



## SAGE ADVISORY SERVICES, LTD. CO.

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### CLIENT BROCHURE

Date of Brochure: March 29, 2011

This Brochure provides you information about the qualifications and business practices of **Sage Advisory Services, Ltd. Co.** If you have questions about the contents of this Brochure, please contact us at (512) 327-5530. 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 Sage is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with, registered, and required to be registered as investment adviser representatives of Sage.

Sage is a registered investment adviser. The registration of an investment adviser does not imply any level of skill or training. The oral and written communications made to you by Sage, including the information contained in this Brochure, should provide you with information to determine whether to hire or retain Sage as your adviser.

Please be aware during your review of our brochure when we use the words "Sage", "we" and "our" we are referring to **Sage Advisory Services, Ltd. Co.** When we use the words "you", "your" and "client" we are referring to you as our client or our prospective client. We use the term "Associated Person" when referring to our officers, employees, and all individuals providing investment advice on behalf of Sage.

## ITEM 2 – MATERIAL CHANGES

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules.

This Brochure dated March 29, 2011 is a new document prepared according to the SEC’s new requirements and rules. Therefore, this document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future we will provide new clients with a brochure before or at the time we enter into an advisory agreement.

Additionally, we will deliver to our clients, within 120 days of the end of each fiscal year an updated Brochure that either includes or is accompanied by a summary of material changes.

Alternatively, we may deliver a summary of material changes that includes an offer to provide a copy of the updated brochure and information on how our clients may obtain the brochure.

You may obtain our Brochure by visiting our web site [www.sageadvisory.com](http://www.sageadvisory.com) or by contacting our Chief Compliance Officer at (512) 327-5530 or by email [rwilliams@sageadvisory.com](mailto:rwilliams@sageadvisory.com).

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## ITEM 4 – ADVISORY BUSINESS

**SAGE ADVISORY SERVICES, LTD. CO.** is a Securities and Exchange Commission registered investment adviser located in Austin, Texas. Sage was founded in 1996 and organized as a Texas Limited Liability Company.

We specialize in domestic and international fixed income, balanced and equity portfolio management for individual and institutional clients. We offer a common sense approach toward investing utilizing strong risk-control disciplines and a process that is repeatable.

Our belief is a conscientiously monitored investment management program designed specifically for you can satisfy your constantly changing investment needs. We seek to add value through our investment management process applied based upon your investment risk constraints.

Our investment management process combines fundamental economic analysis with quantitative security and yield curve valuation techniques to produce a comprehensive core management style.

### PRINCIPAL OWNERS

Sage is entirely employee-owned and does not have any affiliates or subsidiaries.

The principal owners are:

- Robert G. Smith III, its President and Chief Investment Officer
- Mark C. MacQueen, its Executive Vice President

### EDUCATION AND EXPERIENCE

Sage's Associated Persons are expected to have education and business backgrounds that enable them to perform their respective responsibilities effectively. In assigning responsibilities, we consider academic background (including studies in college and graduate schools, as well as degrees earned), industry training, licenses and certifications.

Work experience in a related field, such as investments, commodities, insurance, banking or accounting, is also considered.

No formal, specific standards have been set, but appropriate education and experience are required. See ADV Form Part 2B for additional information.

### ASSETS UNDER MANAGEMENT (AUM)

As of February 28, 2011, Sage manages \$9,622,000,000 in total client assets of which \$8,678,000,000 is on a discretionary basis, \$500,000,000 is on a model provision basis, and \$444,000,000 is on a non-discretionary basis.

### OVERVIEW OF ADVISORY SERVICES

Sage offers investment management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, trust programs, sovereign funds, foreign funds and other U.S. and international institutions.

We also offer advisory services to clients seeking liability directed investment solutions and insurance company specific services.

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## INVESTMENT MANAGEMENT

Sage offers a common sense and client objective-driven approach toward investing with strong risk-control disciplines utilizing a repeatable process. Sage distinguishes itself in the following areas:

- Investment Management – We seek to manage each client’s portfolio separately and individually assist them in obtaining their safety, liquidity, income, tax sensitivity, total return and risk expectations.
- Disciplined Process – We adhere to a process that focuses on each client’s financial objectives within a mutually understood risk tolerance.
- Client Education – We educate clients on market trends, economic forces and investment fundamentals to foster a better understanding of investment decisions.
- Investment Reporting – We provide clients with convenient password protected access to their account information anytime, from anywhere via Sage’s website.

Sage offers the following actively managed investment strategies:

- Taxable Fixed Income – We manage client’s objectives which range from cash management to total return and high total income. We can offer investment strategies in short, intermediate and market duration. Investment instruments include, but are not limited to, U.S. Government debt, U.S. Corporate debt, U.S. Municipal debt and Securitized Assets.
- Non-Taxable Fixed Income – We manage client’s objectives which range from cash management to after-tax total return and high after-tax total income. We offer investment strategies in short, intermediate and market duration. Investment instruments include, but are not limited to, U.S. Treasury debt, Tax-exempt municipal general obligation debt, and Tax-exempt municipal revenue debt.
- Actively Managed Exchange Traded Funds (ETF) – We manage client’s objectives which ranges from long-term total return to low-volatility income generation. We offer strategies in core equity, core plus equity, core plus fixed income and balanced accounts. Investment instruments include, but are not limited to, equity, fixed income and alternative ETF’s.

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## LIABILITY DIRECTED INVESTMENT SOLUTIONS

In addition to traditional investment management services, Sage offers a comprehensive and innovative combination of analytic, investing and reporting services which focus on the key concerns in building an effective Asset/Liability (LDI) management strategy.

Specifically, the Sage Asset/Liability Management group offers two categories of services:

Asset/Liability Analysis and Liability Driven Investing.

We provide these services independently or conjunctively for our clients. For example, we have clients for whom we solely perform Asset/Liability Analysis, clients for whom we solely provide Liability Driven Investing, and finally, clients that have Sage perform Asset/Liability Analysis and provide Liability Driven Investing.

Asset/Liability Analysis is the first step in Asset/Liability Management and involves assessing a client's liability structure and existing asset solution given the current applicable regulatory environment by employing the following analyses:

- Term structure assessment
- Dynamic cash flow modeling
- Interest rate & inflation risk sensitivity analysis
- Customized liability benchmark creation
- Gap analysis & risk budget creation
- Deterministic and stochastic modeling of asset returns
- Accounting and statutory projections using actuarial forecasting software (optional)

Liability Driven Investing is the second step in Asset/Liability Management and involves developing and implementing a particular asset solution given the client's liability structure, funded status and goals and may include:

- Liability targeted investments
- Long duration portfolio management
- Excess alpha and low correlation investment strategies
- Inclusion of a broad range of investments such as futures, swaps and other derivative instruments, if warranted

If a client retains Sage to perform Asset/Liability Analysis, Liability Driven Investing or both, Sage provides reporting and administration services as follows:

- Daily online investment valuation and activity reports
- Year-round investment compliance and oversight reports
- Customized quarterly performance evaluations
- Monthly liability benchmark updates
- Assessment & negotiation of derivative agreements, if required

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## **INSURANCE COMPANY SERVICES**

We offer a comprehensive and innovative combination of analytic, investing and reporting services which focus on the key concerns in building an effective management strategy for insurance organizations.

### Insurance Liability Assessment and Analysis

- Term structure analysis
- Dynamic cash flow modeling
- Interest rate & inflation risk sensitivity analysis
- Customized liability benchmark creation
- Gap analysis & risk budget creation
- Balance sheet and income statement projections
- Tax efficiency analysis

### Insurance Investment Management

- Liability targeted investments
- Long duration portfolio management
- Excess alpha and low correlation investment strategies
- Tax sensitive portfolio management

### Insurance Reporting and Administration

- Daily online investment valuation and activity reports
- Year-round investment compliance and oversight reports
- Customized quarterly performance evaluations
- Monthly liability benchmark updates
- Best's Capital Adequacy Ratio (BCAR) calculation and forecasting
- Statutory insurance reporting, including Schedule D

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### **EXCHANGE TRADED FUNDS (ETF)**

The investment and research process for the Sage Tactical ETF strategies is based on the forward-looking tactical management of the big market segment decisions, as we believe the market segment allocation has the biggest impact on portfolio performance and risk management.

- Within fixed income, market segment exposure is driven by duration, yield curve positioning and non-core segment exposure right.
- Within equities, segment exposure is determined by size, style, sector and regional exposure. We maintain a forward-looking 1-2 quarter outlook for each segment and as the outlook for each market segment change we feel it is critical to have the ability to make meaningful tactical changes to the asset allocation.

The outlook and asset allocation decisions are determined by the Sage Investment committee during formal Investment Committee meetings. In these meetings, the Committee conducts a thorough assessment of the macro environment as well as an assessment of the proprietary fundamental, technical and valuation indicators.

Next, the above view is combined with market segment analysis in which we analyze and rank the attractiveness of the different market caps and style segments of the market. This is done by applying proprietary valuation models that aggregate fundamental characteristics, technical trends, and macro inputs shown to have the most impact on a particular segment.

This output paired with the qualitative judgment of our investment committee forms the basis of Sage tactical market weighting vs. the broad market.

### **INVESTMENT PROCESS AND COMMITTEE**

Investment decisions are made by Sage's investment committee which is chaired by the Chief Investment Officer.

Decisions with regard to the broad market outlook, investment strategy and client portfolio positioning are determined by the investment committee, and recorded in the minutes of the semi-monthly meetings.

The committee's investment decision process is supplemented regularly with economic and quantitative market analysis provided by Sage's internal research analysts and its external economic and analytic consultants.

After the investment committee decides on the duration target, the sector allocation and the security characteristics desired, the portfolio managers, operating on a team basis, implement the decisions reached by the Investment Committee.

Each portfolio is managed separately and tailored to assist respective clients in meeting their safety, liquidity and total return expectations.

It is Sage's belief that only an individually designed and monitored investment management program can satisfy the constantly changing investment needs of each client.

*Please see Item 16 for more information regarding investment discretion and client investment restrictions.*

## **WRAP FEES**

We manage wrap fee accounts using the same investment process described above.

The wrap fee program sponsor pays Sage a portion of the wrap fee they receive for investment management services.

## **ITEM 5 – FEES AND COMPENSATION**

Sage is compensated for investment services by:

- a percentage of assets under management, or a
- fixed fee

## **MANAGEMENT FEE CALCULATION AND PAYMENT PROCEDURE**

We manage accounts for a variety of individual and institutional clients on a discretionary and/or non-discretionary basis, subject to the investment guidelines contained in their respective client agreement.

- The amounts and specific manner in which fees are charged is negotiated and memorialized in your client agreement with us.
- We do not deduct fees from your account.
- We invoice our clients directly.
- We generally invoice our clients in advance on a quarterly basis.
- The valuation of securities and other instruments are generally determined by their last reported sale price on the principal market in which they are traded, if traded on a market for which transaction prices are publically reported. Otherwise, other readily marketable securities and instruments are valued by using a pricing service or by Sage determining a fair market value.
- Accounts initiated or terminated during a calendar quarter will be charged a prorated fee.
- On the termination date of an account, any prepaid, unearned fees will be promptly refunded and earned and unpaid fees will be due and payable.
- Our client agreement typically requires 30 days notice for termination.

Additionally, management fees are not prorated for each capital contribution and withdrawal made during the applicable calendar quarter.

## MANAGEMENT FEE GUIDELINES

Our standard fee schedule is provided below. However, in some instances, we will negotiate from our standard fee schedule based upon the circumstances.

<p>■ <b>Cash Duration Fixed Income</b></p> <p>.25 of 1% to \$10 Million .20 of 1% on next \$15 Million Negotiable over \$25 Million</p>	<p>■ <b>Core Plus Fixed Income</b></p> <p>.50 of 1% to \$25 Million .35 of 1% on next \$25 Million .20 of 1% on next \$50 Million Negotiable over \$100 Million</p>
<p>■ <b>Low Duration Fixed Income</b> ■ <b>Short Duration Fixed Income</b> ■ <b>Intermediate Duration Fixed Income</b> ■ <b>All Cap Core Equity (ETF)</b></p> <p>.35 of 1% to \$10 Million .25 of 1% on next \$15 Million .20 of 1% on next \$25 Million Negotiable over \$50 Million</p>	<p>■ <b>All Cap Core Plus Equity (ETF)</b> ■ <b>Core Plus Fixed Income (ETF)</b> ■ <b>Balanced Portfolios (ETF)</b> ■ <b>Market Duration Fixed Income</b> ■ <b>Liability Driven Investment (LDI) Management (6+ Years Duration)</b></p> <p>.40 of 1% to \$10 Million .35 of 1% on next \$15 Million .25 of 1% on next \$25 Million Negotiable over \$50 Million</p>
<p>■ <b>Target Date/Life Cycle Funds (ETF)</b></p> <p>.40 of 1% to \$20 Million .30 of 1% on next \$20 Million .20 of 1% on next \$20 Million Negotiable over \$60 Million</p>	

## FEE SCHEDULE FOR ASSET/LIABILITY ANALYSIS & ANALYTICS

### A. Asset/Liability Study (Basic):

- Initial Asset/Liability Study Base Fee: \$15,000.00
- Annual Study Fee: \$15,000.00
- Semi-Annual or Quarterly Update Fee: \$2,500.00  
(per each inter-period update other than an initial or annual report)

B. Asset/Liability Study and Projections (utilizing actuarial forecasting programs):

- Initial Asset/Liability Study & Projections Base Fee: \$25,000.00
- Annual Study and Projections Fee: \$25,000.00
- Semi-Annual or Quarterly Update Fee: \$ 2,500.00  
(per each inter-period update other than an initial or annual report)

Fees for Asset/Liability Analysis & Analytics may be increased above the fee schedule amount based on our determination of the novelty, complexity and/or time required to perform these analyses. Additionally, any requested revisions, including additional assumption testing and/or scenarios, may result in additional fees depending on the nature and extent of the revisions.

Fixed Income management assignments of at least \$15 million requesting the Basic Asset/Liability Study in item A. above will be provided as part of the overall investment management fee as outlined in the investment management fee schedule above.

Fixed Income management assignments of at least \$25 million requesting the Asset/Liability Study and Projections in B. above will be provided as part of the overall investment management fee as outlined in the investment management fee schedule above.

In the event the fixed income assignment is less than \$15 million or \$25 million depending on the Asset Liability Services in A. or B. above, the fees for each of the services will be billed separately as outlined in the Investment Management Services section and the Asset Liability Analysis & Analytics section above.

Fees for the Asset Liability services will be billed upon completion and paid prior to sending the final report.

#### **SCHEDULE D REPORTING FOR INSURANCE CLIENTS FEE SCHEDULE**

The minimum fee for Schedule D services for Insurance Companies is:

- \$500 per month plus two (2) basis points on the net asset value of the entire investment portfolio.
- This minimum fee is based on one investment manager for the entire investment portfolio.
- In the event there is more than one investment manager for the portfolio the fee will be subject to negotiation.
- The fee will be billed quarterly in advance based on the net asset value of the portfolio on the last business day of the preceding quarter.
- If the Schedule D services are terminated (generally upon 7 days notice) before the end of a quarter, fees paid in advance will be pro-rated for the period and the excess refunded promptly to the client.

#### **CLIENTS'S RESPONSIBILITY OF THIRD PARTY FEES**

Our management fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment advisers and other third parties. Mutual funds and exchange traded funds also charge internal management fees which are disclosed in a fund's prospectus.

- Such charges, fees and commissions are exclusive of Sage's fee.
- We do not receive any portion of these commissions, fees, and costs.

## ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We do not charge any performance-based fees or side-by-side management fees.

## ITEM 7 – TYPES OF CLIENTS

Our portfolio management clients and minimum asset requirements are:

Clients	Minimum Account Size
Broker Dealers (Wrap Program Sponsors)	\$5 million
Banks & Thrifts	\$5 million
Education Entities	\$5 million
Healthcare Entities	\$5 million
Insurance Companies	\$5 million
Charitable Organizations	\$5 million
Public: State, Municipal & Education Funds	\$5 million
Pension, Profit Sharing & Retirement Plans	\$5 million
Pooled Investment Vehicles	\$5 million
Foundations & Endowments	\$5 million
Unions	\$5 million
Registered Mutual Funds	\$5 million
High Net Worth Individuals & Families	\$1 million
Private Investment Funds	\$5 million
Sovereign Funds	\$5 million
International Institutions	\$5 million

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

*"Investing in securities involves risk of loss that clients should be prepared to bear".*

### ANALYSIS METHODS

Security analysis methods utilized by Sage include the following:

#### FUNDAMENTAL

Fundamental analysis maintains that markets may misprice a security in the short run, but that the "correct" price will eventually be reached by the market. The fundamental analysis of a business involves analyzing a business': financial statements and health, management and competitive advantages, and competitors and markets. When applied to futures and forex, it focuses on the overall state of the economy, interest rates, production, earnings, and management.

### SOURCES OF INFORMATION

The main sources of information that Sage uses to analyze these investment strategies is:

- Financial newspapers and magazines
- Inspections of corporate activities

- Research materials prepared by others
- Corporate rating services
- Timing Services
- Annual reports, prospectuses, filings with the SEC
- Company press releases

## INVESTMENT STRATEGY RISKS

### TAXABLE FIXED INCOME

**Principal Investment Risks.** Losing a portion or all of your investment is a risk of investing in taxable fixed income securities. The following principal risks could affect the value of your investment:

- *Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities, including U.S. Government obligations.
- *U.S. Government Obligations Risk.* If a government-sponsored entity is unable to meet its obligations, the performance of the strategy that holds securities of the entity will be adversely impacted. U.S. Government obligations are viewed as having minimal or no credit risk but are still subject to interest rate risk.
- *Mortgage- and Asset-Backed Securities Risk.* Mortgage- and Asset-Backed securities risk includes Market Risk, Interest Rate Risk, Credit Risk, Prepayment Risk (*i.e.*, homeowners whose mortgages collateralize the securities held by the Funds may be able to prepay principal due on these mortgages) as well as the risk that the structure of certain mortgage-backed securities may make their reaction to interest rates and other factors difficult to predict, making their prices very volatile.
- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.

### MUNICIPAL FIXED INCOME

**Principal Investment Risks.** Losing a portion or all of your investment is a risk of investing in municipal fixed income securities. The following principal risks could affect the value of your investment:

- *Municipal Securities Risk.* Municipal securities rely on the creditworthiness or revenue production of their issuers or auxiliary credit enhancement features. Municipal securities may be difficult to obtain because of limited supply, which may increase the cost of such securities and effectively reduce a portfolio's yield. Typically, less information is available about a municipal issuer than is available for other types of securities issuers.

- *Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities, including U.S. Government obligations.
- *Tax Risk.* A strategy that invests in municipal securities may be more adversely impacted by changes in tax rates and policies than other strategies. Because interest income on municipal obligations is normally not subject to regular federal income taxation, the attractiveness of municipal obligations in relation to other investment alternatives is affected by changes in federal income tax rates applicable to, or the continuing tax-exempt status of, such interest income.
- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.

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#### ASSET LIABILITY

- *Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities, including U.S. Government obligations.
- *Liability Risk.* The measurement of liabilities, whether pension fund, insurance, or non-profit, involve certain forward-looking assumptions and actuarial data. Actuarial data are affected by many factors, such as changes to fund provisions, participant population, and actuarial assumptions, and therefore are subject to change. Liability forecasts, and the current pricing of those forecasts, will be subject to change and should be monitored accordingly.
- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.

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#### EXCHANGE TRADED FUNDS

- *ETF Trading Risk.* The strategy invests in ETFs. ETFs are investment companies that are bought and sold on a national securities exchange. Unlike mutual funds, ETFs do not necessarily trade at the net asset values of their underlying securities, which means an ETF could potentially trade above or below the value of the underlying portfolios. Additionally, because ETFs trade like stocks on exchanges, they are subject to trading and commission costs unlike mutual funds.

Also, both mutual funds and ETFs have management fees that are part of their costs, and the strategy will indirectly bear its proportionate share of these costs.

- *Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, and reduced demand for the issuer's goods and services.
- *Liquidity Risk.* Liquidity risk is the risk that a security may not be sold at the time desired or without adversely affecting the price.

## ITEM 9 – DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Sage or the integrity of Sage. Sage has never had disciplinary information disclosures applicable to this item.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Sage has no activities or affiliations to be reported under this Item.

## ITEM 11 – CODE OF ETHICS

Sage has adopted a Code of Ethics (the "Code") in compliance with Rule 204A-1. The Code expresses the policy and procedures of Sage and is intended to ensure that no one is taking advantage of his or her position, or even giving the appearance of placing his or her own interests above those of Sage's clients. Our personnel must act as fiduciaries, and as such must place the interests of clients before their own.

Our Code includes:

- standards of business conduct
- compliance with federal securities laws
- personal securities reporting
- pre-clearance of certain transactions
- reporting of code violations and
- review and enforcement

The Code was approved and adopted by Resolution by the Board of Members of Sage. All new employees receive and acknowledge the Code and Sage's Statement of Policy and Procedures Regarding the Detection and Prevention of Insider Trading.

## PERSONAL TRADING POLICY

In connection with the Code of Ethics, Sage has adopted a Securities Trading Policy established to satisfy the applicable requirements of Section 206 and Rules 204A-1 and 204-2 under the Advisers Act.

Our policy is based on the principle that its directors, officers and employees owe a fiduciary duty to clients to conduct personal securities transactions in a manner that does not interfere with client transactions or otherwise take unfair advantage of their relationship with clients.

The policy includes:

- prohibitions on trading based on material, nonpublic or confidential information

- provisions requiring Access Persons, as defined under the Advisers Act, to pre-clear participation in initial public offerings and limited offerings
- submit monthly securities statements with respect to their personal securities investments

## COMPLIANCE WITH THE CODE OF ETHICS

Sage's Chief Compliance Officer is primarily responsible for implementing and administering the Code of Ethics. Employees are required to report any violations of the Code of Ethics or applicable laws. Failure to comply with the Code of Ethics may result in disciplinary action, up to and including termination.

- Upon request, we will provide a complete copy of our Code of Ethics at no charge.

## ITEM 12 – BROKERAGE PRACTICES

### NO SOFT DOLLAR ARRANGEMENTS OR OTHER BENEFITS

Sage *does not* have any soft dollar arrangements with brokers.

### BROKERAGE ALLOCATIONS

Our overriding objective in effecting portfolio transactions will be to obtain the best combination of price and execution. While the best price, giving effect to brokerage commission, if any, and other costs, is an important factor in this decision, a number of other factors may also enter into the decision. These include:

- knowledge of negotiated commission rates currently available
- the nature of the security being traded
- the size of the transaction
- the desired timing of the trade
- the activity existing and expected in the market for the particular security
- confidentiality
- the execution, clearance and settlement capabilities of the broker or dealer being considered
- Sage's knowledge of the financial stability of the broker or dealer being considered, and
- Sage's knowledge of actual or apparent operational problems of any broker or dealer.

Recognizing the importance of these factors, Sage may pay commissions in excess of that which another broker or dealer might have charged for effecting the same transaction.

### COMMISSION RATES

Generally, purchases and sales of fixed income securities do not have any commission and are presented net in terms of cost and proceeds.

In the event there are commissions incurred in the process of executing a trade for fixed income securities or exchange traded fund securities, evaluations of the reasonableness of commissions will be made on an on-going basis by Sage's portfolio managers while effecting portfolio transactions.

It will be Sage's policy based upon:

- Market conditions

- Sage’s knowledge of negotiated commission rates currently available and its desire to effect transactions at the optimal time, to choose brokers or dealers to effect portfolio transactions who charge a competitive commission applicable to transactions of similar types and sizes

Where possible, Sage will also have a policy of aggregating all transactions of its clients in the same security and then choose a broker or dealer to effect the aggregate transaction so that the commission charged will be lower because of the volume involved.

The general level of the commissions paid will be reviewed periodically by the Chief Compliance Officer.

## **BEST EXECUTION**

Securities transactions are made on a competitive basis. Use of a competitive bid/offer structure is intended to obtain the lowest possible transaction costs.

- Sage strives to achieve best execution on each trade so that the client's total costs or proceeds in a transaction are the most favorable under the circumstances.
- Historically, approximately 90%-95% of the fixed income trades are transacted on the Thomson Tradeweb Electronic Communication Network (“ECN”).
- This ECN is a competitive bidding system which allows up to 14 brokers to make a market in the treasury, agency, MBS, commercial paper and corporate fixed income security we are attempting to trade

For the remaining 5%-10% of the fixed income trades, the portfolio managers seek multiple broker dealer bids/offers, when market conditions permit multiple bids/offers. The Chief Compliance Officer (the “CCO”) reviews the records on the ECN’s trade reporting system and compares the prices obtained in the trades with historical prices in the relevant markets. For example, the CCO will spot check a number of trades in a given week and compare the prices obtained with quote information obtained from the ECN’s quotation system. A record of such review is filed by the CCO.

In addition, the majority of the equity ETF trades are executed through the Bank of New York or other competitive dealers. The CCO reviews the records on the trade reporting system and compares the prices obtained in the trades with historical prices in the relevant markets. Weekly, the CCO spot checks a number of trades and compares the executed prices with quote information obtained from the BNY or other comparable quotation system. A record of such review is filed by the CCO.

## **BLOCK TRADE ALLOCATIONS**

Sage frequently buys and sells securities in blocks for multiple accounts when it is in the best interest of the clients.

After we have identified a security we are interested in buying or selling, we will:

- First check to determine if the security conflicts with other portfolio holdings or the portfolio investment guidelines
- Then when the name is cleared for each portfolio, we will determine its maximum desired allocation for each portfolio
- Then once this amount is determined, we buy or sell the security and allocate it as planned

If the number of securities available is less than the original planned purchase or sale, then each account’s allocation will be reduced on a pro-rata basis, i.e., net assets.

New issues are handled in the same manner so that all accounts are treated equally.

Block trading allows us to execute securities transactions in a timely, equitable manner and may reduce overall transaction costs to clients.

## **CROSS TRADES**

Due to the unique attributes of the municipal market, we may utilize cross trades to minimize transaction costs and provide best execution for both parties.

- By crossing bonds internally, the client selling the bonds will receive the best bid price currently offered in the market.
- Simultaneously, the client buying the bonds will benefit as they will not incur the markups associated with purchasing bonds directly from the broker/dealer.
- In the event of a client's requested partial liquidations, distributions or general market repositioning (and other factors related to portfolio management), each individual portfolio is analyzed and bonds are selected as potential sell candidates. If these bonds can be utilized in other similarly managed client accounts, a cross trade will be considered and examined.
- The Bloomberg Bid Wanted function ("MBWU") will be used to solicit bids on the bonds selected to be sold. The bid wanted list can be viewed by over 80 broker/dealers and each has the ability to bid on the bonds. Bloomberg organizes the bids from highest to lowest. The top three bids are shown on the MBWB screen and are printed once the list is in firm time.
- The trader and portfolio manager review the bid wanted levels to determine if there will be a benefit to both parties. The proper levels are determined for each bond and a ticket processing fee is added to the buy side to handle typical fees associated with trading bonds.
- Finally, the cross trade will be executed through a registered broker/dealer who can facilitate the trade at the lowest possible processing fee.

On a monthly basis, all cross trades are reviewed by the Director of Trading and the Chief Investment Officer.

## **CLIENT DIRECTED BROKERAGE**

We do not direct brokerage transactions, but should there be an instance where you direct Sage to use a particular broker, you may be disadvantaged because:

- The broker whom you have selected may charge higher commissions.
- We lose the opportunity to combine the client's transactions with those of others thereby obtaining better execution or lower commission or both.
- We may not be able to match the security with the broker to get the most favorable execution.

## TRADE ERRORS

In the event a trade error occurs in your account, our policy is to immediately restore the account to the correct position. Based on the circumstances, corrective actions may include:

- canceling the trade
- adjusting an allocation and/or
- reimbursement to the account

If a trade error results in a profit, you will keep the profit.

## ITEM 13 – REVIEW OF ACCOUNTS

### ACCOUNT REVIEW

All accounts are reviewed on a daily basis relative to their:

- investment policy
- account objectives
- investment restrictions
- client need

Reviews are subject to financial market conditions which could alter investment policy and/or holdings with more frequency.

All accounts are reviewed on a quarterly basis in conjunction with Sage's formal performance reports to clients. The accounts are reconciled at least monthly, and if the custodian has web access and interface capabilities the accounts are reconciled daily by the Portfolio Administration Department.

The reviewers of the accounts are Sage's:

- Director of Trading
- Portfolio Managers
- Chief Compliance Officer

### REPORTS

Our practice is to provide monthly portfolio evaluations, quarterly performance reviews and pertinent investment commentaries. Copies of all confirmations of purchases and sales are mailed by the executing broker directly to the client. Since we do not perform any custodial services, reports concerning such services will be forwarded directly to the client by the custodian.

## ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

### CLIENT REFERRALS

Sage rarely, but on occasion has entered into written solicitation agreements with third parties who refer potential clients to Sage. Such agreements will be disclosed to potential clients in accordance with Rule 206(4)-3 of the Investment Advisers Act of 1940.

The written agreement between Sage and any such solicitor requires, among other things, that the solicitor, at the time of rendering any solicitation activities for which compensation is to be paid, must provide:

- Client with a current copy of Part II of Sage’s Form ADV
- A separate written disclosure document containing:
  1. the name of the solicitor
  2. Sage’s name
  3. the nature of the relationship between the solicitor and Sage
  4. a statement that the solicitor shall be compensated by Sage for his solicitation services
  5. the terms of such compensation arrangement and
  6. the amount, if any, the client will be charged for the cost of obtaining his account, in addition to the advisory fee, and the differential, if any, between the level of investment advisory fees the client shall be charged by Sage because of the existence of the arrangement between the solicitor and Sage and the amount the client would be charged if there were no such agreement

We currently maintain an agreement with one solicitor. Compensation paid by Sage to the solicitor is: 10% of fees paid to Sage by the referred client for the first 12 months subsequent to the date of the client’s agreement with Sage.

## ITEM 15 – CUSTODY

Our clients should receive quarterly statements from their broker dealer, bank or other qualified custodian that holds and maintains their investment assets.

- Sage urges you to carefully review your statements and compare your qualified custodian statement to the account statements that we may provide to you.
- Our statements may vary from custodial statements based on accounting procedures, trade reporting dates, or valuation methodologies of certain securities.

## ITEM 16 – INVESTMENT DISCRETION

### SCOPE

Sage will accept discretionary authority to manage securities on behalf of our clients. Sage specifically receives discretionary authority from clients to allow Sage to select securities bought and sold, open and close brokerage accounts and determine amounts in the portfolio without their prior approval.

### RESTRICTIONS

A client can impose certain restrictions on the amount of investment discretion Sage is afforded. Typical types of restrictions may include:

- Limitations on the types of transactions (e.g. sales, purchases and certain types of securities, and transactions within certain size limits)
- Limitations on the situations where discretion can be exercised (e.g., unavailability of client) or
- Limitations on specific brokers or dealers through whom transactions can be effected (e.g., sales or purchases only through the dealer or broker who acts as custodian for the client's portfolio under the investment advisory agreement with Sage)

Typically, the client's restrictions are communicated in their investment guidelines which are an attachment to the investment management agreement and must be provided to Sage in writing.

### PROCEDURES

Before accepting investment discretion from the Client, Sage and the Client will first negotiate a contract for investment advisory services. This contract will contain a provision that appoints Sage as the investment manager and grants Sage investment discretion over the Client's account. Additionally, prior to initiating discretionary investment management services, Sage and the Client will negotiate and agree to investment guidelines which will provide additional detail on the scope and restrictions of Sage's investment discretion, as detailed above.

Should you decide to terminate our relationship, discretionary authority will cease automatically.

## ITEM 17 – VOTING CLIENT SECURITIES

Sage is primarily a fixed income investment manager and does not manage client accounts with equities that would require a proxy vote. Holders of corporate fixed income obligations, as a matter of practice, do not vote proxies at any annual or special shareholders' meetings as do the holders of common stock.

In limited situations, we may receive a proxy to vote as a result of a client holding fixed income corporate obligations.

These proxy votes are generally event driven, such as:

- a corporate bankruptcy or reorganization
- pre-packaged bankruptcy proceeding
- debt exchange offers resulting from mergers
- acquisitions or divestitures, or
- consent for changes in the debt's indenture provisions or tender offers for the outstanding debt issue

The proxies generally come in the form of a prospectus from the dealer managers, agents or trustees. In the universe of investment grade corporate obligations, proxies are not a recurring event such as annual shareholder meetings.

A copy of our proxy voting policies and procedures as well as a copy of our voting record is available upon request.

## ITEM 18 – FINANCIAL INFORMATION & REQUIRED DISCLOSURES

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Sage's financial condition.

Sage has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.