



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 (“Wrap Fee Program Brochure”)

### Item 1 – Cover Page

## Form ADV Part 2A Appendix 1 (“Wrap Fee Program Brochure”)

Commerce Brokerage Services, Inc.  
8000 Forsyth, Suite 1200  
Clayton, MO 63105  
(800) 772-7283

[www.commercebank.com/brokerage](http://www.commercebank.com/brokerage)

July 31, 2020

This Wrap Fee Program Brochure provides information about the qualifications and business practices of Commerce Brokerage Services, Inc. (“CBSI” or “the Company”) and the Commerce Horizons program. If you have any questions about the contents of this Wrap Fee Program Brochure, please contact us at (800) 772-7283. 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. Registration as a registered investment advisor does not imply a certain level of skill or training.

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



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

### Item 2 – Material Changes

Since the most recent filing of our Form ADV Part 2A Appendix 1 in March 2020, there have been no material changes.

A copy of our Wrap Fee Program Brochure may be requested by contacting our Chief Compliance Officer at (816) 234-2718. Our Wrap Fee Program Brochure is also available on our web site ([www.commercebank.com/brokerage](http://www.commercebank.com/brokerage)), free of charge.

### Item 3 – Table of Contents

Item 1 - Cover Page.....	1
Item 2 - Material Changes.....	2
Item 3 - Table of Contents.....	2
Item 4 – The Company, Services, Fees and Compensation .....	3
The Company.....	3
Services.....	3
The Programs.....	4
Fees.....	5
Termination.....	7
Other Fees.....	8
Compensation.....	9
Item 5 - Account Requirements and Types of Clients.....	9
Item 6 - Portfolio Manager Selection and Evaluation.....	9
Item 7 - Client Information Provided to Portfolio Managers.....	12
Item 8 - Client Contact with Portfolio Managers.....	12
Item 9 - Additional Information.....	12
Disciplinary Information.....	12
Other Financial Activities and Affiliations.....	13
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	14
Review of Accounts.....	15
Client Referrals and Other Compensation.....	15
Financial Information.....	16
Custody.....	16
Item 10 – Requirements for State-Registered Advisers.....	16



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

### Item 4 – The Company, Services, Fees and Compensation

#### ***The Company***

Commerce Brokerage Services, Inc. ("CBSI") is a registered securities brokerage firm, a federally registered investment advisor, and a licensed insurance agency. Registration as an investment advisor does not imply a certain level of skill or training. CBSI was founded in October 1985 and has been doing business as an investment advisor since January 2002.

CBSI is registered with the Securities and Exchange Commission. CBSI is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). CBSI is actively engaged in the securities business and offers a full range of investment products.

CBSI is a wholly-owned subsidiary of Commerce Bank, which in turn is wholly owned by Commerce Bancshares, Inc., a publicly held bank holding company. CBSI is an affiliate of Commerce Investment Advisors, Inc. ("CIA"), a Registered Investment Advisor, which serves as the advisor to the Commerce Funds, a Registered Investment Company.

#### ***Services***

CBSI provides the following advisory services and analysis to individuals: 1) analysis of current customer non-advisor investment holdings, 2) non-advisor investment account holdings summary 3) research regarding a specific investment account related matter and 4) non-discretionary advisory services.

CBSI will act in the capacity as program sponsor and as a sub-advisor for Clients who wish to establish accounts to be managed on a discretionary basis by associated persons of The Commerce Trust Company ("CTC"), a division of Commerce Bank, Envestnet Asset Management, Inc. ("Envestnet") or other independent asset managers ("Sub-Advisor").

CBSI has entered into an agreement with CTC and Envestnet to provide Clients with both discretionary investment advisory services and operational support services. CBSI may act in more than one capacity, including as the program sponsor, a Client's primary advisor, or a sub-advisor. Envestnet may also act in more than one capacity, including co-advisor to Client along with CBSI, portfolio manager, overlay manager or a sub-advisor.

Envestnet has also been retained to provide operational and support services, which includes the use of any systems provided by or through Envestnet. These systems provide asset performance analysis, customer diagnostic reports, and periodic account reports. This support and use of Envestnet's systems will also be available to non-discretionary accounts.

#### ***Dollar Cost Averaging (DCA) Automation***

CBSI utilizes Envestnet's platform to offer our clients Dollar Cost Averaging (DCA) Automation. Dollar Cost Averaging (DCA) refers to the investment technique of purchasing a fixed dollar amount at regular schedules irrespective of the price of the shares. More shares are purchased when prices are low, and fewer shares are



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

bought when prices are high.

The advantage of this strategy is to minimize downside risk and avoid market timing anxiety. Dollar cost averaging is a strategy that is better suited for investors with a lower risk tolerance and a long-term investment horizon. With DCA Automation we can setup your account on an automated investment schedule, the total dollar value to be dollar cost averaged into the account, and the first date funds are to be invested.

### **The Programs**

CBSI will introduce qualified Clients to the Commerce Horizons program ("Program"). CBSI, in offering the Commerce Horizons program to Clients, provides professionally managed, fee-based advisory programs through an arrangement with CTC, Investnet and other Sub-Advisors. The Commerce Horizons program consists of three (3) advisory account programs:

- The Fund Manager Account ("FMA"), for which CTC will provide portfolio management on a discretionary basis
- The Portfolio Manager Account ("PMA"), which Investnet will provide management on a discretionary basis
- The Investment Manager Account ("IMA"), for which CBSI will provide services on a non-discretionary basis, and which will be managed by designated Sub-Advisor(s) on a discretionary basis.

The investments in an **FMA** will be primarily mutual funds and exchange traded funds ("ETFs"). The investments in a **PMA** will be primarily stocks, ETFs and mutual funds. The investments in an IMA will be primarily equity securities and equivalents and fixed income securities. Mutual fund investments in a Program account are limited to investment company "no-load" or "load-waived" share classes, or the equivalent.

Program accounts are professionally managed fee-based accounts where the Client pays an annual fee ("Advisory Fee") for investment management and advisory services. CBSI receives a portion of the Client's Advisory Fee for Program accounts. CBSI also manages accounts on a transaction basis under the broker-dealer where clients are charged a commission and or sales charge for each transaction. Based on the total assets in the Program, each Client is able to establish the cost of the services provided through the Program and compare such costs to the costs of similar services provided by other programs. A Client may invest at a lesser overall fee or cost by investing in the market directly and incurring normal brokerage and transaction charges or by investing in mutual funds with similar objectives as the funds available through this Program.

Clients will receive from National Financial Services, LLC ("NFS") monthly/quarterly statements detailing each Client's securities and cash balances, deposits, withdrawals, transactions, charges or transfers. Clients will also receive a confirmation for transactions cleared through NFS. Clients may elect to receive a quarterly confirmation report in lieu of receiving individual trade-by-trade confirmations. Upon request, Clients may have access to their CBSI account(s) online.

Commerce Horizons accounts will receive a quarterly performance report ("Quarterly Report") prepared by Investnet at the end of the quarter in which a new account has been brought under management and every quarter thereafter. This report, in conjunction with the statements from NFS, provides a list of the securities in the Client's portfolio, the quantity of the positions, the cash balance, the market prices as of the date of the



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

report, the total portfolio valuation and an Advisory Fee invoice.

At least annually, CBSI or the Financial Advisor will contact each Client to determine whether there have been any changes in the Client's financial situation or investment objectives, and whether the Client wishes to impose any reasonable restrictions on the management of the Program account or reasonably modify existing restrictions. In addition, Clients will be notified quarterly to contact the Financial Advisor, in order to confirm whether there have been any changes to the Client's financial situation, investment objectives or if Client would like to impose or modify investment restrictions on the account. The Program is intended to comply with Rule 3a-4 under the Investment Company Act of 1940. Each Client's account is managed on the basis of the Client's financial situation and stated investment objectives, in accordance with any reasonable investment restrictions imposed by the Client on the management of the assets in the account.

As of July 31, 2020 CBSI had approximately \$537 million assets under management (AUM) in the Commerce Horizons program.

### Fees

The Advisory Fee is calculated and charged in advance based on the prior quarter's period ending balance of the Program account. On a quarterly basis Envestnet calculates Program account Advisory Fee and issues instructions to NFS, which is authorized to deduct the Advisory Fee directly from the Client's Program account.

The initial Advisory Fee for the first calendar quarter (or part thereof) in which the Client participates in the Program shall be calculated and debited on the 10th day of the month (or the next business day if the 10th is a non-business day) after Program account's start date and shall be the Advisory Fee for the first calendar quarter (or part thereof) in which the Client participates in the Program. The initial Advisory Fee for any partial calendar quarter shall be appropriately pro-rated based on the number of calendar days in the partial quarter. Thereafter, the Advisory Fee shall be calculated at the beginning of each calendar quarter based on the value of Program account on the last business day of the prior calendar quarter and debited from the Program account on the 10th of January, April, July, October (or the next business day if the 10th is a non-business day).

If a Program account is opened in the last month of a calendar quarter, the Advisory Fee will be calculated and debited for the remaining period in the calendar quarter plus the next calendar quarter on the 10th day of the month (or the next business day if the 10th is a non-business day) after Program account's start date. For example, an account that opened on 9/15/18 would have fees debited on 10/10/18 for the periods (9/15/18 – 9/30/18) and (10/01/18 – 12/31/18).

If a Client invests \$10,000 or more in any Program account after the beginning of a calendar quarter, the Advisory Fee for that quarter will be recalculated and pro-rated as of the day of the additional investment. The Advisory Fee will be debited on the 10th day of the month (or the next business day if the 10th is a non-business day) following the month the additional investment is made to the Program account.

If a Client withdraws \$10,000 or more in any Program account after the beginning of a calendar quarter, the Advisory Fee for that quarter will be recalculated and pro-rated as of the day of the withdrawal. The pro-rated Advisory Fee for that withdrawal will be credited on the 10th day of the month (or the next business day if the



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

10th is a non-business day) following the month the withdrawal is made from the Program account.

If a Client makes a partial withdraw less than \$10,000 from the Program account after the beginning of a calendar quarter, the Client will not be credited back any portion of the Advisory Fee previously paid by the Client on the withdrawn Program assets.

The Advisory Fee will be based on the fair market value of the Program assets as calculated on the last business day of the previous calendar quarter. Investnet will determine fair market value for Advisory Fee calculation purposes.

CBSI will rebate back to the Client's Program account, on a quarterly basis, the Client's pro-rata share of any management fees charged by CIA for any Commerce Funds held in the Program account. CBSI and Investnet will not charge an Advisory Fee that is more than six months in advance. The Advisory Fee will be charged quarterly unless otherwise agreed by all parties in advance.

The Advisory Fee is negotiable and may differ between Client's holding similar portfolios or having the same size of assets under management, regardless of the type of Program account selected. There are other factors that may impact the fees charged on an account including, prior or existing client relationships, the anticipated number or volume of trades and anticipated future services.

Clients with multiple Commerce Horizons accounts (as owner or for their benefit), and household accounts for their immediate family members (such as, spouse and legal dependents residing at the same address) may request CBSI to link Program accounts (Fund Manager, Portfolio Manager, and Investment Manager) for Advisory Fee calculation purposes. Program accounts may only be linked if the underlying Program accounts are subject to the standard Advisory Fee as outlined in each Annual Fee Schedule enclosed. Only accounts in the same program can be linked together for Advisory Fee calculation purposes. For example, Fund Manager Accounts can only be linked together with other Fund Manager Accounts; and Portfolio Manager Accounts can only be linked together with other Portfolio Manager Accounts. A Fund Manager Account and a Portfolio Manager Account may not be linked together for Advisory Fee calculation purposes. By linking Program accounts, a portion of the combined accounts may qualify for the next lower Advisory Fee level, which would in effect reduce the overall account fee compared to the Advisory Fee payable if each account were calculated separately. Program accounts with a negotiated Advisory Fee may not be eligible to be linked for Advisory Fee calculation purposes.

A Client may deposit or transfer securities into a Program account and place a restriction on the sale or liquidation of a particular security by requesting CBSI to hold the security in the account, but outside of the Program ("Unsupervised Assets"). Unsupervised Assets are only available in the Fund Manager Account. A limited number of Unsupervised Assets may be held on a temporary basis in a Program account and will not be subject to the Advisory Fee. Unsupervised Assets will be indicated on the Quarterly Report; however,

Unsupervised Assets will not be included in the performance of the Program on the Quarterly Report. CBSI, in its sole discretion, reserves the right to require the Client to move the non-managed Unsupervised Assets to a CBSI brokerage account.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

CBSI may accept accounts below the preferred account opening minimum asset value, as specified in the fee schedules enclosed, based upon a number of factors including the Client's anticipated future additions to the account(s) and total investment relationship with CBSI.

### **Fund Manager Account ("FMA")**

The preferred opening minimum account value for each FMA is \$35,000 of cash or securities. Each FMA will be required to maintain a balance of at least 3 percent in cash or cash equivalents.

<u>FMA Annual Fee Schedule</u>	<u>Annualized Fee*</u>
1st \$75,000	2.20%
Next \$175,000	2.10%
Next \$250,000	1.90%
Next \$500,000	1.65%
Next \$1 million	1.45%
Over \$2 million	1.30%

\*Annualized Fee column represents the maximum investment management fee CBSI will charge the Client, excluding the fees of the underlying mutual funds and ETFs in the portfolios.

### **Portfolio Manager Account ("PMA")**

The preferred opening minimum account value for each PMA is \$250,000 of cash or securities. Each PMA will maintain a balance in cash or cash equivalents, typically ranging between 2 and 5 percent.

<u>PMA Annual Fee Schedule</u>	<u>Annualized Fee*</u>
1st \$500,000	2.55%
Next \$500,000	2.30%
Next \$1 million	2.10%
Over \$2 million	1.90%

\*Annualized Fee column represents the maximum investment management fee CBSI will charge the Client, excluding the fees of the underlying mutual funds and ETFs in the portfolios.

### **Investment Manager Account ("IMA")**

The preferred opening minimum account value for an IMA is typically \$250,000 of cash or securities for each Sub-Advisor. In addition, the minimum investment required by each individual Sub-Advisor(s) must be met. Each IMA will maintain, based upon the Sub-Advisor's investment style, a balance in cash or cash equivalents, typically ranging between 2 and 5 percent.

Each IMA will typically have one account established for each individual Sub-Advisor ("Sub-Account(s)"). In addition, one account will typically be established to act as the conduit for all funds or securities moving in and out of the IMA and between Sub-Advisor(s) ("Master Account"). There are no management fees for assets held in the Master Account.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

### IMA Annual Equity & Balanced Fee Schedule

IMA investments held in the equity and balanced Sub-Advisor's Sub-Account(s) are subject to the IMA Annual Equity & Balanced Fee Schedule:

<u>IMA Fee Schedule</u>	<u>Annualized Fee*</u>
1st \$500,000	2.75%
Next \$500,000	2.45%
Next \$4 million	2.15%
Over \$5 million	1.80%

### IMA Annual Fixed Income Fee Schedule

IMA investments held in the fixed income Sub-Advisor's Sub-Account(s) are subject to the IMA Annual Fixed Income Fee Schedule:

	<u>Annualized Fee*</u>
1st \$500,000	2.15%
Next \$500,000	1.80%
Next \$4 million	1.65%
Over \$5 million	1.45%

\*Annualized Fee column represents the maximum investment management fee CBSI will charge the Client on the entire IMA, inclusive of CBSI, Envestnet, and Sub-Advisor fees. Clients with multiple Sub-Accounts will receive a combined weighted average Annualized Fee based on each Sub-Account's respective Annual Fee Schedule.

### **Termination**

Client has the right to cancel the Investment Advisory Agreement ("IAA") within five (5) business days from the date the Financial Advisor, on behalf of CBSI, agrees to and accepts the Program's IAA. Client must provide written notice of such cancellation to CBSI. In such event, any Advisory Fee paid by the Client shall be refunded to the Client. However, the Client shall be responsible for any transactions executed, market fluctuations, custodial (IRA) fees, or account fees prior to CBSI's receipt of the written cancellation notice.

The IAA may be terminated by either party upon thirty (30) days prior written notice to the other party. If the IAA is terminated and all Program assets are withdrawn from the Program account prior to the end of a quarter, the pro-rata portion of the Advisory Fee will be reimbursed to the Client.

### **Other Fees**

Clients, who either do not participate in the Commerce Horizons program or who have accounts not part of the Commerce Horizons program (i.e. CBSI brokerage accounts), will be subject to and incur the normal brokerage fees and transaction charges for their non-Commerce Horizons program accounts. CBSI and its agents receive compensation from non-advisory business (brokerage accounts) in the form of commission or sales charges. Due to this, CBSI Financial Advisors may have a conflict of interest in recommending a non-advisory (transaction-based) brokerage account instead of an advisory account based on the amount of compensation agents may



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

receive, rather than on the client's best interest. CBSI prohibits charging a commission on a transaction for a security that is being managed in a Commerce Horizons account.

Transaction fees for Client self-directed investments that are not included in the Commerce Horizons program, such as Unsupervised Assets, are subject to the standard CBSI brokerage fees or charges. Clients opening a qualified account, such as an IRA or other qualified account, are subject to the fees and charges from the account custodian, which is NFS. All applicable fees are detailed for this type of account in the NFS Premiere Select Custodial Agreement and Disclosure Statement.

Clients with a self-directed purchase of a specific mutual fund or security not part of the Program account portfolio will be charged either a sales charge (front-end, contingent, or no fee in the case of a no-load fund) established by the fund company and detailed in the fund's prospectus, or a commission, as detailed in CBSI's commission schedule.

Certain charges may be imposed by outside third parties in connection with investments held in the Program account. These include the following types of charges: mutual fund 12b-1 fees, mutual fund management fees, mutual fund short-term redemption fees, issuer administrative servicing fees, certain deferred sales charges on previously purchased mutual funds, other transaction charges and service fees, and IRA and Qualified Retirement Plan fees. Other parties may also receive a portion of these outside third-party fees. Further information regarding charges and fees assessed by an investment company, other securities sponsor, or portfolio manager is available in the appropriate prospectus or disclosure statement.

In addition to the fees and charges described above, a Client may incur redemption fees, when the portfolio manager to an investment strategy determines that it is in the Client's overall interest, in conjunction with the stated goals of the investment strategy, to divest from certain mutual funds prior to the expiration of the minimum holding period of the mutual funds. Some mutual funds also assess redemption fees to investors upon the short-term sale of its funds. Depending on the particular mutual fund, this may include sales for rebalancing purposes. Please see the prospectus for the specific mutual fund for detailed information regarding such fees and charges.

The Investnet Form ADV Part 2A Narrative Brochure and the IAA detail the circumstances where CTC, Investnet, NFS or CBSI may receive additional remuneration, either direct or indirect, for transactions or money market investments. CBSI could indirectly be a beneficiary of Investnet or NFS remuneration by virtue of it being a fully-disclosed broker-dealer with NFS.

CBSI or any of its affiliates may receive additional fees, including management fees, 12b-1 fees or administration fees for services performed in the capacity of an investment advisor, or in any other capacity, for any mutual fund, including the Commerce Funds. In addition, the mutual funds, including the Commerce Funds, may purchase securities from or enter into repurchase agreements with CBSI or its affiliates.

### **Compensation**

CBSI and its agents will be compensated under a percentage of assets method for the Program. The Advisory Fee for this Program is charged quarterly in advance based on the prior quarter's period ending balance.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

The Advisory Fee will vary by the type of Program account and by the value of the Program account. CBSI, its agents, CTC, Envestnet and Sub-Advisor(s) (if applicable) will be compensated based upon the established fee schedules in this document. The amount of compensation received may vary based on the Program selected and may also be more or less than compensation received from a traditional commission based CBSI brokerage account. The portion of compensation received by CBSI which is paid to the Financial Advisor may vary based upon changes to the CBSI Financial Advisor incentive programs, bonus compensation plans or attained production level.

### Item 5 – Account Requirements and Types of Clients

CBSI provides investment advice tailored to individuals, banks and thrifts institutions, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations and business entities not specifically mentioned in the preceding categories.

Additional requirements for opening and maintaining a Commerce Horizons account, including the minimum accounts size, can be found in the Services, Fees and Compensation section and the Client Information Provided to Portfolio Managers section.

### Item 6 – Portfolio Manager Selection and Evaluation

CBSI offers advisory services on a non-discretionary basis to its Clients. CTC, Envestnet and Sub-Advisor(s) provide discretionary portfolio management.

#### **Investment Strategies**

The investment strategies may differ based on each discretionary manager's strategies associated with the Fund Manager, Portfolio Manager or Investment Manger Accounts.

#### CTC

The CTC Investment Policy Team's investment philosophy is based on the following tenets:

- Asset allocation is the primary determinant of whether Clients achieve their financial goals
  - Stock, bond, cash, etc. mix
- Diversification within each asset class is essential to achieve more consistent performance
  - By investment style (value, growth, etc.)
  - By active/passive management
  - By manager/strategy
  - Periodic adjustments in portfolios can be made to reflect medium/longer-term changes in the economic outlook economic outlook

CTC's asset allocation process starts with rigorous analysis of historical asset class behavior. They use this information to arrive at forecasts for expected returns and volatility for the various available asset classes. The end goal is to formulate asset combinations that lie on the "efficient frontier," which is the theoretical curve that presents the maximum investor utility at each risk/return tradeoff point.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

The CTC portfolio manager selection process and due diligence effort involves quantitative and qualitative research by CTC teams of quantitative and manager research analysts. To assist CTC in their research, they have developed some unique proprietary quantitative tools that they believe give them an edge in portfolio manager selection and monitoring.

Four CTC teams of senior investment professionals (Investment Policy, Equity Strategy, Fixed Income Strategy and Alternative Investment Strategy) are involved in and make all decisions in this process.

### Investnet

The Investnet research team uses proprietary analytical tools and commercially available optimization software applications to develop its asset allocation strategies. Factors used as inputs in the asset allocation process include historical rates of risk and return on various asset classes, correlation across asset classes, and risk premiums, among others.

Investnet employs a rigorous multiphase approach to researching and selecting portfolio managers suitable for participation in its investment programs ("Approved Sub-Managers"). Approved Sub-Managers are evaluated using data and information from several sources, including the manager and independent databases. Among the types of information analyzed are historical performance, investment philosophy, investment style, historical volatility and correlation across asset classes. Also reviewed are the manager's Form ADV Part 2A, as well as portfolio holdings reports that help demonstrate the manager's securities selection process. To ensure accuracy, Investnet attempts to verify all information by comparing it to publicly available sources.

The investment professionals at the investment management firms are a primary source of information to Investnet, providing quantitative and qualitative information. In addition, Investnet employs several publicly available databases from independent sources, including but not limited to Nelson's Directory of Investment Managers, the Mobius M-Search database, Morningstar's Principia application, Bloomberg and Russell Mellon. These databases are used to verify the information provided by the managers.

### ***Performance***

Details about performance calculations and standards can be found in the **Additional Information** section.

### ***Affiliations and Conflict of Interest***

Details about CBSI's affiliations, related persons as portfolio managers and conflicts of interest can be found in the **Additional Information** section.

### ***Performance-Based Fees***

CBSI does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a Client). CBSI does not charge hourly or flat fees to provide advisory services.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

### ***Methods of Analysis***

Clients establishing a Program account with CBSI will be given advice utilizing one or more methods of analysis including charting, fundamental analysis or technical analysis in addition to the analytical tools and reports available using the systems provided by or through Envestnet.

CBSI provides "no cost or obligation" consumer education utilizing the CBSI's Financial Needs Analysis Tool. This service is provided at no cost or obligation to the individual and is not part of or constitute a financial plan or service.

CBSI provides the following advisory services and analysis to individuals: 1) analysis of current customer non-advisor investment holdings, 2) non-advisor investment account holdings summary and 3) research regarding a specific investment account related matter.

### Financial Needs Analysis

CBSI provides a variety of needs analysis capabilities and tools available to its Financial Advisors that are offered through Envestnet and other third-party providers. They include risk profiling tools as well as various calculators and tools for retirement income and investment planning.

### Portfolio Analysis

Using Envestnet's and other third-party provider's systems CBSI can enter a prospective Client's individual holdings to determine the Clients existing asset allocation as well as the risk and return profile of the current portfolio. CBSI can also provide Clients with a side-by-side comparison of the existing portfolio versus the recommended portfolio. Portfolio analysis can be performed on currently held assets through Envestnet's and other third-party provider's systems to provide Clients various reports and analysis on their accounts and holdings.

### ***Risk of Loss***

Investing in securities involves risk of loss that each Client should be prepared to bear. Typical investment risks include market risk typified by a drop in a security's price due to company specific events (such as an earnings disappointment or a downgrade in the rating of a bond) or general market activity (such as occurs in a "bear" market when stock values fall in general). For fixed income securities, a period of rising interest rates could erode the value of a bond since bond values generally fall as bond yields go up.

The Commerce Horizons program offers a variety of investment strategies in an effort to make a wide range of investment strategies available. Some strategies may be high-risk strategies. Such strategies usually have the potential for substantial returns; however, there are correspondingly significant risks involved in the strategies. Such strategies are not intended for all investors. Clients who choose to follow high-risk strategies should be aware that there is the possibility of significant losses up to and including the possibility of the loss of all assets placed in the strategies. It is strongly recommended that Clients diversify their investments and do not place all of their investments in high-risk investment strategies.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

Assets in certain Sub-Advisor's portfolios, including ETF portfolios in the PMC Dynamic ETF Portfolios and the PMC Tactical ETFs, utilize leveraged equity ETFs. The use of leverage by an ETF increases the risk to the portfolio. The more a portfolio invests in leveraged instruments, the more the leverage will magnify customer or losses on those investments. Due to the complexity and structure of these portfolios, they may not perform over time in direct or inverse correlation to their underlying index.

### ***Voting Client Securities***

CBSI and CTC do not have, nor will they accept, the authority to vote any proxy or consents of securities held in a Program account. Investnet will receive and vote any proxy or consents applicable to the securities held in a PMA.

The Sub-Advisor(s) and/or Investnet will receive and vote any proxy or consents applicable to the securities held in an IMA. For Sub-Advisors where Investnet is managing the Sub-Account pursuant to a licensing agreement with the Sub-Advisor, Investnet will vote in lieu of Sub-Advisor. Additional information regarding Investnet and/or Sub-Advisor(s) voting of proxies or consents can be found in the Investnet Form ADV Part 2A Narrative Brochure.

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

Clients will be required to provide personal and financial information to CBSI to establish an advisory relationship. In addition, each Client will be required to provide details regarding their financial goals, risk tolerance, time horizon and investment experience.

Clients may also indicate any reasonable restrictions or limitations regarding investment categories or specific companies. Information provided will be kept confidential as described in the Commerce Privacy Policy Notice, NFS Privacy Notice, and Investnet Privacy Notice and designated Sub-Advisor(s) Privacy Notice. These privacy notices will be provided to each Client when the relationship is established. In addition, CBSI will furnish Client the Commerce Privacy Policy Notice on an annual basis, as required by law or regulation, including Regulation S-P.

### **Item 8 – Client Contact with Portfolio Managers**

Each Client will be able to talk to his or her Financial Advisor directly on an ongoing basis. The Client will be able to update their financial information by contacting their Financial Advisor or CBSI. Updates to a Client's information are made available to Investnet, through their access to the Client's NFS account records; changes to the Statement of Investment Selection; or updates directly with Investnet.

### **Item 9 – Additional Information**

#### ***Disciplinary Information***

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to a Client's evaluation of CBSI or the integrity of CBSI's management. No members of CBSI Management or Financial Advisors have any legal or disciplinary actions that must be disclosed



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

in response to this Item.

Commerce Brokerage Services, Inc. has the following disciplinary item(s):

### FINRA

Docket Case No. 201403917051

Resolution: 12/11/2014

Commerce Brokerage Services, Inc. was censured and fined \$10,000 by FINRA. Without admitting or denying the findings, the firm consented to the sanctions and to the entry of findings that it failed to establish a reasonable supervisory system to review electronic correspondence of its registered representative. The findings stated that the firm used a computerized surveillance system to assist with the review of the electronic correspondence of its representative and failed to include the email addresses of some of the representatives in this surveillance system that resulted in failing to review the electronic correspondence of these representatives.

### Office of the Secretary of State, Missouri

Docket Case No. AP-08-27

Resolution: 11/17/2008

Commerce Brokerage Services, Inc. engaged in marketing and sales practices with respect to auction rate securities in violation of Section 409.4-412(D)(13), RSMO (CUM. SUPP 2008), and failed to reasonably supervise its registered agents in violation of Section 409.4-412(D)(9). Under Consent Order, Commerce Brokerage Services, Inc. was ordered to pay \$500,000 payable to the Investors Education and Protection Fund was also ordered to pay the sum of \$25,000 to cover the costs of the investigation. In addition, CBSI was ordered to retain an outside consultant to review and provide a report concerning CBSI's supervisory and compliance policies and procedures relating to the product review of non-conventional investments by CBSI and its registered agents.

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

CBSI is registered with the Securities and Exchange Commission as a securities broker-dealer and is a member of FINRA and is actively engaged in the securities business. CBSI offers a full range of investment products, including annuities.

The principal business of the executive officers of CBSI encompasses significant duties with Commerce Brokerage Services, Inc., Commerce Bank, and Commerce Bancshares, Inc. Agents, employees and management of CBSI may also be employees of or registered with Commerce Brokerage Services, Inc, Commerce Bank ("the Bank") or one of its affiliates or subsidiaries.

Commerce Brokerage Services, Inc. is a wholly owned subsidiary of the Bank which in turn is wholly owned by Commerce Bancshares, Inc., a publicly owned bank holding company. Other related entities and affiliates include:

- The Commerce Trust Company, a division of Commerce Bank
- Commerce Bank – Capital Markets Group, a division of Commerce Bank
- Commerce Investment Advisors, Inc.
- Commerce Mortgage Corp.
- Commerce Insurance Services, Inc.
- CBI Insurance Company
- CBI Leasing, Inc.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

The Commerce Funds, managed by Commerce Investment Advisors, Inc., an affiliate of CBSI, may be included in a Client's portfolio, provided it is in keeping with the Client's stated investment objectives and the Statement of Investment Selection, if applicable. The use of Commerce Funds in a Program account presents a conflict of interest due to common ownership and sharing of administrative servicing fees. To mitigate this conflict of interest, CBSI will rebate back to the Client's account the pro-rata share of the management fee received by CIA from the Commerce Funds. Further information regarding this management fee rebate can be found under "Item 4 - Services, Fees and Compensation section".

CIA may receive administrative servicing fees from the Commerce Funds in connection with investments in the Commerce Funds. The amount of these administrative servicing fees may vary from one fund to another. CBSI does not anticipate rebating a Client's pro-rata share of the administrative servicing fees received by CIA. Further information about these administrative servicing fees can be found in the Commerce Funds prospectus. Each Client may choose, when establishing a Program account or at any time when rebalancing the Program account, to specifically exclude any specific or all Commerce Funds, as well as Commerce Bancshares common stock from their portfolio.

CBSI may be assessed additional fees based on the overall activity of a Program account. These additional fees are paid by CBSI and are not charged to the Client.

Associated persons of CTC will act as the portfolio manager on a discretionary basis for accounts in the Fund Manager Account, which may present a conflict of interest. CTC also acts as fiduciary for clients with accounts and portfolios held directly with CTC. These CTC clients may or may not be a CBSI Client. In addition, CBSI may receive research and market data from CTC. CTC is a division of Commerce Bank.

CMG, a division of Commerce Bank, is an underwriter, either individually or as a member of a syndicate, of exempt securities which may be purchased for and held in a Commerce Horizons program account.

A Client may also purchase Commerce Funds or Commerce Bancshares common stock outside of the Commerce Horizons program through other broker-dealers not affiliated with CBSI, through an affiliate of CBSI or through a brokerage account held at CBSI.

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

In its role as an investment advisor, CBSI will minimize or limit the potential for conflicts of interest. CBSI, as an investment advisor or a broker-dealer, has established procedures to preclude conflicts of interest. These procedures include CBSI's Code of Ethics, trade exception monitoring and best execution surveillance of orders. A copy of CBSI's Code of Ethics may be requested by contacting our Chief Compliance Officer at (816) 234-2718.

CBSI and its management or agents in its/their capacity as an advisor will not, as principal, buy securities for itself or sell securities it owns to any advisory Client.

Any "principal transactions" and "agency cross transactions" undertaken by CBSI are executed with prior written notification from the Client and comply with the conditions of Section 206(3) and Rule 206(3)-2 of the Investment Advisers Act of 1940.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 (“Wrap Fee Program Brochure”)

Any “principal transactions” and “agency cross transactions” undertaken by Investnet or a designated Sub-Advisor are executed with prior written notification from the Client and comply with the conditions of Section 206(3) and Rule 206(3)-2 of the Investment Advisers Act of 1940. See the IAA and the Form ADV Part 2A Narrative Brochure for Investnet and/or the Sub-Advisor for further details.

CMG is a separately identifiable division of the Bank and is a MSRB and Government Security registered dealer-bank. CMG acts as both principal and agent in the purchase and sale of exempt securities (i.e., municipal bonds, treasuries, government agencies, etc.) with Clients, some of whom may also be Clients of CBSI's broker-dealer and investment advisor.

CBSI, as a normal part of its brokerage business, will open client accounts and execute brokerage trades through NFS, or directly with other financial institutions.

Certain affiliated persons of CBSI could potentially purchase or sell the same securities as those recommended by CBSI to its Clients. Such affiliated persons do not compete with or trade ahead of Clients in connection with their securities transactions nor take advantage of, or trade on the knowledge of the market impact of transactions carried out for Clients, as outlined in the Commerce Brokerage Services Representative’s Manual.

The Bank, including CMG, could potentially buy or sell securities for their proprietary accounts that CBSI may have also recommended to its Clients.

All Commerce Horizons accounts transact business on a cash basis and do not utilize margin.

CBSI utilizes NFS or CBSI (in limited circumstances) to execute transactions on behalf of its Clients. CBSI tests and monitors for quality of security pricing for trade execution.

### ***Review of Accounts***

Discretionary accounts managed by CTC, Investnet or the designated Sub-Advisor will be monitored and managed on a regular basis by the designated managers as described below, and in the Investnet Form ADV Part 2A Narrative Brochure.

### **CBSI**

At least annually, CBSI or the Financial Advisor will contact each Client to determine whether there have been any changes in the Client's financial situation or investment objectives, and whether the Client wishes to impose any reasonable restrictions on the management of the Program account or reasonably modify existing restrictions.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

Portfolio performance is not verified by CBSI or the Financial Advisor. Performance information is calculated by Envestnet, which uses the Time-Weighted Rate of Return method ("TWRR"). Performance may be calculated in accordance with the methodology of the Global Investment Performance Standards ("GIPS"); however, CBSI and Envestnet, for various reasons, do not claim to prepare and present performance information in accordance with GIPS.<sup>1</sup>

CBSI's Commerce Horizons accounts will receive a Quarterly Report prepared by Envestnet at the end of the quarter in which a new account has been brought under management and every quarter thereafter.

### CTC

Once a manager is selected for a portfolio, ongoing monitoring is performed regularly. Informal monitoring is performed on a day-to-day basis, and daily and weekly reports are generated. CTC's process relies on regular portfolio rebalancing as an important step in managing risk. Client portfolios that employ tactical asset allocation generally are rebalanced with each change in tactical allocation. Portfolios that utilize strategic asset allocation may be rebalanced on a less frequent basis. Drift tolerance is a range set around asset allocation targets for each asset class. If an asset class's weighting stays inside of its drift tolerance, no rebalance may be necessary. As a rule of thumb, CTC typically recommends rebalancing quarterly or semi-annually; however, market conditions and other factors may warrant rebalancing more or less frequently.

### Envestnet

Envestnet conducts periodic reviews, at least annually, to determine when to rebalance across managers and asset classes. Emphasis is placed on strict adherence to the parameters set for each account, including absolute and relative portfolio weights to trigger rebalance, turnover management and tax issues. This prudence and oversight are critical determinants of Envestnet's investment plans.

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

The Bank pays a nominal one-time fee for each referral to CBSI affiliates for clients referred to CBSI.

CBSI registered investment advisor may pay a one-time referral fee to employees of CBSI or its affiliates based on a percentage of first year fees. CBSI does not pay a referral or finder's fee to anyone outside of CBSI or one of its affiliates.

CBSI Financial Advisors are eligible to participate in sales award programs, which may include prizes or cash rewards. To qualify Financial Advisors must achieve certain levels of new Program assets under management and/or Advisory Fees.

<sup>1</sup>The GIPS standards are a set of standardized, industry-wide ethical principles that provide investment firms with guidance on how to calculate and report their investment results to clients.



# Commerce Financial Advisors

Investments • Retirement • Insurance

## Form ADV Part 2A Appendix 1 ("Wrap Fee Program Brochure")

CBSI does NOT utilize persons or organizations commonly referred to as "solicitors" or "finders" in its business. CBSI is aware of the requirements of federal regulations covering cash payments for client solicitations as outlined in 17CFR Section 275.206(4)-3. Should CBSI become subject to this requirement, in accordance with that rule, it will provide each client a copy of a solicitor disclosure statement prior to or at the time of entering into any advisory contract.

### **Financial Information**

Registered Investment Advisors are required in this item to provide you with certain financial information or disclosures about CBSI's financial condition. CBSI 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.

CBSI does not maintain custody of Client funds or securities. In addition, CBSI does not require prepayment of more than \$1,200 in fees per Client and six (6) months or more in advance.

### **Custody**

CBSI, in its capacity as an investment advisor and in its capacity as a FINRA member broker-dealer, does not hold Client funds or securities. Client accounts are held and cleared on a fully-disclosed basis through NFS, the carrying broker-dealer. Clients opening a Commerce Horizons account are required to open a brokerage account with NFS. NFS will execute and clear purchase and sale orders directed to it by Envestnet, CTC, Sub-Advisor(s) or CBSI. NFS will also be "custodian" for the account assets. Clients will receive from NFS monthly/quarterly statements detailing each Client's securities and cash balances, deposits, withdrawals, transactions, charges or transfers.

### **Item 10 – Requirements for State-Registered Advisers**

CBSI is a federally registered investment advisor.