory services is described briefly below. The models and strategies used in performing these services are described in more detail in Item 8.

## **Types of Services**

### *Sub-Advisory Services*

Smart Portfolios' principal focus is to act as sub-advisor for RIAs. Pursuant to a separate agreement with each RIA, the RIA selects a model offered by Smart Portfolios for the RIA's Client in accordance with its Client's financial position, objectives and risk tolerance, and may change the selection at any time. Smart Portfolios trades the account in accordance with the model selected.

### *Signal Services*

Smart Portfolios provides signals to RIAs pursuant to signal agreements. The RIA selects the signal to be provided (based on one of the Smart Portfolios models) and makes all decisions whether and when to use the signal for its clients. The RIA executes all trades. This service is no longer accepting new clients. Only existing clients are being serviced.

### *Retail Services*

Smart Portfolios provides separately managed account services, by selecting one of its models for a client based on the client's financial position, objectives and risk tolerance, and then implements the selection pursuant to discretionary authority. Additionally, some clients request a customized "Strategy" for their investment solution.

### *Financial Planning and Consulting Services (Stand-Alone)*

Smart Portfolios provides financial planning and consulting services, including investment and non-investment related matters, such as estate planning and insurance planning. These services can be included as part of the investment agreement or on a stand-alone separate fee basis. Prior to engaging Smart Portfolios to provide planning or consulting services, clients are generally required to enter into an agreement with Smart Portfolios setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Smart Portfolios commencing services.

## **Account Restrictions and Tailoring**

Smart Portfolios does not implement client restrictions governing investments, such as the type of securities or issuers to be bought or sold. Each RIA who selects Smart Portfolios as sub-manager is responsible for ensuring that client restrictions on accounts are consistent with selected Smart Portfolios models. Likewise, with respect to Smart Portfolios' clients, Smart Portfolios will not select models for a client that are inconsistent with any restrictions imposed by the Client and will not accept the Client if an available model or strategy would be inconsistent with any restrictions. Smart Portfolios does not specifically tailor models for clients but can offer a custom strategy. Models and strategies are selected for clients based on a client's financial position, objectives and risk tolerance.

## **Important Disclosure Information**

### *Limitations of Financial Planning, Non-Investment Consulting and Implementation.*

As indicated above, to the extent requested by a client, Smart Portfolios may provide financial planning and related consulting services. Neither Smart Portfolios nor its investment adviser representatives assist clients with the implementation of any financial plan, unless they have agreed to do so in writing. Smart Portfolios does not monitor a client's financial plan, and it is the Client's responsibility to revisit the financial plan with Smart Portfolios, if desired.

Furthermore, although Smart Portfolios may provide recommendations regarding non-investment related matters, such as estate planning, tax planning and insurance, Smart Portfolios does not serve as a law firm, accounting firm, or insurance agency, and no portion of Smart Portfolios' services should be construed as legal, accounting, or insurance implementation services. Accordingly, Smart Portfolios does not prepare estate planning documents, tax returns or sell insurance products.

To the extent requested by a client, Smart Portfolios may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance agents, etc.). Clients are reminded that they are 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 made by Smart Portfolios or its representatives.

If the client engages any recommended unaffiliated professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. At all times, the engaged licensed professional[s] (i.e. attorney, accountant, insurance agent, etc.), and not Smart Portfolios, shall be responsible for the quality and competency of the services provided.

#### Client Obligations

In performing its services, Smart Portfolios 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. Moreover, each client is advised that it remains their responsibility to promptly notify Smart Portfolios if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating or revising Smart Portfolios' previous recommendations and/or services.

#### Non-Discretionary Service Limitations

Clients that determine to engage Smart Portfolios on a non-discretionary investment advisory basis must be willing to accept that Smart Portfolios cannot affect any account transactions without obtaining prior consent to such transaction(s) from the client. Therefore, in the event that Smart Portfolios would like to make a transaction for a client's account (including in the event of an individual holding or general market correction), and the client is unavailable, Smart Portfolios will be unable to affect the account transaction(s) (as it would for its discretionary clients) without first obtaining the client's consent.

#### Use of Mutual Funds

While Smart Portfolios may recommend allocating investment assets to mutual funds that are not available directly to the public, Smart Portfolios may also recommend that clients allocate investment assets to publicly-available mutual funds that the client could obtain



without engaging Smart Portfolios as an investment adviser. However, if a client or prospective client determines to allocate investment assets to publicly-available mutual funds without engaging Smart Portfolios as an investment adviser, the client or prospective client would not receive the benefit of Smart Portfolios' initial and ongoing investment advisory services.

#### Portfolio Activity

Smart Portfolios has a fiduciary duty to provide services consistent with the client's best interest. As part of its investment advisory services, Smart Portfolios will review client portfolios on an ongoing basis to determine if any changes are necessary based upon various factors, including, but not limited to, investment performance, fund manager tenure, style drift, account additions/withdrawals, and/or a change in the client's investment objective. Based upon these factors, there may be extended periods of time when Smart Portfolios determines that changes to a client's portfolio are neither necessary nor prudent. Clients nonetheless remain subject to the fees described in Item 5 below during periods of account inactivity.

#### ByAllAccounts

In conjunction with the services provided by ByAllAccounts, Inc., Smart Portfolios may also provide periodic comprehensive reporting services, which can incorporate all of the client's investment assets including those investment assets that are not part of the assets managed by Smart Portfolios (the "Excluded Assets"). Smart Portfolios' service relative to the Excluded Assets is limited to reporting services only, which does not include investment implementation. Because Smart Portfolios does not have trading authority for the Excluded Assets, to the extent applicable to the nature of the Excluded Assets (assets over which the client maintains trading authority vs. trading authority designated to another investment professional), the client (and/or the other investment professional), and not Smart Portfolios, shall be exclusively responsible for directly implementing any recommendations relative to the Excluded Assets. The client and/or their other advisors that maintain trading authority, and not Smart Portfolios, shall be exclusively responsible for the investment performance of the Excluded Assets. Without limiting the above, Smart Portfolios shall not

be responsible for any implementation error (timing, trading, etc.) relative to the Excluded Assets. In the event the client desires that Smart Portfolios provide investment management services (whereby Smart Portfolios would have trading authority) with respect to the Excluded Assets, the client may engage Smart Portfolios to do so.

## **Item 5 – Fees and Compensation**

Smart Portfolios’ fees are typically paid quarterly in advance by applying one quarter of the annual rate shown below to the account balance at the end of the previous quarter. The fee for accounts initiated or terminated during a calendar quarter is pro-rated. Clients who terminate receive a refund of the portion of the fee, calculated based on the number of days remaining in the quarter at the time of termination.

Account fees may be deducted from clients’ assets or billed directly, depending on the custodian of the assets or type of account. Clients may not select the method of payment. For sub-advisory clients, depending on the arrangement, the RIA may collect the entire quarterly fee directly and pay Smart Portfolios its portion, Smart Portfolios may collect the entire quarterly fee and pay the RIA the balance which exceeds Smart Portfolios’ fee, or Smart Portfolios may debit or bill only its portion of the fee.

### *Sub-Advisory Fees – Separately Managed Accounts (SMA):*

The annual rate for Clients of an RIA is based on total assets under management at Smart Portfolios, as follows:

<u>Total AUM</u>	<u>Management Fee</u>
< \$10mm	0.70%
\$10mm - \$50mm	0.60%
\$50mm - \$100mm	0.45%
\$100mm >	0.35%

Sub-Advisory Fees – Unified Managed Account (UMA):

The annual rate for Clients of an RIA based on Smart Portfolios providing trading instructions to a UMA platform, and the platform providing additional services including, but not limited to, the services which Smart Portfolios would normally provide under an UMA arrangement are as follows:

<u>Total AUM</u>	<u>Management Fee</u>
All AUM	0.35%

For Retail Services:

Tiered annual rate:

<u>Total AUM</u>	<u>Management Fee</u>
< \$1mm	1.50%
\$1mm - \$2mm	1.20%
\$2mm - \$4mm	1.00%
\$4mm - \$6mm	0.90%
\$6mm - \$7mm	0.80%
\$7mm - \$8mm	0.70%
> \$8mm	Negotiable

Back-office Management Fees

Smart Portfolios passes along the fees charged by its back-office solution (services offered by Black Diamond and ByAllAccounts). These fees vary based upon the client's assets under management, but typically amount to approximately \$3.00 per month per account.

Clients prior to January 1, 2019 are grandfathered in with no additional costs. Smart Portfolios may, in its sole discretion, waive or negotiate fees.

Other Fees and Expenses:

In addition to Smart Portfolios' fees, clients pay custodial and other fees, costs, and expenses to their custodian. In addition to the advisory fee paid to Smart Portfolios, clients may pay either a commission or transaction fee to their custodian, which includes execution, custodial fees and other costs and expenses pursuant to a separate agreement with the custodian.

Clients may incur certain other 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, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds (ETFs) also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are in addition to Smart Portfolios' fee, and Smart Portfolios does not receive any portion of these commissions, fees and costs. See Item 12 for further discussion regarding brokerage.

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

Smart Portfolios does not charge performance-based fees.

### **Item 7 – Types of Clients**

Smart Portfolios provides services to RIAs as a sub-advisor and provides investment management and financial planning to retail clients.

Smart Portfolios requires a minimum initial investment of \$100,000 per Client. The minimum is not applicable to accounts held with insurance companies, TIAA/CREF or custodied with FolioFn. Smart Portfolios may, at its discretion, reduce the minimum investment requirements.

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

Investing in securities involves risks, including the possibility of a complete loss of the amount invested, which Clients should be prepared to bear.

Smart Portfolios uses statistical modeling to create its asset allocation models. Nearly all Smart Portfolios' models are based on Smart Portfolios' proprietary asset allocation engine, Dynamic Portfolio Optimization (DPO). Smart Portfolios' DPO engine modifies the portfolio asset mix to reflect the current risk and potential return of the investable markets. Using DPO, models are established with different pre-established risk objectives, but using the same philosophy. When markets are at greater risk the model strives to reduce the risk tolerance level to preserve capital and when risk-adjusted returns are attractive the model's

objective is to seize the opportunity for greater returns. In other words, the market, which is constantly changing, dictates the risk/reward profile. Smart Portfolios' models are designed to track the changes in risk and return and to invest accordingly as it endeavors to optimize performance.

Smart Portfolios' customized strategies are based on the specific needs of a client, such as an investor holding a concentrated equity investment. These strategies do not follow the investment selection process of the portfolio optimization models.

Smart Portfolios invests primarily through ETFs because it believes ETFs efficiently diversify away company-specific risks that the market does not compensate investors to take. ETFs provide access to a wide diversity of asset classes, and their sector specificity allows Smart Portfolios to take advantage of forecasted opportunities.

Smart Portfolios utilizes Litman Gregory Fund Research to inform their allocation and fund selection process for their mutual fund models.

Additionally, O'Shaughnessy Asset Management is a sub-advisor to Smart Portfolios and a portion of select client's portfolios have an allocation to this strategy.

### ***Smart Portfolios' Philosophy:***

- Investors (collectively) make the market.
- Markets are driven by investor expectations.  
(fundamentals, economics, technicals, etc.)
- Changes in expectations affect security prices.  
(earnings estimates, interest rates, technical breakouts, etc.)
- Large errors in expectations cause rapid and pronounced price changes.  
(internet bubble, real estate boom, flash crash, Greek currency, Russian bond default, Mexican peso devaluation, etc.)
- Smart Portfolios believes managing the changes in price, volatility, dependency, and velocity of change, optimizes portfolio performance.

Smart Portfolios' research shows extreme market events occur more often than is normally assumed, that volatility and the relationships between the price movements of securities (correlation) are not constant, and that future volatility, correlation, return opportunity and risk can be scientifically, albeit imperfectly, predicted over one-month horizons. Having developed tools to act on that philosophy, the strategy is to alter the portfolios market exposure, by degree and by sector, frequently to optimize risk-adjusted returns for Smart Portfolios' investors.

Multiple studies claim 91.5% of the quarterly variation in returns comes from asset allocation. Billions are spent annually in the remaining 8.5% but few resources are spent analyzing the largest driver, asset allocation. Nearly all asset allocation software solutions follow a three-step process to determine the optimal asset mix, a process termed portfolio optimization. These three steps require the modeler to calculate risk, return and correlation of a given set of securities. Most of these calculations come from concepts designed over 50 years ago. The Smart Portfolios method leverages current computing power and advanced mathematics to deliver what the company believes is closer to a real-time asset allocation solution.

Each of the models, described briefly below, is designed for varying risk. Each is subject to the general risks described below. Additional risk for a strategy is inherent in the asset classes selected and the universe of available funds.

**ETF Moderate Allocation Strategy:** This strategy is designed to provide steady long-term growth by seeking lower volatility ETFs, such as those of fixed income or low correlated securities. Asset classes in the fund universe include: domestic and foreign fixed income, real estate, commodities and domestic and foreign equity securities.

**ETF Allocation Strategy:** This strategy is designed to be more aggressive than the Moderate Allocation Strategy and to provide long-term growth by investing in broader market ETFs. Asset classes in the fund universe include: domestic and foreign fixed income, real estate, commodities, and domestic and foreign equity securities.

**ETF Aggressive Strategy:** This strategy is designed to provide long-term growth by investing in broader market ETFs and utilizing strategies such as investing in options and

futures. Asset classes in the fund universe include: domestic and foreign fixed income, real estate, commodities, and domestic and foreign equity securities. In addition to the security selection above, the model may also use leveraged and inverse funds, as well as options.

**ETF ESG Strategy:** This strategy is designed for investors seeking to outperform traditional asset allocation models on a risk-adjusted basis in all economic environments using tenants of Environmental, Social, & Governance (ESG) investing principals. Asset classes in the fund universe include: domestic and foreign fixed income, real estate, commodities, and domestic and foreign equity securities. In addition to the security selection above, the model gives special attention to ensure that Environmental factors, Socially responsible factors, and corporate Governance factors are included in both bottom-up rankings and negative filters. Additional screening is done to ensure adequate liquidity of investment choices remain to meet dynamic risk-management requirements.

**Pacific Life:** This strategy is designed for moderate risk investors seeking to outperform a balanced portfolio of major market indices, such as 60% the S&P 500 (ETF: SPY) and 40% the Barclays Aggregate Bond Index (ETF: AGG). The strategy employs a diversified selection of investments including bonds, domestic and foreign equities, real estate and money market collective investment trusts. This universe is solely dependent upon the DPO model.

**Security Benefit Life:** Smart Portfolios' Security Benefit Life strategy is to outperform an unmanaged mix of investments from the universe of investments offered by Security Benefit Life to its variable annuity customers. This model, due to the underlying investments, is designed for a more aggressive investor. The strategy makes an optimized selection of investments from the assortment offered by Security Benefit Life to its variable annuity customers. This universe of funds is managed solely through technical analysis and does not use the DPO model.

**TIAA-CREF 9 Allocation Strategy:** This strategy uses a TIAA CREF 9 Fund Universe portfolio focused on delivering investors sustainable long-term growth. The strategy is

designed for investors with long-term time horizons. The strategy employs the preselected nine diversified investments including bonds, domestic and foreign equities, real estate, and money market funds.

**TIAA-CREF 18 Allocation Strategy:** This strategy uses a TIAA CREF 18 Fund Universe portfolio focused on delivering investors sustainable long-term growth. The strategy employs the preselected 18 diversified investments including bonds, domestic and foreign equities, real estate, and money market funds.

**Fidelity Allocation Strategy:** This strategy uses the Fidelity Fund Universe (college 403(b) plans) to build a portfolio focused on delivering investors sustainable long-term growth. The strategy employs the preselected diversified investments including bonds, domestic and foreign equities, real estate, and money market funds.

**Customized Investment Strategy:** This strategy uses an ETF and Equity Fund Universe to custom build a portfolio focused on delivering investors sustainable long-term growth. The strategy employs diversified investments including bonds, domestic and foreign equities, real estate, and money market funds, as well as concentrated stock positions held or requested by the client, or less frequently, the advisor.

**U.S. Tactical Sector Rotation Strategy:** The U.S. Tactical Sector Rotation Strategy is engineered for investors seeking aggressive growth over long-term time horizon. This strategy is driven by our proprietary Major Trend Indicator (MTI). The MTI is primarily quantitative and differentiates whether "Bull Market" or "Bear Market" conditions exist. When the MTI signal indicates "Bull Market" conditions, the model invests in the top five performing sector ETFs of the ten sectors within the S&P 500 index, plus a Midcap sector ETF (MDY), and Small Cap sector ETF (IWM). Alternatively, when "Bear Market" conditions are indicated, the model invests in a Money Market Fund and/or establishes "short" positions through "inverse" ETFs (i.e. inverse S&P 500 and/or inverse Russel 2000 ETFs). The portfolio is rebalanced quarterly.



**Global Tactical Sector Rotation Strategy:** The Global Tactical Sector Rotation Strategy is tailored to investors seeking aggressive growth over long-term time horizon. This strategy is driven by our proprietary Major Trend Indicator (MTI). This strategy is created to capture opportunities in global markets from Growth, Value and Currency perspectives. The proprietary Major Trend Indicator (MTI) is utilized and applied in the same method as the U.S. Tactical Sector Rotation Strategy but includes additional multiple continent regions (Europe, Asia and Emerging Markets), and exposure to the following ETF's sectors: U.S. Treasury (long/short), Gold & Gold Stocks, Commodity and Currency. The possible choices of alternate global assets are determined by the portfolios manager's discretion and on-going published research.

**Conservative Mutual Fund Model:** The Conservative Mutual Fund Model is managed in an effort to limit loss in a 12-month period. This model is appropriate and selected by investors who are uncomfortable with higher short-term risk and who value short-term capital preservation over higher long-term returns.

**Moderate Mutual Fund Model:** The Moderate Mutual Fund Model is managed in an effort to limit loss in a 12-month period. This model is appropriate and selected by investors who want to participate in the equity markets but are still somewhat uncomfortable with short-term risk.

**Growth-Tilted Mutual Fund Model:** The Growth-Tilted Mutual Fund Model is managed in an effort to limit loss in a 12-month period. This model has a more aggressive default allocation to equities and is appropriate and selected by investors who are willing to accept higher short-term risk in exchange for the likelihood of higher long-term returns than what are available from our more conservative models.

**Growth Mutual Fund Model:** The Growth Mutual Fund Model is, as a rule, a fully invested, global equities portfolio. Consequently, the ups and downs of the model's returns will be as wide as the equity markets. Along with higher risk, we expect higher long-term returns than what are available from our other, less aggressive models. This portfolio is appropriate and selected by investors with a long time horizon and no concerns about short-term risk.

### ***Certain Material Risks:***

All Client portfolios are subject to material risks, including:

**General Economic Conditions and Market Disruptions:** Prices of securities may be volatile due to general economic conditions and market movements. Market movements are difficult to predict and are influenced by, among other things, government trade, fiscal, monetary and exchange control programs; changing supply and demand relationships; political and economic conditions and changes in interest rates. In addition, adverse global financial conditions may reduce prices and liquidity of equity, debt securities, commodities, real estate, and adversely affect their issuers.

**Liquidity in Financial Markets:** Adverse economic conditions may affect the financial markets in the United States and elsewhere, and may reduce demand and liquidity in equity, credit and fixed-income, or alternative security markets. Because securities fluctuate in value based on supply and demand, this in turn could adversely affect the value of a portfolio's assets. For example, if many mutual fund investors sought to redeem their shares at the same time, mutual fund companies could be forced to sell their investments at lower prices in order to meet redemption requests.

**Investments in Equity Securities:** In general, the value of equity securities or stocks, including those in which Client accounts will be invested, is subject to market risk. This would include changes in economic conditions, growth rates, profits, interest rates and the market's perception of equity securities. While historically offering greater potential for long-term growth, equity securities are more volatile and riskier than some other investments.

**International Securities:** Smart Portfolios' models may hold ETFs, which are purchased within the United States, but whose underlying securities are of companies who are domiciled either in developed or emerging market countries. These investments may involve special risks due to economic, political, and legal developments, including changes in currency exchange rates; exchange control regulations; expropriation of assets or

nationalization; imposition of withholding taxes on dividends or interest payments and less comprehensive accounting reporting and disclosure requirements.

**Trading:** Smart Portfolios' investment models typically require more frequent trading than those of its peers. From a cost perspective, the Client doesn't see any additional cost if they are able to participate in an asset-based pricing account through their custodian. If the Client has to pay commission, they may incur additional costs over and above what they would have paid had they had asset-based pricing. A portion of capital gains may be from short-term gains, which is not advantageous in a non-qualified account.

**ETNs:** Smart Portfolios will occasionally invest in Exchange Traded Notes (ETNs). ETNs offer an alternative or solution to accessing difficult investments areas, such as currencies or commodities. ETNs cause counter party risk, where the ETN issuer assumes the risk that they can offset their liabilities under the ETNs by any means they choose, but insolvency by the issuer for any reason causes the ETN holders to become general creditors. As well, ETNs may generate a K-1 which could affect the timing and expense of tax returns.

### **Item 9 – Disciplinary Information**

Like other investment advisers, Smart Portfolios is required to disclose all material facts regarding any legal or disciplinary events that would materially impact a client's evaluation of Smart Portfolios or the integrity of Smart Portfolios' management. No events have occurred at Smart Portfolios that are applicable to this item.

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

Smart Portfolios is not actively engaged in a business other than giving investment advice. Neither Smart Portfolios nor any of its management personnel is registered or has an application pending to register as a broker-dealer, futures commission merchant, commodity pool operator, commodity trading adviser, or associated person of the foregoing and Smart Portfolios does not anticipate such affiliations in the future.

Mark Bergeron, a Smart Portfolio representative, in his individual capacity, is a licensed insurance agent, and may recommend the purchase of certain insurance-related products on a commission basis. The recommendation by Mr. Bergeron that a client purchase an insurance commission product presents a conflict of interest, as his potential receipt of commissions provides an incentive to recommend insurance products based on commissions received, rather than on a particular client's need. No client is under any obligation to purchase any insurance commission products from Mr. Bergeron and clients are reminded that they may purchase insurance products recommended by Smart Portfolios through other, non-affiliated licensed insurance agents.

### **Item 11 - Code of Ethics**

Smart Portfolios has adopted a Code of Ethics for all supervised persons of the firm. This described its standard of business conduct, and fiduciary duty to its Clients. The Code of Ethics includes provisions relating to the confidentiality of Client information, a prohibition on insider trading, a ban on rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Smart Portfolios must acknowledge the terms of the Code of Ethics annually in writing and agree to be bound by it.

Smart Portfolios employees are not prohibited from investing in the ETFs, mutual funds or subaccounts that are in the predetermined universe for a particular model. Investors should note there is a possibility that employees might benefit from market activity of a Client in a security held by an employee. However, given the modest size of employee trades, if any, in relation to the size of the mutual funds and ETFs in Client portfolios, Smart believes that any employee trading would be unlikely to have any material impact on purchase or sales prices experienced by Clients.

Further, the Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of Smart Portfolios will not interfere with making

or implementing decisions in the best interests of Clients. Employees are required to report their trading activity quarterly and their securities holdings annually. These reports are reviewed by Smart Portfolios' Chief Compliance Officer.

The Code of Ethics designates certain classes of securities (including, without limitation, shares of open-end mutual funds) as exempt from reporting, based upon exemptions provided under applicable federal securities laws.

It is Smart Portfolios' policy that the firm will not affect any principal transaction or cause Client accounts to enter into securities trades with each other. Principal transactions are generally defined as transactions in which an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction in which a person acts as an investment adviser in relation to a transaction in which the investment adviser acts as a broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise if an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. None of these circumstances applies to Smart Portfolios. See Item 12 regarding brokerage practices.

Smart Portfolios will provide a copy of the Firm's Code of Ethics to any Client upon request made to the Chief Compliance Officer at (206)686-3636 or [compliance@smartportfolios.com](mailto:compliance@smartportfolios.com).

## **Item 12 - Brokerage Practices**

When engaged to sub-advisory services, Smart Portfolios will not have the authority to determine the custodian used for custody of Client securities. In order to use Smart Portfolios' services Clients must have or establish an account with a custodian through which Smart Portfolios can trade. However, whether engaged to provide sub-advisory services to institutional clients or retail services to individual clients, Smart Portfolios may recommend custodians based on pricing, perceived stability, security, efficiency, and the performance of trade execution and other routine services, as well as the reasonableness of fees charged.

The value of special services, products and research made available to Smart Portfolios will have no bearing upon recommendation of custodians.

Trades for securities held with most custodians, except a few brokerage firms, insurance companies and TIAA/CREF, may be aggregated and executed through third party traders such as Cantor Fitzgerald, GTS Mischler, Convergenx Group, or Wolverine Execution. Clients receive an average share price. Smart Portfolios uses block trading to distribute pricing equally. For those unable to block trade, a rotational trading priority is implemented to ensure that Clients are equitably treated. Third party traders are selected primarily on the basis of execution price and ability to act as agent and/or principal. In some instances, a third-party trader may receive commissions. In other cases, they may act as a market-maker and receive compensation solely thru their ability to efficiently operate bid/ask spreads. Selection of third-party trading services is reviewed annually. Securities held through subaccounts (at insurance companies and in TIAA/CREF) are separately reallocated in accordance with models.

See Item 13 for a discussion of reallocation methodologies.

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer or custodian, Smart Portfolios may receive from certain broker-dealer or custodians (or another broker-dealer/custodian, investment platform, unaffiliated investment manager, mutual fund sponsor, or vendor) without cost (and/or at a discount) support services and/or products, certain of which assist Smart Portfolios to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Smart Portfolios may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance or practice management-related publications, discounted or gratis consulting services, discounted or gratis attendance at conferences, meetings, and other educational or social events, marketing support, computer hardware or software or other products used by Smart Portfolios in furtherance of its investment advisory business operations.

There is no corresponding commitment made by Smart Portfolios to any other entity 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 arrangement.

*“iRebal”*

Smart Portfolios considers a number of factors in selecting brokers and custodians at which to locate (or recommend location of) its client accounts, including, but not limited to, execution capability, experience and financial stability, reputation and the quality of services provided. When recommending TD Ameritrade Institutional (“TD Ameritrade”) as the broker and custodian for certain of its current and future client accounts, Smart Portfolios takes into consideration its arrangement with TD Ameritrade as to obtaining price discounts for TD Ameritrade’s portfolio rebalancing service for advisors known as “iRebal.”

The standard iRebal annual license fee applicable to Smart Portfolios is \$44,000. That fee is subject to specified reductions (and even complete waiver) if specified amounts of client taxable assets are either already on the TD Ameritrade platform or are committed to be placed on it. Specified taxable client assets either maintained on or committed to the TD Ameritrade platform will bring fee reductions of up to 100% per year.

The non-taxable assets excluded from the maintenance and commitment levels described above are those that constitute “plan assets” of plans subject to Title 1 of the Employee Retirement Income Security Act of 1974, amended, or of plans as defined in Section 4975 of the Internal Revenue Code (which include IRAs).

If Smart Portfolios does not maintain the relevant level of taxable assets on the TD Ameritrade platform, Smart Portfolios may be required to make a penalty fee payment to TD Ameritrade calculated on the basis of the shortfall.

Although Smart Portfolios believes that the products and services offered by TD Ameritrade are competitive in the market place for similar services offered by other broker-dealers or

custodians, the arrangement with TD Ameritrade as to the iRebal service may affect Smart Portfolios' independent judgment in selecting or maintaining TD Ameritrade as the broker or custodian for client accounts.

### **Item 13 – Review of Accounts**

All model positions (except collective investment trusts of insurance companies or TIAA/CREF and customized strategies) are reviewed internally daily (new model updates may be run daily or minimally monthly). Most accounts applied to Dynamic Portfolios Optimization models are reallocated once per month, with certain large accounts reallocated twice per month. Bryce James, President, and/or Keith Campbell, Chief Investment Officer, reviews all Dynamic Portfolio Optimization models at least monthly.

Smart Portfolios will provide a written report to each client on a quarterly basis regarding the performance and valuation of their account. In addition, clients receive monthly or quarterly statements from their respective custodian.

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

Smart Portfolios compensates certain third-party solicitors who refer clients to Smart Portfolios. The solicitor provides each prospective Client with a copy of this brochure along with a written disclosure of the terms of the solicitation arrangement between Smart Portfolios and the solicitor, including the compensation to be received by the solicitor from Smart Portfolios. This fee does not increase or decrease the management fee any client pays to Smart Portfolios. Smart Portfolios discloses the referral arrangement, if any, to the Client and asks the Client to acknowledge it in writing.

### **Item 15 – Custody**

Smart Portfolios does not take possession of Client money or securities, although Smart Portfolios often has the authority to deduct its advisory fees from Client accounts. See discussion regarding custodians in Item 12. Clients receive monthly or quarterly statements from the custodian which holds and maintains the Client's account. Smart Portfolios urges clients to review those statements carefully and compare them to the performance reports



provided. Reports from Smart Portfolios may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Clients should contact Smart Portfolios immediately if any discrepancies or errors are discovered.

#### **Item 16 – Investment Discretion**

Smart Portfolios receives discretionary trading authority from each Client at the outset of an advisory relationship when the Client signs a third-party authorization or grants discretionary authority in an advisory contract. However, when exercising discretion in a sub-advisory relationship, Smart Portfolios limits use of the discretion to the models selected by the RIA for its Client. With respect to retail Clients, Smart Portfolios exercises discretion in accordance with the Client’s financial position, objectives, and risk tolerance.

#### **Item 17 – Voting Client Securities**

Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client’s investment assets. Smart Portfolios or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client’s investment assets.

Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact Smart Portfolios to discuss any questions they may have with a particular solicitation.

#### **Item 18 – Financial Information**

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