



Firm Brochure  
(Part 2A of Form ADV)

This brochure provides information about the qualifications and business practices of CapSouth Partners, Inc. If you have any questions about the content of this brochure, please contact us at: (334) 673-8600, or by email at [sbaldwin@capsouthpartners.com](mailto:sbaldwin@capsouthpartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state security authority.

Additional information about CapSouth Partners, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number known as a CRD number. The CRD number for CapSouth Partners is 132517.

December 31, 2010

2216 W. Main Street  
Dothan, AL 36301  
[www.capsouthpartners.com](http://www.capsouthpartners.com)

## **Material Changes**

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### **Annual Update**

The Material changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

### **Material Changes since the Last Update**

In July 2010 the U.S. Securities and Exchange Commission issued a final rule requiring advisors to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization. As such we have revised our ADV Part 2 to reflect this new rule.

The Annual Retainer Program is no longer available.

### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: (334) 673-8600 or by email at [sbaldwin@capsouthpartners.com](mailto:sbaldwin@capsouthpartners.com).

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## Advisory Business

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### Firm Description

CapSouth Partners, Inc. was founded in 2001 by Donald P. Bolden (dba CapTrust Advisors at that time). There are currently 10 employees and one part time consultant, including one Certified Financial Planner® designee, seven Investment Advisor Representatives, one Certified Financial Analyst®, one attorney, and three administrative staff employees. The firm is federally registered with the SEC (Securities and Exchange Commission) as a Registered Investment Advisor (the term registered does not imply a certain level of skill or training).

CapSouth Partners offers a combination of the following advisory services, where appropriate, to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates or charitable organizations and corporations or other business entities.

- Investment management services (Discretionary & Nondiscretionary)
- Financial planning services (Navigator, Focus, One Time Planning, etc)
- Institutional consulting services
- Consulting services to individual clients
- Investment monitoring services

At the start of a client relationship, CapSouth will identify a client's financial background, prior investment experience, investment objectives, goals and restrictions, if any, and risk tolerances, among other things. This information is used in determining which planning recommendations are appropriate for the client and/or which investment recommendations are suitable for the client. CapSouth will update this information on a periodic basis. We also advise all clients to notify us immediately if there is any change to their financial situation or investment objectives.

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### Principal Owners

Donald P. Bolden is the Principal Owner of CapSouth Partners, Inc.

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### Types of Advisory Services

The primary type of service offered by CapSouth Partners is ongoing investment supervisory services (asset management), financial planning and ERISA plan consulting. CapSouth also provides investment advice, and consulting services.

#### **Discretionary Investment Management**

We provide discretionary portfolio management services to clients using five asset allocated risk based portfolios, one stock portfolio and one market opportunity portfolio. Each portfolio is designed to meet a particular investment goal. These portfolios may contain stocks, bonds, no-load mutual funds, eligible load-waived mutual funds, and other investments. Discretionary portfolios are managed by Charis Asset Management, a division of CapSouth Partners led by Marshall P. Bolden.

#### **Nondiscretionary Investment Management**

We provide nondiscretionary portfolio management services to clients. Investment Advisor Representatives use the client's investment objectives and risk tolerance when making recommendations to clients. Trades are entered only with the consent and approval of the client. We may also enter non-solicited trades per the client's request.

### **Navigator Program**

This service includes financial planning, assistance with implementation, estate planning, and asset monitoring services (when requested by the client). Financial planning may include identification of financial problems, cash flow and budget analysis, risk exposure review, education funding, retirement planning, charitable goals, special needs planning, life insurance and disability insurance planning. Financial planning may also include other areas that are specific to the client. We provide online access to MoneyGuidePro so the client can view their financial plan. A hard copy may be provided upon request. This service also includes assistance with implementation of recommendations accepted by the client, meetings as required, an annual update of the financial plan, and a three year review of the client's estate plan. If the client has asked CapSouth to monitor assets that we are not the investment advisor on then this will be done as agreed upon by the client and the advisor. CashEdgePro is a program designed to provide us with account information on accounts that we are not the direct advisor on. The client must enroll their account in this program. CapSouth only accepts a limited number of new clients into the Navigator Program each year.

### **One Time Financial Planning**

This service is one time only with no ongoing assistance or planning reviews. This service includes financial planning, assistance with the initial implementation of recommendations as accepted by the client, estate planning, and a one time review of the client's investment assets. Financial planning may include identification of financial problems, cash flow and budget analysis, tax planning, risk exposure review, education funding, retirement planning, charitable goals, special needs planning, life insurance and disability insurance planning. Financial planning may also include other areas that are specific to the client. We provide online access to MoneyGuidePro so the client can view their financial plan. A hard copy may be provided upon request. The One Time Financial Planning service can be upgraded to the Navigator Program per the client's request at the completion of the Financial Planning Service. Client's also have the option of engaging in a contract with CapSouth on an hourly basis or as needed for specific issues that the client would like assistance with.

### **Focus Program**

This service is provided to investment management client's who meet a minimum investment management annual fee of \$2,000. There is no charge above the client's investment management fee for the Focus Program. This service addresses retirement planning, education planning, and risk management. We provide online access to MoneyGuidePro so the client can view their plan. The plan is updated every two years as long as the client provides us with updated personal information. Once a client becomes eligible for the Focus Program we will discuss the program with the client. The client can determine if they would like to participate in the Focus program or not. The decision to not participate does not decrease the standard investment management fee that the client pays.

### **Consulting Service**

Services may be provided that are not described in other types of agreements including but not limited to special estate planning needs, business management, buy-out negotiations, review of client's benefits package, or life and disability policies only. These special services will be clearly defined in the client's contract.

### **Institutional Consulting Services**

CapSouth provides several advisory services separately or in combination to institutional clients. The primary clients for these services are 401(k), profit sharing and pension plans.

#### *Investment Policy Statement (IPS)*

We will meet with the client (either in person or over the phone) to determine the investment goals, objectives, policies, constraints and risk tolerance. We will then prepare a written IPS stating those goals and objectives. The IPS will provide guidance for the selection of investment options and the procedures and timing interval for the monitoring of investment performance. The client is responsible for review and final approval of the IPS. No assurance can be given that the client will achieve the investment objectives in the IPS.

For clients with existing pension or profit sharing plans, we will evaluate the existing IPS and current investment options. We will then meet with the client to discuss and revise as necessary the plans investment objectives and revise the IPS as appropriate and if necessary.

#### *Investment Manager / Mutual Fund Search Report*

We will provide an Investment Manager/Mutual Fund Search Report consistent with the mutually agreed upon level of analysis. This report will be designed to provide the client with a list of investment managers whose investment philosophies and policies are, in the judgment of CapSouth Partners, compatible with the client's investment objectives, policies, constraints and risk tolerance, as stated in the IPS. It is the client's decision as to which particular investment manager to retain. CapSouth does not assume responsibility for the client's selection of an investment manager or the manager's investment decisions or performance. An investment manager's past performance is not necessarily indicative of future performance.

#### *Ongoing Investment Manager Due Diligence*

CapSouth will perform ongoing monitoring of the investment managers to ensure policy compliance within the established guidelines of the IPS. We cannot guarantee the accuracy of information provided for the review.

#### *Performance Monitoring Reports*

CapSouth will periodically provide Performance Monitoring Reports based on the procedures and timing intervals stated in the IPS. The Performance Monitoring Reports will evaluate the performance of the client's investments over various time periods as well as comparing various aspects of such performance to benchmarks and peer groups, as established in the IPS.

#### *Employee Education and Communication*

For pension, profit-sharing and 401(k) plan clients where participants exercise control over their own assets, CapSouth may also provide periodic educational support and investment workshops designed for the participants. The nature of the topics to be covered will be agreed upon by the client and CapSouth. The educational support and investment workshops will not provide Plan participants with individualized, tailored investment advice.

#### *Participant Advice*

For plans where the individual participant is exercising control over their own assets, CapSouth offers a service to provide investment advice regarding the participant's retirement plan assets. This advice may be delivered through an online tool or over the phone, or in person meetings. Each participant should complete a questionnaire regarding their goals and objectives and risk tolerance. The advisor will use this information to make the investment recommendations for the participants' individual retirement plan account. An advisor will be available for participants to contact with questions via phone, on site meetings, or email. The decision to implement the recommendation is the complete responsibility of the participant. CapSouth does not guarantee the future performance of any specific investment or investment allocation. It is the responsibility of the participant to notify CapSouth of any changes in their investment objective or financial condition that may require a change in their allocation. The fee for this service may be paid by the participant or by the plan sponsor according to the consulting agreement which must be signed by the participant or the plan sponsor. We are compensated for this service based on a flat fee or a percentage of assets in order to avoid a conflict of interest when making investment recommendations.

#### *Actively Managed Portfolios (AMP)*

AMP is an investment management option that is offered to participants of corporate retirement plans if the plan sponsor adds this program to the plan. Inside the retirement plan, participants have the option of selecting their own asset allocation and managing the investments themselves or to select one of the portfolios directly managed by CapSouth. These portfolios are mostly made up of the funds that the participant has access to through the plan. The various portfolios are managed on a risk-based and/or age-based system. CapSouth manages the allocations within each portfolio. CapSouth will notify the plan provider to make changes to these models without the participant's prior approval. CapSouth does not exercise discretion over the selection and monitoring of the mutual funds, money managers, or other investments used in the managed portfolios. The Client (Plan Sponsor) retains, and will exercise, final decision-making authority over the selection and monitoring of the investment options within the plan. Participants may transfer their accounts out of AMP per the Plan's administrative guidelines and per any trading restrictions, requirements, or applicable fees. Participants can enroll in this program either at the time of plan enrollment or online after initial plan enrollment. The CapSouth Partners Investment Committee determines the asset allocations and investment decisions for these portfolios.

#### *Additional Services for Employee Benefit Plans:*

We can also consult with the plan sponsor in the areas of plan design, administration, provider due diligence, request for proposals, fee negotiations, enrollment packages, and fiduciary responsibilities. The services to be offered will be determined by the client and will specifically outlined in the contract.

#### **Investment Monitoring Program**

The Investment Monitoring Program allows a client to request that CapSouth monitor client accounts where we are not listed as the investment advisor. Based on the information obtained from the client, including the client's goals, risk tolerance and objectives, CapSouth will review the investments, taking into consideration the information obtained from the client. We will meet with the client at least annually to

review the account, allocation of the assets, and to update the client profile to reflect any changes in the client's circumstance.

CapSouth will not be involved in any way in the purchase or sale of these investments. We will review the client's portfolio and make investment recommendations to the client as market factors and the clients needs dictate. The final decision to implement the recommendations is the responsibility of the client. We can not have direct access to the client's account. The client is responsible for providing us with duplicate statement copies.

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### **Tailored Relationships**

Our advisory services or recommendations are tailored to the individual needs of clients. Client goals and objectives are discussed in meetings or through correspondence, and are used to determine the recommendation to the client. The goals and objectives for each client are maintained electronically or in hard copy format.

CapSouth will accept limited individual client restrictions on securities in the discretionary portfolios.

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### **Managed Assets**

As of December 31, 2010, Cap South Partners, Inc. managed approximately \$64,000,000 in assets for about 244 accounts.

Approximately \$57,500,000 is managed on a discretionary basis  
Approximately \$ 6,000,000 is managed on a nondiscretionary basis

CapSouth also acts as a consultant for multiple retirement plans. These retirement plan assets are not included in this total.

## **Fees and Compensation**

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### **Description**

CapSouth Partners, Inc. bases its fees on a percentage of assets under management, flat fees, hourly fees or a percentage of a client's net worth or total assets. All fees are negotiable.

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### **Fee Schedule**

#### Investment Management Services (Discretionary & Non Discretionary)

The standard fee for investment management is charged as a percentage of assets under management. This fee is calculated using the blended fee schedule below. The fee may range up to 2.25% based on the market value and the complexity of the client's account. There is a minimum annual fee of \$1,500 per household. The minimum fee may be waived. A client can be charged a flat percentage fee based on the type of assets in the

account. An increase or decrease can be applied to the fee schedule based on the individual client situation. This is shown on the client's signed contract.

- Fees are charged in advance at the beginning of each quarter.
- Fees are based on the market value of the account on the last trading day of each quarter (unless otherwise stated on the contract).
- Fees are prorated based on the number of days in which the account was open for a quarter.
- Additions to client accounts may be made at any time and could result in a prorated fee adjustment.
- Fee adjustments will not be made for separate withdrawals during a quarter.
- An additional .60% is charged to clients in the CapSouth Value Portfolio.

#### Annual Investment Management Fee Schedule

<u>Beginning Acct Value</u>	<u>Ending Account Value</u>	<u>Fee</u>
0	\$100,000	1.5%
\$100,001	\$250,000	1.0%
\$250,001	\$500,000	.95%
\$500,001	\$1,000,000	.90%
\$1,000,001	\$2,000,000	.40%
\$2,000,001	\$25,000,000	.25%

#### Sample Fee Calculation:

A typical quarterly fee for a client with two investment management accounts would be calculated as follows

Acct # 1 Balance as of 09.30.2010 \$350,000  
 Acct # 2 Balance as of 09.30.2010 \$ 75,000

Total Assets under Management \$425,000  
 Blended Fee Rate 1.09705% per year  
 Qtrly fee based on a 90 day qtr \$1,165.66

#### Navigator Program

The fee for the Navigator Program is a flat fee or based on a percentage of the client's total assets or net worth. The fees are adjusted based on the complexity of each case. Initial fees are determined at the beginning of the relationship and are stated in the signed client contract. If a client has assets under management with CapSouth there may be a discount applied to the Navigator Program fee. If the fee is based on the client's net worth or assets the fee may be determined annually or quarterly depending on the type of assets that need to be valued. The fee is billed to the client quarterly in advance.

A typical Navigator Fee ranges from \$4,000 per year to \$10,000 per year.

#### One Time Financial Planning

The fee for one time Financial Planning is charged based on a flat fee or an hourly fee. The fee will be adjusted based on the complexity of each case. The fee is determined at the beginning of the relationship and stated in the signed contract. Flat fee

clients are billed 1/3 of the fee at the signing of the contract, 1/3 of the fee approximately four to six weeks later, and the balance of the fee at the time the work is completed. Hourly clients are billed monthly in arrears at the beginning of each month. For hourly clients estimates are provided and a deposit is requested. Estimates for hourly work are not guaranteed.

A typical Financial Planning fee ranges \$750 to \$4,000

Hourly rates

Senior Planner (with the CFP® designation) up to \$300/hr

Associate Planner \$100 to \$200/hr

Non-Planner Staff \$ 50/hr

#### Focus

For a client to be eligible for the Focus program at no additional charge they must meet a minimum investment management fee of \$2,000 per year. A client that does not meet the minimum still wants to participate in the Focus program does have that option. The client will be billed the difference between their quarterly investment management fee and \$500. This fee would be calculated and billed at the beginning of each quarter in advance.

#### Consulting Service

Consulting fees will be based on an hourly charge ranging up to \$300 per hour or a flat fee. The fee will depend on the nature and complexity of the client's consulting needs. All fees are agreed upon prior to entering into a contract. CapSouth has a minimum consulting fee of \$750. The minimum fee may be negotiable. The client will be invoiced in advance for flat fees, and on a monthly basis for hourly fees. An upfront deposit on hourly fees may be requested.

#### Institutional Consulting Services

The fee for Institutional Consulting Services is based on a percentage of plan assets or a flat annual fee. The fee may be up to 1.00% of plan assets for ERISA accounts and up to 2.50% for Non-ERISA accounts. The fee will be based on the services requested and the size and make up of the plan. A minimum annual fee may be applied. Plan sponsors will be invoiced in advance at the beginning of each quarter based upon the value of the plan at the end of the previous quarter or the agreed upon flat fee. Plan sponsors may elect to have the fee taken out of the assets of the plan by the record keeper or to have the fee paid by the employer.

This fee may include the following services:

- Investment Policy Statement
- Investment Manager / Mutual Fund Search Reports
- Ongoing Investment Manager Due Diligence
- Performance Monitoring Reports
- Employee Education & Communication

#### Participant Advice

The fee for advice to individual participants ranges from .25% to 1% per year based on the complexity of the individual's situation or the agreement with the plan sponsor. In general a minimum fee of \$100 applies, however this fee can be waived at CapSouth's

discretion. For investment advice provided at the plan level the fee is included as part of the overall fee to the plan.

#### Actively Managed Portfolio Program (AMP)

The Actively Managed Portfolio (AMP) Program fee will be paid under one of following fee arrangements. If paid at the plan level, the fee will be a percentage fee per year, not to exceed .15% per year of the fair market value of the assets of the retirement plan. If paid at the participant level, the fee will be a percentage fee per year of the fair market value of the individual's account that elects to use the service. The participant level AMP Service fees range from .40% - .60% per year. This fee is charged in advance and may be paid by direct invoice or it may be deducted from the plan assets.

#### Investment Monitoring Program

The fee for the Investment Monitoring Program is calculated as a percentage of assets being monitored or a flat annual fee. This percentage fee may be up to 2%. The fee will depend on the nature and complexity of the client's circumstance. The fee will be agreed upon in advance of services being rendered. Clients will be invoiced quarterly in advance. The percentage fee will be based the value of the asset at the end of the previous quarter.

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### **Fee Billing**

Private clients may choose to have fees deducted from a designated brokerage account at their qualified custodian. The client must approve in writing the direct debiting of their investment account. Private clients may also choose to be invoiced directly. All fees are charged in advance.

For Institutional clients the plan sponsor will be invoiced in advance at the beginning of each quarter. This fee is based on a fixed dollar amount or on the value of the plan at the end of the previous quarter. Plan sponsors may elect to have the fee taken out of the assets of the plan by the record keeper. To have fees deducted from the plan it must be approved in writing by the Client and a copy of the invoice will be sent to the Plan Sponsor and to the record keeper. All fees are charged in advance.

If the advisory contract is terminated the client will receive a pro-rated refund for the fee paid during the quarter the contract was terminated. Clients should terminate their contract in writing. We will take the last fee charged to the client and pro-rate it based on the number of days the client was in the program for that particular quarter. The refund will be received as a credit to the client's account or the client could receive a reimbursement check.

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### **Other Fees & Conflicts of Interest**

Investment advisory services are separate and distinct from fees and expenses charged by mutual funds and/or ETFs to their shareholders. The fees of each fund can be found in each of the Fund's prospectuses. Fees will generally include management fees, other fund expenses and may include distribution fees. We encourage our client's to review a Fund's prospectus carefully. Client's can invest in certain funds directly, without the service of CapSouth.

Custodians may charge transaction fees on purchases or sales of certain mutual funds, stocks, bonds, and exchange traded funds. In some cases, custodians also charge an annual custody fee. Fees for custody are disclosed to the clients prior to the client opening an account with a custodian. Please see the section entitled, “Brokerage Practices” for more information.

We may at times impose a minimum advisory fee in order to cover the costs of our investment advisory services. All such fee arrangements are disclosed to and subject to negotiation with the client. Our current minimum advisory fee is \$1,500 per year.

We will aggregate accounts together to give the client a blended discounted fee. Our normal practice is to combine accounts for clients in the same household.

CapSouth is deemed to be a fiduciary to advisory clients that are employee benefit plans pursuant to the Employee Retirement Income and Securities Act. Our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid prohibited transactions, we may only charge fees for investment advice about products for which our firm and/or related persons do not receive any commissions or 12b-1 fees.

Should associated persons of CapSouth receive commissions for executing securities transactions, or 12b-1 distribution fees from the investment companies chosen by the plan sponsor, we will provide full disclosure to plan sponsors regarding such commissions and fees. We will offset any commissions or fees received by associated persons from asset based advisory fees charged by CapSouth for ongoing services. This credited amount will be provided to the Plan Sponsor.

CapSouth Partners may be named as the Investment Advisor on a retirement plan in which the participant is also a private client of CapSouth. This dual relationship creates a conflict of interest when an Investment Advisor Representative of CapSouth recommends to a client/plan participant that they move money from their retirement plan to a custodian where CapSouth may directly manage the assets. The conflict is due to the fact that we can not guarantee better performances for a client on assets that we directly manage and the client may pay a higher fee. In some instances in order to diversify the client’s assets or to provide the client with more investment options this recommendation may be made. It is very important that the client understands the conflict of interest this creates.

Employees of CapSouth may be registered representatives of NBC Securities, Inc. and licensed insurance agents for insurance companies. In these roles employees will be able to effect securities transactions and implement product transactions for which they will receive separate, yet customary compensation. Clients are under no obligation to engage these individuals when considering advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

It is our goal at all times to put the interest of the client first; however clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

In order to address conflicts of interest we educate are employees on our fiduciary duties as a firm. Our responsibility is to always put the best interest of the client first. We acknowledge that even with a firm wide concept of client first, conflicts still occur. We try to remove as many conflicts as possible, and we discuss these conflicts with our clients in advance.

Examples of how conflicts of interest are handled

(a) A conflict exists when we provide a recommendation to a client based on planning work that they should purchase a \$1,000,000 life insurance policy. In a separate capacity a related person of CapSouth sells the client a \$1,000,000 policy and receives a commission. In this case we notify the client that they in no way have to purchase this policy through us, that they may be able to receive the coverage for less cost, and that we are receiving additional compensation.

(b) When recommending mutual funds to advisory clients we attempt to only recommend no-load funds in order to ensure that there is not a conflict based on which fund we recommend and which fund pays more to the representative.

Clients always have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with CapSouth. Sometimes these products may be at a lower cost then they would be through CapSouth.

## **Performance Based Fees**

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We do not participate in any type of performance based fees.

## **Types of Clients**

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### **Description**

CapSouth generally provides investment advice to individuals, trusts, corporations, and pension plans. A minimum account size of \$150,000 is required to open an account. This minimum is negotiable based on certain circumstances.

## **Methods of Analysis, Inv. Strategies and Risk of Loss**

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### **Methods of Analysis**

In evaluating equities, we primarily use fundamental analysis. The main sources of our information are Morningstar and company websites. Mutual funds are selected by screening funds for funds that meet certain criteria. We look at manager tenure, past performance, risk levels, expenses, investment philosophy, etc. The main sources of our information are Morningstar, Informa Investment Solutions, and individual mutual fund company websites. Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

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## **Investment Strategies**

We have 5 risk-based portfolios. All 5 portfolios use the same mutual funds and/or ETFs, but each one has a unique asset allocation, or mix of the investments being used. Each portfolio has a designated risk level and a target return. The asset allocations will change periodically based on our evaluation of market and economic conditions.

The Charis Value Portfolio is a strategy that invests primarily in individual stocks but may also have a smaller exposure to ETFs. The goal of this portfolio over time is to outperform the Russell 3000 Index. The stock universe is narrowed down by using quantitative screens and then fundamental analysis is used to further evaluate the resulting stocks. This strategy will generally have around 30 holdings. Given this higher concentration, its returns are more susceptible to company and stock specific events.

The Market Opportunity Portfolio is a strategy that allows the managers to invest in areas where they perceive the greatest opportunities for return. The goal of the portfolio is to provide S&P 500 Index like returns over the long term but to accomplish this at a lower risk level. The manager may use individual stocks or bonds, mutual funds and ETFs. The asset allocation may change rapidly and drastically; it may range from 100% cash and fixed income to 100% equities. ETFs that offer inverse exposure to specific areas of the market may be utilized; this is often referred to as ‘selling short.’

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## **Risk of Loss**

All investment programs have certain risks. CapSouth manages portfolios with a goal of getting a good rate of return for the amount of risk taken. We believe that the pain of losing money is greater than the joy of making money. The following risks may be associated with all of our investments and portfolios: loss of principal, interest rate risk, market risk, inflation risk, currency risk, reinvestment risk, liquidity risk, credit risk, counterparty risk, financial risk and emerging markets risks including, but not limited to, political risk, less developed and/or efficient trading markets, differing accounting and legal standards, etc.

Securities investments are not guaranteed and you may lose money on your investments.

## **Disciplinary Information**

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### **Legal and Disciplinary**

The firm and its employees have not been involved in any legal or disciplinary events related to past or present activities.

## **Other Financial Industry Activities & Affiliations**

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### **Activities**

CapSouth may from time to time provide business consulting services addressing, among other things, business valuation, succession planning, buy-sell agreements, stock purchase agreements, insurance planning, deferred compensation, and executive compensation planning. CapSouth may also provide businesses with a range of services related to mergers and acquisitions. These services are separate and distinct from the

advisory services provided by CapSouth, and are provided for separate and typical compensation.

Related persons of CapSouth may be separately licensed and act as registered representatives of NBC Securities, Inc. a registered broker-dealer. Related persons of CapSouth may also be insurance agents for insurance companies. In these capacities the individuals may enter transactions on a commission basis.

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**Affiliations**

CapSouth does not have any arrangements or affiliations with any person or entity that would be material to its advisory clients. We may at times recommend clients use certain legal or tax professionals based on the client's needs, however we do not receive any separate compensation for these referrals.

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

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**Code of Ethics**

CapSouth has a Code of Ethics in place. This Code of Ethics is reviewed on an annual basis for any necessary revisions and signed and acknowledged by the employees on an annual basis. Our Code of Ethics outlines the established rules of conduct for all CapSouth employees. It is designed to govern personal securities trading for employees, the acceptance and delivery of gifts and entertainment from or to clients, the protection of client information, our fiduciary duty to our clients among other things. Clients may request a copy of our Code of Ethics emailing Sonya Baldwin as [sbaldwin@capsouthpartners.com](mailto:sbaldwin@capsouthpartners.com) or by calling 334-673-8600.

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**Participation or Interest in Client Transactions**

Employees of CapSouth may buy or sell securities that are also held by clients. This creates a potential conflict of interest. Employees may not enter trades for a security in their own personal account before entering trades in client accounts. Sonya Baldwin and/or Marshall Bolden review all trades with special attention being paid to employee or employee related trades. Marshall Bolden is the Chief Investment Officer and manages the discretionary portfolios. Marshall's personal trades are reviewed and documented to ensure compliance with our Code of Ethics by Sonya Baldwin. The sizes of the trades that are entered are not considered significant, and should not affect the securities market.

## **Brokerage Practices**

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**Selecting Brokers/Custodians**

CapSouth does not maintain custody of your asset that we manage although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see Item 15 – Custody, below). Your assets must be maintained in an account at a “qualified custodian”, generally a broker dealer or bank. We require that our clients use one of the two qualified custodians/broker dealers

- (1) Charles Schwab & Co., Inc. (Schwab), a registered broker dealer & custodian

- (2) NBC Securities, Inc. (NBC), a registered broker dealer with RBC Correspondent Services, Inc. as the custodian.

We are independently owned and operated and are not affiliated with either of the firms above. The above firms will hold your assets in a brokerage account and buy and sell securities when we or you instruct them to. You will determine which of the two custodians to use. You will open your account directly with the custodian by entering into an account agreement directly with them. We do not open the account for you, although we will assist you in doing so. If you do not wish to place your assets with Schwab or NBC/RBC then we can not manage your account.

We seek to select custodians/broker dealers who will hold your 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:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.)
- Availability of investment products (stocks, bonds, mutual funds, exchange traded funds, etc.)
- Quality of services
- Competitiveness of the prices of services and the willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our customers

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## **Soft Dollars**

### Charles Schwab

For our client accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Schwab's commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10,000,000 of their assets in accounts at Schwab.

### Products and Services Available to Us From Schwab

Schwab Advisor Services is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to 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 these 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. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200.

#### Services That Benefit You

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment 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 you and your account.

#### Services That May Not Directly Benefit You

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research (which at this point CapSouth does not use) however we do have access to and can use to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. 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
- Assist with back-office functions, recordkeeping, and client reporting

#### Services That Generally Benefit Only Us

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
- 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 from some of these services or pay all or a part of a third party's fees.

CapSouth does not utilize all of these benefits however they are available.

#### Our interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services as long as our clients collectively keep a total of at least \$10,000,000 of their assets in accounts at Schwab. The \$10,000,000 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. Our decision to offer Schwab as a custodian and broker to our clients is supported by the scope, quality, and price of Schwab's services (see *Selecting Brokers/Custodians*) and not Schwab's services that benefit only us.

#### NBC Securities/RBC

CapSouth does not receive any research or other products or services (soft dollars) from NBC Securities/RBC Correspondent Services in connection with client securities transactions or based on maintaining a minimum level of assets with the broker/custodian.

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#### **Brokerage for Client Referrals**

CapSouth or any related person of CapSouth does not receive referrals from a broker-dealer or third party.

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#### **Directed Brokerage**

CapSouth offers very limited directed brokerage. Clients have the option to determine if they would like their accounts custodied with NBC/RBC Correspondent Services or Charles Schwab. We will provide the client with information on both custodians/brokers however the client has the final decision on where to maintain their account. If a client would like to have their trades executed through another broker besides NBC or Charles Schwab then we will not be able to manage the account.

## **Review of Accounts**

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#### **Periodic Reviews**

- (1) Account Review Meetings: the frequency of this type of review is determined on a client by client basis. This type of meeting could be set up quarterly, semi-annually or annually based on the needs of the client. The main focus of these meetings could change by quarter with a general focus on performance reviews, investment reviews and recommendations, cash flow monitoring, risk tolerance and objective review. For clients in the Navigator Program one meeting per year will be focused on updating and reviewing their long range plan. For Focus Clients one meeting every two years will be used to update their Focus Plan.
- (2) Discretionary Account Reviews: accounts that are in the CapSouth discretionary portfolios are reviewed on a semi-annual basis in order to ensure that the accounts are within the guidelines of the Investment Policy Statements. These reviews are conducted separately from a review meeting with a client.

Account reviews are performed by Donald Bolden, William Duke, Anthony McCallister or Margaret Patrick. Navigator Program reviews are conducted by Donald Bolden. Focus Review are conducted by Donald Bolden, William Duke, or Margaret Patrick. Discretionary Account Reviews are conducted by Marshall Bolden.

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#### **Review Triggers**

Account reviews may be performed outside of the standard procedures when a client's investment objectives or life circumstances change, when a client requests a review, and, in the case of discretionary accounts, when the target asset allocation of the underlying portfolio is changed.

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## **Regular Reports**

Performance reports are sent to all investment management clients on a quarterly basis. There are two types of reports, the long version and the short version. At a minimum the reports contain performance information for the quarter and year to date, market values, dividend and interest income, and year to date management fees, and the holdings as of the date of the report.

Navigator clients will receive an annual update report to their Navigator Plan. This report will contain an update of all of their assets and liabilities, stated goals, various scenarios summarizing the results of their plan and any recommended changes. This report is available as a hard copy or online through the planning program MoneyGuidePro.

Focus clients will receive a bi-annual report that updates their Focus Plan. This report will contain an update of their assets and liabilities, their retirement and education goals, and various scenarios summarizing the results of their plan and any recommended changes. This report is available as a hard copy or online through the planning program MoneyGuidePro.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

CapSouth is very pleased to accept referrals from clients, attorneys, accountants, friends or other sources. We do not pay for referrals.

We do receive 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 us, and the related conflicts of interest are described above (*see- 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.

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### **Referrals to Other Professionals**

CapSouth does not accept any referral fees from other professionals when a prospect or a client is referred to them.

## **CUSTODY**

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### **Account Statements**

For accounts held with Charles Schwab under government regulations, we are deemed to have custody of your assets, because you authorize us to instruct Schwab to deduct our advisory fees directly from your account. Schwab maintains actual custody of your assets. For accounts held with NBC/RBC we are not deemed to have custody of your assets because we do not have the authority to directly deduct fees from your account. This is done by NBC Securities.

All client assets are held at the two qualified custodians who will provide account statements directly to your address of record or email if you elect, at least quarterly. You should carefully review those statements promptly when you receive them.

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**Statements Provided by CapSouth**

We will prepare quarterly performance reports for investment management clients. We urge you to compare these quarterly performance reports with the statements that you receive from your qualified custodian.

Clients may also be provided with net worth statements and other reports generated from our financial planning software. These types of reports contain bank account balances, liability information, real estate values and other financial data. This information is obtained by the client or through a direct link that the client has established between CashEdge and their institution. Some of these assets may be hard to value and we will rely on the client to confirm this information. This type of information is used in long range planning for the client. Clients are urged to confirm this information periodically.

## Investment Discretion

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**Discretionary Authority for Trading**

CapSouth accepts discretionary authority to manage securities on the behalf of clients. We use discretion in determining the securities to be bought and sold, the quantity to be bought and sold, and the timing of the transactions. Discretion means we can act on your behalf without your approval for each transaction. If discretionary authority has not been give to us by the client we will obtain the client's approval prior to each transaction. Discretionary trading allows us to efficiently process trades in client accounts once the investment committee has approved a change in the portfolio. Clients receive confirms of all trades and may call to discuss the transactions with us at any time.

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**Discretionary Authorization**

In order for CapSouth to have discretionary authority over a client's account the client must sign a discretionary agreement in writing. This agreement must be then approved by the Investment Advisor Representative and also the Chief Investment Officer. As custodian Schwab also requires the client sign giving the Advisor trading authorization over their account. This is done at the time the account is opened using Schwab's account applications. For NBC accounts only the CapSouth Discretionary Agreement must be signed.

## Voting Client Securities

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CapSouth does not have the authority to vote proxies on behalf of its clients. Clients will receive proxies or other solicitations directly from the custodian or transfer agent not from CapSouth. If a client has a specific question and would like to discuss it with an Advisor they may do so by calling our office at 334-673-8600 (Dothan) or 678-272-7555 (Eagle's Landing).

## Financial Information

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### Financial Condition

CapSouth does not have any financial condition that will preclude us from meeting our contractual commitments to our clients. Since we do not require prepayment of more than \$1,200 in fees per client, six months or more in advance a balance sheet is not required to be provided.

## Business Continuity Plan

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### General

CapSouth has a Business Continuity Plan in place that outlines the steps that need to be taken in case of an emergency. The issues that could affect our ability to serve our clients range from power outages, tornadoes, fire or the death or disability of a key employee.

We have established alternate office locations should a disaster have a long term effect on our place of business. We have a plan in place to allow employees to know what steps to take should a natural disaster occur in an effort to have as little impact as possible to our clients. Employees are cross trained and key man life insurance is in place should a key employee become deceased or disabled.

## Information Security Program

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### Information Security

We internally safeguard your nonpublic, personal information by restricting access to only those employees who provide products or services to you or those who need access to your information to service your account. Employees are educated on the importance of maintaining confidentiality of client information. In addition, we will maintain physical, electronic and procedural safeguards that meet federal and/or state standards to guard your nonpublic, personal information.

### Privacy Notice

CapSouth Partners understands the extremely private nature of information we obtain from our clients in order to provide them with financial services. We take every precaution to keep your nonpublic, personal information safe and secure. Our Privacy Notice is designed to explain what type of information we collect, how it is used and with whom it may be shared.

To conduct regular business, we collect nonpublic, personal information from you. This information is obtained by applications or other forms you provide to us as well as through interviews and client meetings.

### Sharing of Client Information

With your permission, we disclose limited nonpublic information solely to service your accounts. This information would be provided for example to attorneys, accountants, mortgage institutions, brokers and custodians as requested by you or as necessary to

service your account. We do not disclose any nonpublic, personal information about our customers or former customers to anyone, except as permitted by law. We do not sell personal information that is collected from customers. We use all information collected to provide you with the products and services that you request and to fulfill legal and regulatory requirements.

To provide the utmost in service, we may share the below information as necessary, to companies to perform certain services on our behalf, or as required by law.

- Information the firm receives from clients on applications (name, social security number, address, assets, etc.)
- Information about client transactions with our firm or others account information

#### Sharing of client Information With Third Parties

Our firm is very selective in choosing third parties to assist us in servicing our clients, and we do not sell to third parties any personal client information. As needed, we may share nonpublic, personal information to affiliated or nonaffiliated third parties. The information that we may share is the information we collect as described above. We may disclose nonpublic, personal information about you to the following types of affiliated or nonaffiliated third parties as permitted by law:

- Vendors and service companies that assist us in providing products and services to our clients, such as custodians & broker/dealers, portfolio service providers, planning software providers, etc..

Please contact us if you want more information about this privacy policy. You may contact us at [sbaldwin@capsouthpartners.com](mailto:sbaldwin@capsouthpartners.com) or by telephone at (334)673-8600.