



## **FIRM BROCHURE AND BROCHURE SUPPLEMENT**

### **COLCHESTER INVESTMENT COUNSEL LLC**

456 Main Street  
Ridgefield, Connecticut 06877

This brochure provides information about the qualifications and business practices of Colchester Investment Counsel LLC. If you have any questions about the contents of this brochure, please contact Neil S. Kenagy by telephone at 203.438.0046 or by electronic mail at [nsk@colchesteric.com](mailto:nsk@colchesteric.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Colchester Investment Counsel LLC is available on the website maintained by the Securities and Exchange Commission at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**March 2011**

## **Material Changes**

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### **Annual Update**

The material changes section of this brochure will be updated annually and when material changes occur.

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### **Material Changes Since Last Update**

The Securities and Exchange Commission issued a final rule in July 2010 requiring investment advisors to provide a firm brochure in a narrative “plain English” format. The new rule specifies mandatory sections and organization.

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### **Full Brochure Available**

If at any time you would like to receive a copy of the current firm brochure, please contact Neil S. Kenagy by telephone at 203.438.0046 or by electronic mail at [nsk@colchesteric.com](mailto:nsk@colchesteric.com).

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## Advisory Business

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### Firm Description

Colchester Investment Counsel LLC was organized as a limited liability company under the laws of the State of Connecticut in 2000 and has offices in Ridgefield, Connecticut. Colchester is registered as an investment advisor with the United States Securities and Exchange Commission. Neil S. Kenagy and Laurie C. Kenagy are the owners of Colchester.

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### Types of Advisory Services

Colchester provides investment supervisory services, meaning that it gives ongoing advice to clients or has discretionary authority to make investment decisions, and to create and manage portfolios, based on client goals and objectives. Colchester manages equity, fixed-income, and balanced accounts predominantly on a discretionary basis. Colchester does not call any of the services that it provides financial planning or some similar term.

Typically, Colchester creates client portfolios with individual equity and fixed-income securities. Colchester portfolios may also include exchange-traded funds, no-load mutual funds, and closed-end mutual funds. Any mutual funds are selected on the basis of any or all of (1) the performance history of the mutual fund and its investment manager, (2) the industry sector in which the fund invests, (3) the investment objectives of the fund, (4) the management style and philosophy of the fund, and (5) the advisory fee structure of the fund.

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### Tailored Relationships

Colchester tailors its investment advice to the particular needs and investment objectives of each client. Asset allocation (meaning the amount invested in various asset classes) is the most significant factor in this effort. Clients may place reasonable restrictions on particular securities or the types of investments that will be made on their behalf.

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### Assets Under Management

As of December 31, 2010, Colchester managed approximately \$47.1 million of client assets on a discretionary basis and \$4.0 million of client assets on a non-discretionary basis.

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## Fees and Compensation

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### Advisory Fees

The annual fee for investment supervisory services is based upon a percentage of assets under management according to the following schedule:

First \$1 Million	1.00 percent per annum
Next \$2 Million	0.875 percent per annum
\$3 Million and More	Negotiable

Colchester typically debits fees for investment supervisory services directly from client accounts during the first month of each calendar quarter. Colchester computes its fees based on the market value of the assets in each account at the end of the preceding quarter. A client may choose to be billed for fees rather than to have fees directly deducted. Colchester may hold a portion of assets under management in cash for strategic and other purposes.

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**Other Information About Fees**

Fees and account minimums may be negotiated based on the relevant circumstances. The advisory fee is calculated as described above and is not charged on the basis of a share of the capital gains or the capital appreciation of the holdings in a client account.

The investment advisory agreement between Colchester and a client may be terminated at any time, by either party, for any reason upon thirty days prior written notice to the other party. Upon termination, Colchester will promptly refund any prepaid unearned fees, and any unpaid earned fees are immediately due and payable.

All fees paid to Colchester for investment supervisory services and consulting services are distinct from and in addition to the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in the prospectus provided by the particular mutual fund. Mutual fund fees and expenses typically include an advisory fee, other fund expenses, and possibly a distribution fee. A Colchester client could invest in a mutual fund directly without the services of Colchester. In such a case, the client would not receive the services provided by Colchester, which are designed among other things to assist the client in determining the mutual fund or funds most appropriate for his financial condition and objectives. Clients will incur the fees charged by mutual funds in addition to the advisory fees charged by Colchester. Colchester does not receive any of the fees charged by the mutual funds in which its client accounts are invested.

In addition to investment advisory fees payable to Colchester, each client is also responsible for the fees and expenses charged by his custodian and his broker-dealer, including any transaction charges imposed by the broker-dealer.

## **Types of Clients**

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**Description**

Colchester provides investment advisory services to individuals, families, small businesses, and charitable organizations.

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**Minimum Account Size**

A minimum of \$1 million in assets under management or advisement is required, although Colchester reserves the right to waive this requirement. Colchester may group related or

affiliated client accounts to achieve the minimum account size and to determine the applicable advisory fee.

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**Know Your Customer**

It is Colchester policy to know and understand the identities of clients and prospective clients and the business reasons for any transactions in which Colchester engages on behalf of its clients. Colchester does not directly or indirectly conduct any business with any person or entity whose identity and source of funds have not been verified to the satisfaction of the account custodian.

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**Methods of Analysis, Investment Strategies, and Risk of Loss**

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**Investment Strategies**

The securities held in client accounts may include, among other things, common stock, preferred stock, partnership interests of publicly traded companies, corporate debt securities, municipal debt securities, United States government and agency securities, securities of foreign issuers, mutual funds, exchange-traded funds, and closed-end mutual funds. Colchester usually purchases securities for clients with the intention of owning them for the long-term (at least one year), though short-term transactions may occur from time to time.

The primary investment objective sought by Colchester is to generate attractive long-term investment returns without assuming excessive portfolio risk. Colchester believes that client portfolios should be structured and managed to meet specific investment goals, risk tolerance, and conditions that are unique to each client. Colchester has extensive portfolio management experience. Its thorough research process incorporates internal and external resources and uses fundamental and technical analysis both to formulate investment strategies and to select securities.

The equity philosophy of Colchester involves acquiring shares of high-quality companies at prices that are perceived to be low relative to earnings power, cash flow, or asset values. Colchester clients may own “growth” and “value” securities, depending on prevailing economic and market conditions.

Broadly speaking, fundamental analysis focuses on the individual attributes of a company. Colchester reviews business models, competitive advantages, and management depth and experience. Digging further, Colchester considers the financial strength of a company, its profitability, its perceived prospects for growth, measures of its valuation (such as price-to-earnings ratios and cash-flow yields), and stock ownership by management. Colchester typically looks for stocks that have above-average dividend yields. Also considered are other variables that may impact the success of a company, such as the industry in which the company operates and its sensitivity to changes in the general economy.

Technical analysis is also part of the investment process used by Colchester when reviewing markets and individual securities. Technical analysis involves analyzing chart patterns and price volatility, as well as information such as market cycles and investor sentiment.

With regard to fixed-income investments like bonds, Colchester focuses on high-quality securities typically rated A or higher by one or more national ratings services. Colchester reviews the credit ratings for bonds supplied by major credit rating agencies and uses the ratings to complement its own fundamental analysis. The bond management approach used by Colchester is designed to generate a high-quality stream of current income and, in the case of balanced accounts, partially to mitigate the volatility associated with the ownership of equity securities.

Colchester's overall investment approach is relatively conservative in nature. Simply put, while Colchester likes to make money for its clients, it hates to lose money. Nevertheless, risk is inherent in any investment strategy. As a result, investment returns in client portfolios will fluctuate, and accounts may lose value. Past performance is not an indication of future results.

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### **Sources of Information**

Colchester uses information, reports, and data from various sources, but the investment decisions made by Colchester on behalf of its clients are based primarily on internal research and analysis. Research and other information, including reports published or filed by issuers with the Securities and Exchange Commission, general economic data, and governmental publications and data compilations, are routinely obtained from third parties.

## **Disciplinary Information**

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### **State of Connecticut**

In May 2002, Colchester entered into a consent order with the Department of Banking of the State of Connecticut to settle allegations that, between January 2000 and May 2002, Colchester had transacted business as an investment advisor without registering with the Department of Banking and had employed an investment advisor representative without registering the agent with the Department of Banking. Colchester paid a fine of \$4,500 and implemented additional supervisory and compliance procedures in connection with the consent order. The misstep resulted from the receipt by Colchester of inaccurate legal advice relating to advisor registration rules. When Mr. Kenagy became aware of the mistake, he brought the matter to the attention of the Department of Banking, and the matter was settled as described above.



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

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### **Financial Industry Activities**

The chief compliance officer of Colchester is a registered representative of a broker-dealer in her capacity as chief compliance officer of the broker-dealer. She does not purchase or sell securities in connection with her duties to the broker-dealer. Colchester has no affiliation with the broker-dealer.

### **Affiliations**

The chief compliance officer of Colchester is an attorney who practices through a professional services corporation. She serves as chief compliance officer for several other investment advisors and one broker-dealer. Colchester believes that these arrangements do not create a conflict of interest.

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

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### **Code of Ethics**

Colchester has adopted a code of ethics that expresses its commitment to ethical conduct. This code of ethics describes the fiduciary duties of Colchester and its responsibilities to its clients. The code of ethics also describes the procedures for monitoring the personal securities transactions of Colchester personnel who provide investment advice to clients.

Colchester personnel may buy and sell securities for their personal accounts that are identical to or different from those recommended to clients. It is the policy of Colchester that none of its personnel may put his interests ahead of the interests of a client. To supervise compliance with its code of ethics, Colchester requires that its personnel who provide investment advice to clients provide periodic securities holdings reports to its chief compliance officer. Colchester also requires its personnel to obtain approval from the chief compliance officer prior to investing in initial public offerings, limited offerings, and private placements.

In addition, Colchester requires its personnel to act in accordance with applicable federal and state regulations governing the practices of federally registered investment advisors. Personnel not in observance of this policy may be subject to discipline. Colchester will provide a copy of its code of ethics to any client or prospective client upon written request.

The Colchester chief compliance officer conducts annual compliance reviews and monitors for indications of potential violations of law or the code of ethics on a quarterly basis. In addition, Colchester has a written policy that requires personnel who become aware of a violation of the code of ethics to report the possible violation promptly on a confidential basis to the chief compliance officer. The code of ethics requires Colchester to investigate these reports, and it

prohibits adverse action from being taken against someone who reports a possible violation in good faith.

The code of ethics requires Colchester to administer discipline to maintain the quality of service that it provides to clients by encouraging legal and appropriate behavior and by deterring illegal and inappropriate behavior. Disciplinary actions may include a written warning, fines, suspension of employment, and termination of employment.

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### **Participation or Interest in Client Transactions**

Colchester or its supervised persons and agents may from time to time have an interest in a security that is purchased, sold, or otherwise traded in client accounts and may effect transactions in the security for client accounts that may be the same as or different from the actions that Colchester or such a related person may take with respect to his account.

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### **Personal Trading**

Colchester permits its supervised persons to purchase and sell securities for their personal accounts and for the accounts of persons and entities related to them, so long as the supervised persons are in compliance with the code of ethics. Securities owned by Colchester clients may be among those that are owned by Colchester personnel.

The code of ethics requires supervised persons to disclose their reportable personal securities holdings, to provide quarterly holdings and transaction reports, and to alert the chief compliance officer to any changes in their holdings. In addition, Colchester has a written insider trading policy that is designed to prevent the improper use of material nonpublic information.

## **Brokerage Practices**

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### **Directed Brokerage**

Colchester generally requests that clients direct it to place trades through either Charles Schwab & Company, Inc. or Merrill Lynch, Pierce, Fenner & Smith Incorporated, both of which are broker-dealers registered with the Securities and Exchange Commission and members of the Financial Industry Regulatory Authority, Inc.

Not all advisors require their clients to direct brokerage. When using Schwab or Merrill Lynch, Colchester may be unable to achieve the most favorable execution of client transactions, and this practice may cost clients more money. Colchester has carefully evaluated the practices of Schwab and Merrill Lynch, and it believes that both Schwab and Merrill Lynch provide Colchester clients with a high-quality blend of execution services, commission costs, and professionalism. While Colchester has concluded that Schwab and Merrill Lynch offer competitive prices, Colchester does not verify the execution and pricing capabilities of competing broker-dealers on a transaction-by-transaction basis.

Colchester receives benefits under the Schwab Institutional services program offered by Schwab to independent investment advisors. Colchester may also receive research and other benefits that it would not receive if it did not recommend Merrill Lynch to clients and that are not typically available to Merrill Lynch retail customers.

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**Schwab Institutional**

Schwab Institutional provides Colchester with access to its institutional trading and operations services that are not typically available to Schwab retail investors. These services generally are available to independent investment advisors at no charge to them, so long as the advisor maintains at least \$10 million of client assets with Schwab Institutional as custodian. The services provided by Schwab Institutional include research, brokerage, custody, and access to mutual funds and other investments that are otherwise available only to institutional investors or that would require a significantly higher minimum initial investment.

Schwab Institutional also makes available to Colchester other products and services that benefit Colchester and indirectly its clients. Some of these other products and services assist Colchester in managing and administering client accounts. They include software and other technology that (1) provide access to client account data, (2) facilitate trade execution and allocation of aggregated trade orders for multiple clients, (3) provide research, pricing information, and other market data, and (4) assist with back-office support, recordkeeping, and client reporting.

The Schwab Institutional services program may also provide Colchester with other services intended to help Colchester manage and further develop its business enterprise. These services may include consulting, publications, and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. Schwab Institutional may waive or discount fees of third parties that provide these services to Colchester.

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**Order Aggregation**

Colchester generally aggregates for block execution multiple orders for the purchase and sale of the same security. The blocking of trades permits the simultaneous execution of orders for securities in the accounts of several clients. Securities purchased in an aggregated order receive the average price obtained on the order. Block trading may allow Colchester to affect securities trades in a more efficient manner. Colchester receives no additional compensation or remuneration as a result of the aggregation of trades. In some cases, Colchester may not be able to aggregate orders to the fullest extent.

Colchester maintains books and records that reflect separately, for each client account in which an order is aggregated, the securities held by, bought, and sold for that account. Securities of clients whose orders are aggregated are held collectively no longer than is necessary to settle the transaction on a delivery-versus-payment basis.

When aggregating transactions for block execution, Colchester makes a good-faith determination that the participating accounts will benefit from the aggregation and that

aggregation is permitted by the investment advisory agreement between Colchester and each client whose accounts participate in the aggregation.

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**Trade Error Policy**

On occasion, Colchester may experience errors with respect to trades made on behalf of client accounts. Colchester endeavors to detect trade errors prior to settlement and to correct them in an expeditious manner. Colchester will reimburse client accounts for losses directly due to uncorrected trade errors attributable to Colchester personnel.

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**Soft Dollars**

Colchester participates in no soft-dollar arrangements.

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**Review of Accounts**

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**Periodic Reviews**

The portfolio securities within client accounts are continually monitored. In addition, Colchester generally reviews each client account weekly. In addition to weekly reviews, Colchester meets with most clients in person or by telephone conference at least annually for an in-depth account analysis. The in-depth review covers asset allocation, portfolio characteristics, client goals and risk tolerance, and market outlook as perceived by Colchester. Client inquiries, changes in the general market outlook, changes in tax laws, new investment information, changes in the financial situation of a client, and changes in Colchester's opinion on specific issues may trigger additional account reviews.

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**Regular Reports**

In addition to monthly statements and the confirmations of transactions that clients receive from their account custodians, Colchester provides quarterly reports that detail balances and portfolio holdings. Colchester also sends a quarterly client letter that discusses market conditions and its investment outlook.

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**Custody**

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**Account Statements**

All client funds and securities are held at qualified custodians. These custodians provide account statements on a monthly basis. The account statements are sent directly to each client at his address of record. Clients are urged to compare the account statements received directly from the custodians to the statements provided by Colchester.

## **Investment Discretion**

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### **Discretionary Authority for Trading**

With respect to clients who have given Colchester discretionary authority, the investment advisory agreement between Colchester and the client provides written authority to Colchester to determine which securities and the amount of securities that are bought and sold in the client account. Any limitations on this discretionary authority are included in the investment advisory agreement. Clients may change or amend these limitations as desired. Any modifications are required to be in writing. Discretionary trading authority facilitates the placement of securities purchases and sales on behalf of Colchester clients so that investment strategies may be implemented promptly.

Colchester also has client accounts for which it does not exercise discretionary authority. Under this arrangement, Colchester consults with the client prior to securities transactions in accordance with the investment advisory agreement.

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### **Limited Power of Attorney**

Most clients grant Colchester a limited power of attorney, which is an authorization that gives Colchester authority to execute trades in a client account and to deduct its advisory fee from the account.

## **Voting Client Securities**

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### **Proxy Voting**

Colchester does not generally accept the authority to vote, and does not vote, proxies on behalf of its clients. Clients remain responsible for receiving and voting proxies for all securities maintained in their portfolios. Clients will receive proxies and other solicitations directly from their account custodian or a transfer agent. Clients may contact Colchester with questions about a particular solicitation. In addition, a client may request that Colchester vote his proxies. In these circumstances, Colchester will vote the proxies in a manner consistent with the goals of the client.

Any client or prospective client may obtain a copy of the complete proxy voting policies and procedures by contacting Colchester. A client or prospective client may also request information about how proxies were voted. Colchester will promptly respond to any written request for this information.

## **Financial Information**

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### **Financial Condition**

Colchester does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients. Colchester is not required to provide a balance sheet because Colchester does not serve as a custodian for client funds or securities and does not require prepayment of fees of more than \$1,200 per client and six months or more in advance.

## **Brochure Supplement**

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### **Neil S. Kenagy**

Born 1958  
Kenyon College, BA  
CFA Charterholder

Since 2000, Mr. Kenagy has been a member and the portfolio manager of Colchester Investment Counsel LLC. From 1996 to 2000, he was a senior portfolio manager at UBS Global Asset Management, Inc. (formerly UBS Brinson), where he managed investment portfolios for a variety of institutional clients. From 1992 to 1996, Mr. Kenagy was a vice president at Dillon, Read & Co. Inc., where he managed investment portfolios for high net worth individuals. Mr. Kenagy is responsible for supervising all supervised persons of Colchester. His telephone number is 203.438.0046.