



Watson Capital Management, Inc.

Item 1 – Cover Page

FORM ADV PART 2A

Watson Capital Management, Inc.

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This Brochure provides information about the qualifications and business practices of Watson Capital Management, Inc. (“Watson Capital Management” or “Watson Capital”). If you have any questions about the contents of this Brochure, please contact us at (202) 333-6270. 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.

Watson Capital Management is an investment adviser registered with the SEC. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Watson Capital Management also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the SEC published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated September 26, 2011 is a new document prepared according to the SEC’s new requirements and rules (including an updated section outlining Watson Capital Management’s covered call writing option strategy and associated risks). As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past, we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may also provide other ongoing disclosure information about material changes as necessary.

We will provide each client with a new Brochure as necessary based upon changes or new information. Our Brochure may be requested by calling Watson Capital at (202) 333-6270.

Additional information about Watson Capital Management is available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with Watson Capital who are registered, or are required to be registered, as investment adviser representatives of Watson Capital Management.

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Item 4 – Advisory Business

Watson Capital Management, Inc. is a corporation formed under the laws of the Commonwealth of Virginia and is registered with the Securities and Exchange Commission as an investment adviser. Gregory S. Watson is the sole owner of Watson Capital Management, Inc. Watson Capital has been in continuous operation since April 11, 1995.

Watson Capital Management is a fully independent investment adviser providing equity, fixed-income and “balanced” investment management services. We are strictly a fee-only investment management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships or other commissioned products. No commissions or finder’s fee in any form are accepted.

Watson Capital uses four basic methods of account/portfolio management:

- The first and primary method is based upon a written set of investment objectives and constraints from which the client selects the objective deemed most appropriate for their individual situation. Watson Capital Management then seeks to meet these objectives on a discretionary account basis.
- The second method involves initially customizing such objectives for a client (primarily institutional) and then reviewing the objective periodically through consultation with the client. Although such consultation is held, these accounts are managed on a discretionary basis, subject to selected investment objectives.
- The third method consists of rendering of investment advice on a non-discretionary basis for individual securities designed by the client. Such advice is rendered by taking into account factors that have been previously agreed upon by the client and our firm, and which, in our opinion, are appropriate investments for the client based upon their selected investment objectives.
- The fourth method consists of incorporating (among other investment vehicles) “Managed Accounts” into a client’s portfolio. Managed Accounts are sub-accounts managed by separate investment advisory firms selected by Watson Capital. They are selected after initial consultation with the client and in conjunction with the investment objective chosen by the client. We generally have discretion to select, change and/or terminate such Managed Account advisers. A separate fee (generally not to exceed 1.0% of the client’s assets under management) is charged to the client by the Managed Account adviser and custodian. Such fees include custodial, trading and Managed

Account investment advisory services and are in addition to Watson Capital's advisory fee.

Watson Capital does not represent, warranty, or imply that the services or methods of analysis employed by the firm can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines.

As of December 31, 2010, Watson Capital had total assets under management of \$45,699,774.17 (\$43,960,380.59 of discretionary assets and \$1,739,393.58 of non-discretionary assets).

Item 5 – Fees and Compensation

Fees will be based on the market value of assets under management at the end of each calendar quarter, and billed to clients after the end of each such quarter.

Watson Capital charges quarterly fees, payable in arrears, based upon the following schedule:

- .2500% on the first \$3 million of assets under management
- .1750% on the next \$2 million of assets under management
- .1250% on assets over \$5 million

Watson Capital requires that a client's account(s) have a minimum total market value of \$1 million. In addition, we charge a minimum investment advisory fee of \$ 2,500 per calendar quarter. The account minimum and/or minimum fee may be waived and/or reduced at our discretion.

All fees to be charged are incorporated into the investment advisory agreement, and are fully explained to the client prior to - or in conjunction with - the execution of the agreement. While a fee may be reduced, the fee shall not exceed the established fee schedule. Generally, our standard investment advisory agreement provides for commencement of fees upon execution of the investment advisory agreement. Watson Capital Management may, however, in its sole discretion, waive fees for a period of time for a new account. Either the client or Watson Capital may terminate an investment advisory agreement at any time upon 15 days written notice personally delivered or mailed. Electronic mail is not acceptable for this purpose. If a contract is terminated, the client is

charged a pro-rata fee through the last day of service. Although the fee schedule is established, Watson Capital Management may negotiate, at its discretion, a fee which is different than the established fee schedule.

Examples of such exceptions may include, but are not limited to, the following:

- Watson Capital may, under some circumstances, calculate the fee(s) of related accounts (i.e., different accounts of various family members, etc.) on an aggregate/combined market-value basis in order to achieve a lower fee than could otherwise be achieved.
- In certain circumstances, we may accept non-discretionary, advisory accounts and, in some cases, may charge a minimum fixed hourly fee of \$500 per hour or a flat fee based on the complexity and estimated time of the requested analyses, reports or project.
- In accounts where there are securities which are not actively managed and/or supervised by Watson Capital (i.e., holdings of low-cost securities, securities purchased/managed by the client, etc.) such securities may be specifically excluded from the base of assets upon which fees are computed or a reduced fee may be negotiated. In cases where Watson Capital Management has some, but not complete, responsibility for management and/or is solely providing information, reporting or advice with respect to such securities, a fee may be negotiated with the client consistent with the degree of services provided.
- In accounts comprised primarily of cash and/or fixed-income securities which are not managed on a relatively "active" basis (i.e., such as a "laddered" bond portfolio, intended primarily to be held until maturity - with some degree of monitoring of credit-quality, reinvestment of interest and/or maturing bonds, etc.), a fee may be negotiated between Watson Capital and the client consistent with the degree of such responsibility.

All fees are subject to negotiation. The specific manner in which fees are charged by Watson Capital is established in a client's written agreement with the firm. Clients authorize Watson Capital Management to directly debit fees from their account(s). At our sole discretion, fees may be prorated for each large capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee.

Watson Capital's 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, and other third parties. Examples of such fees

may include, fees charged by managed account advisers, custodial fees, transfer taxes, wire transfer and electronic fund fees, overnight mailing fees, and other fees and taxes on brokerage accounts and securities transactions. 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 and in addition to our fee, and Watson Capital Management shall not receive any portion of these commissions, fees, and costs.

Watson Capital supervised persons do not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds. Watson Capital does not bill client fees in advance of services rendered.

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

Watson Capital Management 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).

Item 7 – Types of Clients

Watson Capital Management provides portfolio management services to individuals, high net worth individuals, corporations, professional practices, corporate and individual qualified and non-qualified retirement plans, trusts, charitable institutions, foundations, and endowments, among others.

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

The goal of Watson Capital Management is to provide value to its clients by helping to establish and meet their long-term investment objectives. We invest assets in a manner consistent with the stated investment objectives of our clients, vis-à-vis the expected performance of various asset classes. A comprehensive analysis is made of each client's individual needs, circumstances and risk/return profile. This helps establish the client's "investment objective", which in turn determines the target asset allocation of the client's portfolio. Broadly defined, this allocation includes equities, fixed-income and cash and equivalents. Watson Capital explains the various objectives, the related asset allocations and risk/return expectations – and the client selects the appropriate investment objective

for their unique circumstance. The corresponding asset allocation percentages are target ranges, and the actual asset allocation percentages may differ significantly depending upon market factors, and the discretion of Watson Capital Management. Cash percentages in particular may exceed target percentages under certain circumstances. We request that each client inform us if their circumstances change, which may require altering their stated investment objective and/or rebalancing their portfolio. The client may change their investment objective at any time.

Once an investment objective and target asset allocation has been selected, the portfolio is constructed. The investments used by Watson Capital in the construction of a portfolio may include individual equities, cash-equivalents, fixed-income securities, and/or select mutual funds, as appropriate relative to the client's stated investment objective and unique circumstances. Within these parameters, additional investment vehicles may include options, real estate investment trusts, exchange-traded funds, convertible securities, commodities, precious metals, and/or any investment vehicle which we believe may add value to a client's portfolio.

Each security represents a target percentage within a portfolio. As may be expected, the performance of individual securities in a portfolio will vary over time. As investments grow or decline as a percentage of their target weight, the positions may be rebalanced to their desired "target" portfolio weighting. A security is sold when its fundamental prospects have changed, or when a security with better prospects is discovered to replace it. Securities are generally held on a long-term basis, although short-term trades may occur. Portfolio turnover tends to be relatively low.

Watson Capital primarily uses fundamental analysis in formulating investment advice and managing assets (although technical and cyclical analyses may be used as well). Sources of information include annual and semi-annual reports, prospectuses and other filings with the Securities and Exchange Commission, inspections of corporate activities, company press releases, research materials prepared by others, financial newspapers and magazines, financial broadcast media (including the internet), corporate rating services, and subscription services and newsletters. Additional sources of information may include presentations/discussions with corporate managers, research analysts, portfolio managers and other individuals with relevant expertise/insight.

EQUITY MANAGEMENT

Watson Capital Management's individual equity analysis generally focuses upon selection of well-managed companies/stocks at reasonable valuations which can be held for the long term (i.e., "growth-at-a-reasonable-price").

Watson Capital generally uses the following criteria in its individual equity selection process:

- High, consistent levels of return on capital;
- Ability to generate positive cash flow;
- A leadership position within a growing industry, providing the company with the ability to reinvest its earnings at high rates of return;
- Non-diversified business which dominates/leads its market segment;
- Significant barriers to entry into the industry;
- Exceptional management and a corporate culture of excellence;
- High levels of management stock ownership and/or shareholder-oriented management compensation;
- Clean balance sheet and clean accounting practices;
- Reasonable leverage for the business; and
- Attractive valuation relative to sustainable growth and profitability.

Additionally, Watson Capital Management's individual equity investments typically comprise a broad range of companies with a history of relatively stable earnings growth, and which are positioned to maintain continued growth in the future. Generally, these companies enjoy fundamental characteristics superior to the average. Their sales, earnings, book value and dividends have usually grown faster than average, while debt (financial leverage) has remained lower than average. Return-on-Equity, Cash Flow Return-on-Investment and Price/Earnings Ratios are typically higher than average as well.

Watson Capital may also invest in "value" stocks, in companies facing difficulties, but with compelling valuations, or in strong, well managed companies in out-of-favor industries, if it believes that the companies will achieve superior performance when company-specific or industry conditions improve. We may also write "covered" calls on individual securities – a

relatively conservative option strategy designed to add value to a portfolio – as appropriate.

Diversification

Watson Capital Management places significant emphasis upon diversifying investments across industries and economic sectors in order to reduce company specific (non-market) risk. We may purposely over- or under-weight certain companies, industries and/or economic sectors, but the primary objective is to maintain well-diversified portfolios. Additionally, in order to achieve this diversification goal, we may include exchange traded funds and/or mutual funds in its portfolios. Often, such funds are intended to augment and complement its “growth-at-a-reasonable-value” style for individual stocks. For example, selected funds may be utilized to add specific characteristics to a portfolio such as a “value”, “small-cap”, “real estate”, “precious metals”, “foreign”, etc.

Mutual Funds

Watson Capital utilizes a sophisticated selection process to screen, analyze, select and monitor mutual funds. Selected funds are then integrated into a portfolio in a manner consistent with the investment objectives of the client. As a rule, we generally only select “no-load” or “load-waived” mutual funds for client accounts – that is, mutual funds where shares are sold without a commission or sales charge.

Equity Mutual Funds

Among the advantages of using individual securities are the ability to custom tailor portfolios to the client’s unique needs and circumstances, and the ability to better manage the tax implications of portfolio gains and losses. Among the benefits of mutual funds are increased diversification, liquidity, and depth of investment expertise, as well as cost efficiencies due to fund economies of scale. Watson Capital often combines the use of individual securities and select mutual funds to help bring the advantages of both to the portfolio management process and to meet a client’s specific risk and return objectives. Such mutual funds may encompass a range of equity investment styles, and may comprise all or a portion of a client’s portfolio, depending upon the client’s unique needs and circumstances, and the size of the portfolio.

Company Size

Watson Capital Management generally invests in large-, medium- and small-sized companies, which each have unique characteristics. There are periods of time when each becomes relatively in or out of favor among investors, and may merit a place in a diversified portfolio.

Foreign Investment

Watson Capital Management advocates investment in international securities markets in order to provide increased portfolio diversification, and thus, the potential for greater long-term, risk-adjusted returns. Watson Capital adds international exposure through the purchase of:

- Stock of United States domestic companies with exposure to foreign markets.
- Select mutual funds which specialize in foreign or global equity investment.
- Select exchange-traded funds which specialize in foreign or global equity investment.
- Stock of foreign companies.

Covered Calls

Watson Capital may write “covered” calls on individual stocks – a relatively conservative options-based strategy designed to add value to a portfolio – as appropriate. Covered call writing consists of selling (writing) a call option on stock currently owned by an investor. The buyer of the call option has the right (but not the obligation) to purchase the underlying stock (typically 100 shares) at a predetermined price (the strike price) by a predetermined date (the expiration date). For the call option, the seller receives cash (the premium), and must deliver to the buyer 100 shares of the underlying stock at the strike price if the option is exercised any time before the expiration date.

Primary Risks of Covered Calls

If a covered call option is not exercised, and expires with no value, the upside potential profit is any increase in the value of the underlying stock, plus the premium received.

While writing a covered call may somewhat offset any decline in the price of the underlying stock (by the amount of the premium received), it will not prevent losses in the stock, potentially to zero. Additionally, if a covered call option is exercised, the upside potential profit of the combined investments (the underlying stock, plus the premium received) is limited to the strike price of the option plus the premium received.

A covered call position can usually be “closed out” at any time by buying it “back” at the current market price. However, the call option may also be exercised at any time prior to the expiration date, with the underlying shares being sold at the strike price. This could result in an unexpected capital gain on the underlying stock. Additionally, there is a commission incurred for each option transaction, and the premium received for a covered call is taxable at ordinary income tax rates, which are currently higher than long-term capital gains rates.

If a decision is made to sell the stock underlying a covered call position, the call position would likely be closed out as well (resulting in a commission on both transactions), as writing a “naked” call (i.e., a call with no underlying stock position) could theoretically result in potentially unlimited losses.

FIXED-INCOME MANAGEMENT

“Active” Management

Watson Capital Management offers “active” fixed-income management with the goal of achieving above-average total returns with relatively low volatility. We strive to attain a reasonable level of income, with the potential for moderate capital appreciation.

The critical factors that Watson Capital focuses upon vis-à-vis our goal of reducing risk (volatility) and achieving above average returns are:

- **Diversification:** We seek to maintain well-diversified fixed-income portfolios designed to reduce non-market risk (volatility). Such portfolios are diversified across industries, asset - types, maturities, etc., as appropriate.
- **Interest-Rate Anticipation:** In a diversified fixed-income portfolio, interest rate movements generally have the greatest impact upon portfolio performance, thus we track relevant macro-economic trends and, upon careful analysis, may implement an appropriate interest rate anticipation strategy.

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- **Credit Quality:** We typically invest in high quality fixed-income securities, primarily investment grade bonds. However, Watson Capital may also invest a portion of a portfolio in below investment grade fixed-income securities and/or any such investment vehicle which we believe may add value to a client's portfolios.
 - **Valuation:** Occasionally, certain securities and/or sectors (i.e. industry, credit, etc.) of the fixed-income market become attractive or unattractive relative to their historical valuations. We strive to add value by investing in such undervalued securities/sectors as they are identified, and selling those identified as over-valued.

Watson Capital's "active" fixed-income strategy consists of a sophisticated process of portfolio construction and comparison relative to an appropriate benchmark index. We may invest in any fixed-income security deemed appropriate vis-à-vis the client's stated investment objectives.

Fixed-Income Mutual Funds

Often, as appropriate, Watson Capital Management invests in select fixed-income mutual funds to afford "active" fixed-income management to our clients, and/or to meet a client's specific risk and return objectives. Such mutual funds may encompass a range of fixed-income investment styles, and may comprise all or a portion of a client's portfolio, depending upon the client's unique needs and circumstances, and the size of the portfolio. Select exchange-traded funds may be used as well.

"Semi-Active" Management

Alternatively, Watson Capital Management also provides "*semi-active*" fixed income management, where appropriate, and depending upon their unique needs and circumstances, and the size of the portfolio. We will custom-tailor such a fixed-income portfolio to meet the unique needs and/or constraints of the client - with the same focus upon diversification and credit quality - and to a lesser extent, as appropriate - relative valuation. Such portfolios are generally constructed as "laddered-maturity" portfolios, with modest, if any, focus upon interest-rate anticipation strategies. We seek to keep portfolio turnover to a minimum, and individual fixed-income securities are generally held to maturity.

Fixed income portfolios may include U.S. Government and Agency debt, U.S. Corporate debt, foreign corporate and government debt, tax-exempt municipal debt, convertible securities, bank certificates of deposit, asset backed securities, mutual funds, exchange-traded funds, money market funds, and/or any fixed-income investment we believe may add value to a client's portfolio.

General Risks

There is no guarantee that a client's portfolio will meet their selected investment objective. The firm's past performance cannot guarantee future results. All investments are subject to market risk, including possible loss of principal. There are additional risks for investing in certain types of investments.

Risk Tolerance Spectrum

Investment risk is defined as fluctuations in returns from one period to the next. Investors who desire higher long-term returns must be willing to accept the higher levels of volatility (risk) associated with the types of asset classes that produce such returns. All assets contain some degree of risk; however, some assets are considered more volatile (riskier) than others.

Lower-risk investments, such as cash alternatives (i.e., Treasury bills or money market funds), have averaged modest long-term historical returns. Intermediate- and long-term bonds have wider ranges of returns than short-term fixed-income assets because longer-maturity bonds are more interest-rate sensitive, resulting in greater price volatility. Government bonds are guaranteed by the full faith and credit of the U.S. Government as to the timely payment of principal and interest, while corporate bonds and stocks are not guaranteed.

Higher-risk investments, such as domestic and international stocks, have averaged higher returns historically but with more volatility or fluctuations in value. The stocks of small- and medium-size companies entail greater risk and are usually more volatile than those of larger companies; however, small- and medium-size companies also generally produce higher long-term returns.

Different investing styles also result in variable returns over time, as those styles rotate in and out of market favor. For example, investing in "Growth" versus "Value" investments may produce different returns at different periods.

A key step regarding the development of an investment plan is to help the client select an appropriate investment objective and corresponding asset allocation which incorporates a balance between long-term investment performance and return stability (i.e., risk).

Types of Risk

Investors face many different forms of risk depending on the kinds of investments they choose.

- **Market Risk:** General market fluctuations can affect securities trading in that market. This type of risk is caused by external factors independent of a security's particular underlying circumstances. Stocks tend to fluctuate more than other asset classes (such as bonds) and may pose more risk over short periods of time. The price of a security, bond or mutual fund may drop in reaction to tangible and intangible events and conditions. For example, political, economic and social conditions may trigger market events. Diversification does not eliminate this type of risk.
- **Industry/ Business/ Company Risk:** Security values can decline due to negative developments within an industry or company. These risks are associated with a particular industry or a particular company within an industry. It is the risk that a company will not have adequate cash flow to meet its operating expenses. A company's risk is composed of financial risk, which is linked to debt, and risk, which is often linked to economic climate. If a company is entirely financed by equity, it would pose almost no financial risk, but, it would be susceptible to business risk or changes in the overall economic climate. For example, highly-regulated businesses face the risk that a change in government regulations could adversely impact the industry. For a particular company, a change in competitive position, a change in management or a change in management's capital allocation decisions could adversely impact the business.
- **Credit Risk:** This is the risk of a bond issuer not being able to make timely payments of principal and interest. The value of a bond may also decrease due to financial difficulties or the declining creditworthiness of the issuer.
- **Interest-rate Risk:** Interest rate risk is the risk that an investment's value will change as a result of a change in interest rates. This risk affects the value of bonds more directly than stocks. All bonds tend to rise in value when interest rates fall and to fall in value when interest rates rise. (i.e., when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline). Typically, there is greater price volatility associated with bonds with a longer maturity.

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- **Call/Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed-income securities. For example, as interest rates fall, bonds with call provisions may be called in by the issuer prior to maturity. This may leave the investor with the problem of reinvesting the principal at a lower interest rate.
 - **Inflation Risk:** This is also known as purchasing power risk. Inflation is a rise in the general level of prices for goods and services. If investments do not keep up with inflation, an investor's money will purchase less in the future than it did in the past.
 - **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. Some investments may not be widely held by the public and may be difficult to sell if prices drop dramatically. For example, Treasury Bills are highly liquid, while real estate properties are not.
 - **Currency Risk:** Foreign investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is referred to as exchange rate risk. Currency exchange can affect the returns of a foreign security because foreign exchange rates constantly fluctuate with changes in the supply and demand of each country's currency. Thus, returns achieved by local investors are often quite different from the returns that U.S. investors achieved—even though both are investing in the same security.
 - **Political/Economic Risk:** Investments in a foreign country can be affected by the political and economic developments within that country.
 - **Market-timing Risk:** By attempting to time market movements, investors risk being out of the market at opportune times and may invest in the market at disadvantageous times.

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 the evaluation of an investment adviser or the integrity of an adviser's management. Watson Capital Management has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Watson Capital has no other financial affiliations.

Item 11 – Code of Ethics

Watson Capital Management has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things.

Chief Compliance Officer

Watson Capital Management has appointed Gregory S. Watson as its Chief Compliance Officer and has adopted a Code of Ethics containing rules and guidelines which seek to assist the firm in avoiding prohibited acts and eliminating potential conflicts of interest. While it is not possible to define all situations which might pose a risk of securities laws violations or create conflicts of interest, Watson Capital Management's Code of Ethics is designed to address those circumstances where such concerns are most likely to arise. By complying with Watson Capital Management's Code of Ethics, its employees can minimize their and the firm's potential exposure from violations of laws governing securities transactions and fiduciary relationships. Proscriptions against self-dealing, insider-trading and the appearance of actual conflicts of interest are all set forth in Watson Capital's Code of Ethics. Watson Capital provides orientation on its Code of Ethics to all new employees. The firm's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Gregory S. Watson.

Transactions by Principals

The Watson Capital Management Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of the firm will not interfere with (1) making decisions in the best interest of advisory clients and (2) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt

transactions, based upon a determination that these would materially not interfere with the best interest of Watson Capital Management's clients.

The principals, directors, officers and/or employees of Watson Capital may, from time to time, purchase and/or sell securities that the firm also recommends be bought and/or sold by clients. Watson Capital principals, directors, officers, and/or employees will not buy securities from, or sell securities to, clients. Further, in purchasing or selling securities in which they and a client have an interest, or as to which such interest may reasonably be expected to occur, no such principals, directors, officers and/or employees may act in a manner as would favor his or her own interest over those of any client. All client trades take priority over trades executed on behalf of the principals, directors, officers and/or employees of the firm.

In addition, Watson Capital Management has procedures to facilitate compliance with the firm's policies designed to prevent transactions that may be deemed to be in conflict with those of our clients.

Because the Code of Ethics in some circumstances would permit employees to invest in the same securities as a client, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between the firm and its clients.

Further, in purchasing or selling securities in which any of Watson Capital's principals, directors officers and/or employees and a client have an interest, or as to which such interest may reasonably be expected to occur, no such principals, directors, officers and/or employees may act in a manner that would favor his or her own interest over those of any client. All client trades take priority over trades executed on behalf of the principals, directors, officers and/or employees of Watson Capital. In addition, the firm uses a transaction reporting system to monitor whether or not its "advisory representatives" may be engaging in transactions that might be deemed to be in conflict with those of clients.

Prohibition on Insider Trading

Watson Capital Management is in, and shall continue to be in, compliance with The Insider Trading and Securities Fraud Enforcement Act of 1988. Watson Capital's policies and procedures prohibit the misuse of material nonpublic information and are designed to prevent insider trading by any employee. Among other matters, the firm's Code of Ethics forbids any employee from trading, either personally or on behalf of others, on material

non-public information or communicating material non-public information to others in violation of the law. The Code provides that every employee must report his or her personal securities transactions (quarterly) and holdings (upon hiring and annually) to the Chief Compliance Officer. In addition, an employee must seek approval of the Chief Compliance Officer prior to participating in an initial public offerings or private placements.

No Cross –Trades

Watson Capital Management will not cross trades between client accounts. Additionally, Watson Capital will not execute any principal or agency cross securities transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency- cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser acts as broker for both the advisory client and for another person on the other side of the transaction.

Confidentiality

Employees of Watson Capital may learn confidential information concerning the firm and its clients. “Confidential information” generally means all information not publicly available (through the media or public records) and includes, but is not limited to personal information, such as social security numbers.

It is the policy of Watson Capital that individuals employed by the firm must not disclose, directly or indirectly, any confidential information to anyone other than the firm’s personnel and authorized professional advisors such as broker-dealers, attorneys, and accountants who may need such information in order to discharge their professional services. A copy of Watson Capital’s privacy policy notice will be provided to each client prior to, or contemporaneously with, the execution of the advisory agreement. Thereafter, Watson Capital will deliver a copy of the current privacy policy notice to its clients on an annual basis.

Restrictions on Gifts

Employees of Watson Capital Management may not seek or accept gifts of material value or any preferential treatment in dealings with any broker/dealers or other organizations with which Watson Capital Management does business.

Item 12 – Brokerage Practices

Directed Brokerage

In some instances, clients of Watson Capital request that securities transactions be executed through a designated broker of the client's choice. When it is practical and appropriate, Watson Capital attempts to comply with the client's wishes. At such time, we shall evaluate the proposed firm's capabilities and services. Watson Capital may pay a commission in excess of what another broker might have charged for effecting the same transaction in recognition of the value of the execution, technology platform and/or research services provided by the broker. At times, research services furnished by the broker through whom Watson Capital executes securities transactions may be used in servicing all of our accounts and not all such services may be used by Watson Capital in connection with the accounts which actually paid the commissions to the broker for providing such services. Watson Capital Management may, where appropriate, have an understanding, but no binding agreement, with a broker that a specified dollar amount of commissions will be paid to that broker in return for research/ execution services - if Watson Capital Management believes that the value of the research/execution received warrants such an informal understanding.

However, clients who wish to direct the firm to use a particular broker should understand that this might prevent Watson Capital from aggregating orders with other clients which may be beneficial from a cost standpoint. Thus, when directing brokerage business, clients should consider whether the commission expenses and execution, clearance, and settlement capabilities that they will obtain through their broker are adequately favorable in comparison to those that Watson Capital would otherwise obtain for its clients.

Selection of Brokers/Custodians

Watson Capital does not maintain custody of our clients' assets, although we may be deemed to have custody of client assets if our client gives us authority to withdraw assets from their account (*see Item 15 – Custody, below*). Client assets must be maintained in an account at a "qualified custodian," generally a broker dealer or bank.

Watson Capital seeks to recommend a custodian/broker who will hold client's assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

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- Combination of transaction execution services and asset custody services (generally without a separate fee for custody);
 - Capability to execute, clear, and settle trades (buy and sell securities for client's accounts);
 - Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);
 - Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.);
 - Availability of investment research and tools that assist us in making investment decisions. For example, research services offered by brokers may consist of written research reports, contacts/meetings with security analysts, market technicians, economists, portfolio-theory experts and others who may be helpful in formulating investment policy; contacts highlighting a firm's best ideas; and broker-sponsored meetings with the management of individual companies;
 - Expertise provided regarding investment advisory industry best practices, and legal, regulatory and compliance issues, among others;
 - Quality of services;
 - Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices;
 - Reputation, financial strength, and stability;
 - Prior service to us and our clients; and
 - Availability of other products and services that benefit our firm.

Watson Capital generally recommends that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold client assets in a brokerage account and buy and sell securities when instructed. While we recommend that clients use Schwab as custodian/broker, each client will decide whether to do so and will open their account with Schwab by entering into an account agreement directly with them. Watson Capital does not open the account, although we may assist a client in doing so. Even though a client account is maintained at Schwab, we can still use

other brokers to execute trades for a client's account as described below (see "*Selection of Brokers/Custodians*").

When recommending a custodian and/or broker, we will attempt to minimize the total cost for all brokerage services paid by our clients. However, it may be the case that the recommended broker charges a higher fee for a particular type of service, such as commission rates, than can be obtained from another broker.

Brokerage and Custody Costs

For our clients' accounts that Schwab maintains, Schwab generally does not charge a separate fee for custody services, but is compensated by charging commissions or other fees on trades that it executes or that settle into client accounts. This commitment benefits our clients because the overall commission rates a client pays are lower than they would be otherwise. In addition to commissions, Schwab charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer, but where the securities bought or the funds from the securities sold are deposited (settled) into a client's Schwab account. These fees are in addition to the commissions or other compensation that a client pays the executing broker-dealer. Because of this, in order to minimize trading costs, we have Schwab execute most trades for our clients' accounts. We have determined that having Schwab execute most trades is consistent with our duty to seek "best execution" of our clients' trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see "*Selection of Brokers/Custodians*").

Products and Services Available to Watson Capital from Schwab

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like Watson Capital. They provide us and our clients with access to its institutional brokerage – trading, custody, reporting, and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab.

Schwab Services That Benefit Watson Capital Management Clients

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions and custody of client assets. The products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit our clients.

Services That May Not Directly Benefit Watson Capital's Clients

Schwab also makes available to us other products and services that benefit us but may not directly benefit a client's individual account. These products and services assist us in managing and administering our clients' accounts overall. They include investment research, both Schwab's own and that of third parties. Watson Capital may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements);
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- Provide pricing and other market data;
- Facilitate payment of our fees from our clients' accounts; and
- Assist with back-office functions, recordkeeping, and client reporting.

Services That Generally Benefit Only Watson Capital

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events;
- Consulting on technology, compliance, legal, and business needs;

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- Publications and conferences on practice management and business succession;
 - Access to employee benefits providers, human capital consultants, and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel. Watson Capital uses many of the services Schwab offers, especially their software and technology which permits us to more efficiently manage and administer client accounts. We also occasionally take advantage of the educational conferences and events Schwab offers.

Our Interest in Schwab's Services

The availability of these services from Schwab benefits Watson Capital because we do not have to separately produce or purchase these services for our firm. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend that clients maintain their account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on our clients' interest in receiving the best value in custody services and the most favorable execution of their transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "*Selection of Brokers/Custodians*") and not Schwab's services that benefit only us. Watson Capital Management's total assets under management are significant enough that we do not believe that recommending our clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

Aggregation of Trades

Watson Capital Management may aggregate multiple trade orders, to be executed together as a single "block" in order to facilitate orderly and efficient execution. Each account then

receives the total average price of the overall order, which will then be allocated to all accounts participating in the aggregated trade. Watson Capital will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Usually, partially filled orders will be allocated on a pro-rata basis. Any exceptions will be explained on the order.

Trade Error Correction Procedures

On infrequent occasions, an error may be made in a client account. For example, a security may be erroneously purchased for a client account instead of sold. In these situations, Watson Capital generally seeks to rectify the error by placing the client account in a similar position as it would have been had there been no error. Depending on the circumstances, various corrective steps may be taken, including but not limited to, canceling the trade, adjusting an allocation, and/or reimbursing the account.

Item 13 – Review of Accounts

Watson Capital Management investment personnel are responsible for all reviews of accounts we manage. All accounts are reviewed at least once annually. Additionally, there are many factors which may trigger account reviews. Such factors include, but are not limited to, sales and/or purchases of securities, maturity of securities, additions or withdrawals of cash or securities, performance reviews, tax-impact reviews, change of investment objectives, changes in economic conditions and/or client request for review.

Unless Watson Capital and the client agree otherwise, investment reports are provided at least annually for individual and institutional clients. Additionally, reports may be prepared per client request and/or meetings. These reports may contain such account information as asset allocation, individual holdings, income and yield, performance data, all as appropriate, etc.

All clients will receive, directly from the custodian, a monthly statement that sets forth all transactions and activity in the account and details the market value for each investment position held in the account. Clients are also sent confirmations following most brokerage account transactions.

On a quarterly basis, clients receive a written report from Watson Capital which includes a cover document summarizing the details of their account(s), a Portfolio Appraisal, and a copy of their invoice. The Portfolio Appraisal details the security holdings, including the number of shares owned, the unit cost of each investment, the current market value of each investment and the percent that investment represents of the total market value of the portfolio.

Additionally, Watson Capital will generally provide a Realized Gains and Losses report for each taxable account to help clients with their annual tax preparation. Other reports may also be periodically provided as requested by the client.

Item 14 – Client Referrals and Other Compensation

Economic Benefit Received by Watson Capital

Watson Capital receives an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These products and services, how they benefit our firm and our client, and the related conflicts of interest are described above (see Item 12 – *Brokerage Practices*). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

Client Referrals

Watson Capital Management, as part of its effort to build upon its client base, may (in its sole discretion) offer a referral fee of up to 50% of the first year's annual fee paid quarterly in arrears to any legitimate individual and/or entity whose recommendation results in the contracting of investment advisory services with the firm. Watson Capital may, under limited circumstances, negotiate a different referral fee schedule. Any referral fee shall be fully disclosed to the client in writing, prior to – or in conjunction with – the execution of the investment advisory agreement.

Item 15 – Custody

Under government regulations, our firm is deemed to have custody of client assets if, for example, a client authorizes us to instruct Schwab to deduct our advisory fees directly from their account. Schwab or another custodian of the client's choice maintains actual custody of the assets. Each client will receive account statements directly from Schwab or another custodian at least quarterly and in most cases monthly. They will be sent to the email or postal mailing address the client has provided to Schwab or another custodian. Watson Capital urges clients to carefully review such statements and compare such official custodial records to the account statements that we may provide. If a client is not receiving monthly brokerage statements either electronically or in hardcopy or if they notice any discrepancies between our reports and the brokerage statements, please contact us at 202-333-6270. Our statements may vary slightly from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Watson Capital usually receives discretionary authority from the client at the outset of an advisory relationship to invest in a manner consistent with the stated investment objectives of the particular client account, using Watson Capital's discretion regarding the investments, timing of investments and asset allocation.

In order for Watson Capital to actively manage client assets, certain custodians require that the client appoint us as attorney-in-fact for authority to debit fees, vote proxies and execute trades in client accounts, transfer funds on behalf of clients, etc. This allows Watson Capital to buy or sell securities, as well as specify the amount of securities to invest, without first obtaining the client's specific consent. Upon termination of our investment management services, we will have no obligation or authority to recommend or take any action with regard to the previously managed assets.

Item 17 – Voting Client Securities

Under its standard Investment Advisory Agreement, Watson Capital Management is delegated the power to exercise voting, conversion, subscription and any other rights regarding the client's securities for which it has discretionary management. We recognize and adhere to the principle that one of the privileges of owning stock in a company is the right to vote in the election of the company's directors and on matters affecting certain

important aspects of the company's structure and operations that are submitted to shareholder vote. As an investment adviser with a fiduciary responsibility to its clients, Watson Capital analyzes the proxy statements of issuers whose stock is owned by clients who have requested that Watson Capital be involved in the proxy process. In addition, for those clients who have not delegated their voting responsibility but who specifically request it, Watson Capital Management may provide advice regarding proxy voting.

Watson Capital has adopted these Proxy Voting Policies and Procedures for the purpose of establishing formal policies and procedures for performing and documenting its fiduciary duty with regard to the voting of client proxies. Clients may receive a copy of Watson Capital Management Proxy Voting Policies and Procedures upon request. Certain information regarding the voting of proxies may be obtained by our clients through written request to Watson Capital Management.

Item 18 – Financial Information

Registered investment advisers are required to provide clients with certain financial information or disclosures about our financial condition. Watson Capital Management 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.