

SANDERS MORRIS HARRIS

Regulation Best Interest Disclosure Brochure [June 2020]

This guide summarizes important information concerning the scope and terms of the brokerage services we offer and details the material conflicts of interest that arise through our delivery of brokerage services to you. We encourage you to review this information carefully, along with any applicable account agreement(s) and disclosure documentation you may receive from us.

Sanders Morris Harris LLC (referred to as “SMH” or “we” or “us”) is registered with the U.S. Securities and Exchange Commission (“SEC”) as a broker-dealer (member FINRA/SIPC) and an Investment Adviser. Furthermore, SMH is affiliated with, and under common control with, HWG Insurance Agency, LLC, a licensed insurance agency, and Tectonic Advisors, LLC, an SEC registered investment adviser and T Bank N.A., a national bank.

As a broker-dealer, SMH transacts business in various types of securities, such as stocks, bonds, options, mutual funds, exchange-traded funds (ETFs), exchange-traded notes (ETNs), life insurance, annuities, private placements, alternative investments and initial public offerings (IPOs). SMH’s Financial Professionals are primarily employees of our firm or an affiliated company, who offer brokerage services, investment advisory services, or both, depending on their licenses.

Although most Financial Professionals offer both brokerage and investment advisory services, some only offer brokerage services and others only offer investment advisory services. When you are discussing services with a Financial Professional, you should ask what capacity the Financial Professional is acting or will be acting – as a broker-dealer registered representative and/or an IAR – when providing services to you. This disclosure discusses important information regarding Financial Professionals who act as registered representatives of SMH’s broker-dealer.

Like all financial services providers, SMH and its Financial Professionals have conflicts of interest. We are compensated directly by clients and indirectly from the investments made by clients. When a client pays us, we typically get paid an upfront commission or sales load at the time of the transaction and in some cases a deferred sales charge. If we are paid an upfront commission, it means that we are paid every time a transaction occurs. When we are paid indirectly from the investments made by clients, we receive ongoing compensation, typically called a “trail” payment, for as long as a client holds an investment. In addition, we receive compensation from the sponsors of some of the investment products that clients purchase through us. The amount we receive varies depending on the particular type of investment a client makes. The compensation described in this disclosure represents the profit we receive on an investment, before subtraction of our expenses.

Please also note that not all of the conflicts described in this disclosure apply to a particular Financial Professional, his/her services or all the products we sell. The types and amounts of compensation we receive change over time. You should ask your Financial Professional if you have any questions about compensation, costs, fees, or conflicts of interest.

Please carefully review and consider the information in each section below.

Brokerage services

When you establish a brokerage account with us through our clearing firm, Pershing, LLC¹ (“Pershing”) you have the ability to buy, sell and hold investments within your account. In our agreement with Pershing, they hold your account and provide certain back office functions to us. We execute purchases and sales on your behalf, and as directed by you, in which we earn a profit. In some cases, we execute purchases and sales on a limited trading authority, per your written agreement, in which we earn a profit. The capacity in which we act is disclosed on your trade confirmation.

Types of Brokerage Accounts

We offer a variety of different brokerage account types including:

- *individual and joint accounts,*
- *estate and trust accounts,*
- *partnership and corporation accounts,*
- *institutional accounts*
- *individual retirement accounts, and*
- *other types of retirement accounts*

You should refer to your account agreement(s) for more information concerning available account types or speak with your Financial Professional.

Margin Brokerage Accounts²

We offer you the ability to purchase securities on credit, also known as “margin”. When clients purchase securities on margin, we extend a line of credit to the client and charge interest on the margin balance. While many securities are eligible to be used as collateral for a margin loan, some assets are not available for margin collateral purposes. We have a financial incentive to encourage you to borrow on margin because we earn compensation in the form of interest, transaction charges on investments made with borrowed amounts. This financial incentive creates a conflict of interest as SMH and our Financial Professionals benefit from your decision to borrow and incur interest charges and transaction charges described above. You must execute a separate margin agreement before engaging in margin brokerage activity. Included with your margin agreement is a copy of the Margin Disclosure Statement. This statement contains important information you should understand and consider before establishing a margin brokerage relationship with us.

For more information on our margin brokerage services, contact your Financial Professional or refer to Pershing’s Margin Disclosure Statement available at <https://www.pershing.com/disclosures#panel1>.

Incidental Brokerage Services, Recommendations & Account Monitoring

Within your brokerage account, we also provide other incidental services such as recommendations to buy, sell, or hold assets. When we make a securities recommendation, investment strategy recommendation or recommendation to rollover assets from your Qualified Retirement Plan (QRP) to an Individual Retirement Account (IRA), the recommendation is made in our capacity as a broker-dealer unless otherwise stated at the time of the recommendation. Any such statement will be made orally to you. Moreover, when we act in a brokerage capacity, we are not in a fiduciary relationship with you. It is important for you to understand that when our Financial Professionals make a brokerage recommendation to you, we are obligated to ensure the recommendation is in your best interest, considering reasonably available alternatives, and based on your stated investment objective, risk tolerance, liquidity needs, time horizon,

¹ Pershing LLC, member FINRA , NYSE , SIPC , is a subsidiary of The Bank of New York Mellon Corporation (BNY Mellon).

² Margin trading entails greater risk, including, but not limited to, risk of loss and incurrence of margin interest debt, and is not suitable for all investors. Please assess your financial circumstances and risk tolerance before trading on margin. Margin credit is extended by Pershing LLC, Member NYSE, SIPC.

financial needs, tax status, and other financial information you provide us. You may accept or reject any recommendation. It is also your responsibility to monitor the investments in your brokerage account, and we encourage you to do so regularly. We do not commit to provide on-going monitoring of your brokerage account. If you prefer on-going monitoring of your account or investments, you should speak with a Financial Professional about whether an advisory services relationship is more appropriate for you.

Limited Trading Authority

You may also consider granting limited trading authority to your Financial Professional through a written agreement. Under the terms of a limited trading authorization, SMH and your Financial Professional may trade on a discretionary basis, without obtaining your prior consent, within established limitations. Some of these limitations might be:

- discretion as to the price at which or the time to execute an order for the purchase or sale of a specified security;
- discretion on an isolated or infrequent basis, to purchase or sell a security or type of security when a client is unavailable for a limited period of time;
- discretion over cash management, such as to exchange a position in a money market fund for another money market fund or cash equivalent;
- discretion to buy or sell securities to satisfy margin requirements, or other client obligations specified by the client;
- discretion to sell specific securities and purchase similar securities in order for a client to realize a tax loss on the original position;
- discretion to buy a bond with a specified credit rating and maturity; and
- discretion to purchase or sell a security or type of security limited by specific parameters established by the client.

Other Services

From time to time we may provide you with additional information and resources to assist you with managing your brokerage account. This may include but is not limited to educational resources, sales and marketing materials, performance reports, asset allocation guidance, and/or periodic brokerage account reviews. When we offer these services and information, we do so as a courtesy to you. These activities are not designed to monitor specific investment holdings in your brokerage account, they do not contain specific investment recommendations about investment holdings, and you should not consider them a recommendation to trade or hold any particular securities in your brokerage account. Upon your request, we will review such information and reports with you and may provide you with investment recommendations, but we are not under a specific obligation to do so.

Cash Sweep Features

Our brokerage services include a Cash Sweep Program feature. This program permits you to earn a return on uninvested cash balances in your brokerage account by allowing cash balances to be automatically “swept” into a “Cash Sweep Vehicle,” until such balances are otherwise required to satisfy obligations arising in your account. These Cash Sweep Vehicles include interest-bearing deposit accounts, and if permissible, money market mutual funds. You will receive additional information concerning the Cash Sweep Program in your account agreement(s).

For more information on Cash Sweep Program features, contact your Financial Professional or refer to Pershing’s Cash Sweep and Money Market Program rates and disclosures available at <https://www.pershing.com/rates#>.

Account Minimums & Activity Requirements

There is no minimum initial account balance required to open a brokerage account with us. However, if you either fail to fund your account or do not return account opening documents as required, your account may be closed. In addition, some types of brokerage accounts have minimum account activity requirements and/or minimum on-going balance

requirements that must be maintained, or your brokerage account may be closed. These requirements are detailed in the account agreement(s) you receive when you open your brokerage account.

You should also understand that our Financial Professionals may establish their own minimum account balance requirements for the brokerage accounts they service. For example, a dedicated Financial Professional may choose to service only those brokerage account clients who satisfy account-specific or total household asset conditions. Minimum asset requirements are disclosed to you orally by your Financial Professional.

Commissions, Fees and Other Types of Compensation

SMH receives upfront *transaction-based fees*, when it executes transactions that result in the purchase or sale of a security. A transaction-based fee can be a commission, sales load, sales charge, mark up or placement fee, and is typically paid at the time of the sale and can reduce the amount available to invest or can be charged directly against an investment. Transaction based fees are often based on the amount of assets invested. We receive the transaction-based fee and share it with your Financial Professional. Transaction based fees vary from product to product, which creates an incentive to sell a higher transaction-based fee product rather than a lower transaction-based fee product. The maximum commission for equity and other exchange traded products is listed below. For more information about other transaction-based fees that apply to a particular product, please refer to the applicable investment's prospectus or other offering document.

Below is a disclosure of the transaction-based fee charged to you and received by us and our Financial Professionals:

Equities and Other Exchange Traded Securities

The maximum commission charged by SMH in an agency capacity on an exchange traded security transaction, such as an equity, exchange traded fund (ETF), exchange traded note (ETN) or closed-end fund, is 5% of the transaction amount. The commission amount is calculated per our commission schedule.

Mutual Funds

The applicable sales charge is disclosed on the investment companies mutual fund prospectus. Additionally, breakpoints, letters of intent or rights of accumulation may apply.

Account Services Fees

You will pay fees for various operational services provided to you through your brokerage account. These fees are set at least annually and communicated to you through information included in your account statement and other notifications. These fees do not apply to all account types and may be waived under certain conditions. You should understand that based on the brokerage service model you choose, the same or similar products, accounts and services may vary in the fees and costs charged to you.

Compensation to our Financial Professionals

Financial Professionals are compensated in a variety of ways based on the percentage of revenue generated from sales of products and services to clients, including brokerage account activity. This compensation varies by the product or service associated with a brokerage recommendation. In addition to upfront-transaction based compensation, some products

Annuities

The applicable sales charge is disclosed on the investment company's product sponsors prospectus.

Alternative Investments

Alternative investments include hedge funds, private equity funds, non-traded business development companies (BDCs), private placements, or real estate investment trusts (REITs). The sales load is disclosed on the product offering documents.

Unit Investment Trusts (UITs)

The applicable sales load is disclosed on the prospectus issued by the UIT provider.

feature on-going residual or “trail” payments. Thus, Financial Professionals are incentivized to recommend products that have higher fees as well as those with on-going payments.

Cash Compensation

SMH pays a Financial Professional a percentage of the revenue he/she generates from the sale of products and services. The percentage received varies depending on his or her employment agreement with us and the investment product or service recommended and can be more or less than what he/she would receive at another brokerage firm.

Other Benefits

Financial Professionals are eligible to receive other benefits based on the revenue he/she generates from sales of products and services. These benefits present a conflict of interest because the Financial Professional has an incentive to remain a registered representative of SMH in order to maintain these benefits. Such benefits also include equity awards from SMH, and payments that can be in the form of repayable or forgivable loans (e.g., for retention purposes or to assist a Financial Professional grow his/her securities practice)

Recruitment Compensation and Operational Assistance

If a Financial Professional recently became associated with SMH after working with another financial services firm, he/she may have received recruitment compensation from us in connection with the transition. In many cases, this transition assistance includes payments from SMH that are commonly intended to assist a Financial Professional with costs associated with the transition; however, SMH does not verify that any payments made are actually used for transition costs. These payments can be in the form of repayable or forgivable loans, and are subject to favorable interest rate terms, as compared to other lenders. In the case of forgivable loans, the loans are generally subject to repayment if the Financial Professional leaves SMH before a certain period of time or other conditions are not met. In addition, for certain situations involving the transfer of client accounts from a third party platform to SMH’s platform, existing Financial Professionals are eligible to receive a flat-dollar amount per transferred account to assist with offsetting the estimated time and expense he/she incurs to complete the account transfer process. The amount of recruitment compensation is often significant in relation to the overall revenue earned or compensation received by the Financial Professional at his or her prior firm. Such payments are generally based on the size of the Financial Professional’s business established at his/her prior firm. The receipt of this compensation creates a conflict of interest in that the Financial Professional has a financial incentive to recommend that a client open and maintain an account with SMH for advisory, brokerage and/or custody services, and to recommend switching investment products or services where a client’s current investment options are not available through SMH, in order to receive the this type of benefit or payment.

Financial Professional’s Outside Business Activities

Financial Professionals are permitted to engage in certain pre-approved business activities other than the provision of brokerage and advisory services through SMH. Some Financial Professionals refer clients to other service providers and receive referral fees. If you engage with a Financial Professional for services separate from services offered by SMH, you may wish to discuss with him/her any questions you have about the compensation he/she receives from the engagement.

Additional information about your Financial Professionals outside business activities is available on FINRA’s website at <http://brokercheck.finra.org>.

Compensation for Other Services

SMH and our Financial Professionals can offer various types of advisory and brokerage programs, platforms and services, and earn differing types and amounts of compensation depending on the type of service, program or platform in which you participate. This variation in compensation can incentivize a Financial Professional to recommend services, programs or platforms that generate more compensation for SMH and the Financial Professional than others. For example, if you expect to trade securities frequently in your account, a brokerage account in which you pay a commission for each

transaction may generate more compensation for your Financial Professional than an advisory account that generates compensation in the form of investment advisory fees, or vice versa.

Third Party Compensation

SMH and our Financial Professionals receive compensation from investment companies and other third parties in connection with investments that you make in securities. Below describes compensation we may receive from third party arrangements:

Cash Sweep

SMH can offer (through our agreement with Pershing) a service to sweep cash held within your existing accounts into an interest-bearing FDIC insured cash account or, in limited circumstances, money market funds. For sweep accounts, under our agreement with Pershing, SMH receives a fee from cash deposits equal to a percentage of the average daily deposit balance. This fee is typically established at an annual rate applied across all deposit accounts taken in the aggregate.

If your account is not eligible for the sweep account, uninvested cash balances can be invested in a money market sweep fund. SMH receives compensation for marketing support from the sponsors of these funds for of the assets invested. These payments are in addition to other fees (e.g., recordkeeping and 12b-1 fees) received by SMH.

Client Referrals, Conflicts of Interest & Other Compensation

Conflicts of interest exist when we provide brokerage services to you. A conflict of interest is a situation in which we engage in a transaction or activity where our interest is materially averse to your interest. The mere presence of a conflict of interest does not imply that harm to your interests will occur, but it is important that we acknowledge the presence of conflicts. Moreover, our regulatory obligations require that we establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest associated with our recommendations to you.

We are committed to taking appropriate steps to identify, mitigate and avoid conflicts of interest to ensure we act in your best interest when providing brokerage recommendations to you. Below you will find additional information related to our conflicts of interest. This information is not intended to be an all-inclusive list of our conflicts, but generally describes those conflicts that are material to your brokerage relationship. In addition to this disclosure, conflicts of interest are disclosed to you in your account agreement(s) and disclosure documents, our product guides and other information we make available to you.

Payment for Referrals

SMH offers programs such that we will pay outside unaffiliated professionals, such as, financial service professionals or financial advisors, for referrals. In addition, SMH and Financial Professionals may enter into lead generation, marketing and/or referral arrangements with third parties and other financial intermediaries, including for the purpose of introducing new clients. The fees paid for these services can be structured in various ways, including an ongoing flat fee.

Markups and markdowns for principal transactions

When you buy or sell securities in a brokerage account, and in accordance with industry regulations, we typically impose a markup (increase) or markdown (decrease) in the price of transactions we execute on a principal basis. We are compensated based upon the difference (markup) between the price you pay for securities purchased from us and the price we sell such securities to you over the prevailing market price, or the difference (markdown) between the price you sell securities to us and the price we purchase such securities from you over the prevailing market price. We maintain policies and procedures reasonably designed to help ensure compliance with the markup and markdown industry rules.

Error Correction

In the event a trade error takes place and is caused by SMH or one of our Financial Professionals, we will correct the trade and remove the resulting monetary loss to your account. If a trade correction is required as a result of a client (e.g., if a client does not make full payment for purchases or fails to deliver negotiable securities for liquidations before trade settlement), SMH will correct the trade and any resulting monetary loss will be borne by the client. In the case of a trade that requires a correction and that resulted in a monetary gain to the client, such gain may be removed from the account and may result in a financial benefit to SMH.

Rollovers

In the event you choose to roll assets out of a retirement plan, such as a 401(k) plan, and into an individual retirement account (IRA), we have a financial incentive to recommend that a client invests those assets with us, because we will be paid on those assets. A client should be aware that such fees and commissions likely will be higher than those the client pays through the plan, and there can be custodial and other maintenance fees. As securities held in a retirement plan are generally not transferred to an IRA, commissions and sales charges may be charged when liquidating such securities prior to the transfer, in addition to commissions and sales charges previously paid on transactions in the plan.

Limitations on Investment Recommendations

SMH and our Financial Professionals offer and recommend investment products only from investment sponsors with which we have entered into selling and distribution agreements with. Other firms may offer products and services not available through SMH, and/or they may offer the same or similar investment products and services at lower cost than us. In addition, SMH may only offer certain products in a brokerage account, even though there is a version of the product that may be offered at a lower cost through an advisory account, and vice versa.

The scope of products and services offered by certain Financial Professionals may also be more limited than what is available through other Financial Professionals. A Financial Professional's ability to offer individual products and services depends on his/her licensing, training or branch office policy restrictions. For example, a Financial Professional maintaining a Series 6, Series 63 and Life Insurance Agent license is limited to providing investment company securities, such as mutual funds and UITs and variable annuity contracts. A Financial Professional maintaining a Series 7, Series 63 and Life Insurance Agent license is able to provide solutions including all securities available for sale by a Series 6 representative as well as individual stocks, bonds, and alternative investments, among others. As another example, a Financial Professional may only be licensed to provide brokerage services, and not advisory services, or vice versa. You should also review the licenses held by your Financial Professional by visiting the FINRA BrokerCheck system at <http://brokercheck.finra.org>.

Conflicts & Compensation Related to Our Affiliates

SMH is affiliated with the following financial service companies:

Tectonic Advisors, LLC

Tectonic Advisors, LLC (referred to as "TA") is under common ownership with SMH. Certain officers and directors of TA also serve as officers and directors of SMH which create an incentive for us to refer business between the two entities.

HWG Insurance Agency, LLC

HWG Insurance Agency, LLC (referred to as "HWG") which is a state-registered insurance agency, is under common ownership with SMH. Licensed insurance agents of HWG may also be Financial Professionals with SMH. If you elect to purchase an insurance product through an SMH Financial Professional, which may include life, accident, disability insurance and annuities, your Financial Professional will receive a commission from that purchase, therefore creating an incentive to encourage you to buy insurance products.

T Bank NA

T Bank NA. is under common ownership with SMH. Certain officers and directors of T Bank also serve as officers and directors of SMH which create an incentive for us to refer business between the two entities.