



RICHMOND CAPITAL MANAGEMENT
Experience, Knowledge, Service

Richmond Capital Management, Inc.

10800 Midlothian Turnpike, Suite 217

Richmond, Virginia 23235

Phone: (804) 379-8280

Fax: (804) 379-9362

www.richmondcap.com

Contact Information

Mark J. Walker, CFA

President & Chief Compliance Officer

Part 2A of Form ADV

Firm Brochure

March 28, 2012

This brochure provides information about the qualifications and business practices of Richmond Capital Management. If you have any questions about the contents of this brochure, please contact us at (804) 379-8280 and/or services@richmondcap.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 Richmond Capital Management is available on the SEC's website at www.adviserinfo.sec.gov. Richmond Capital Management is a "registered investment adviser." Registration does not imply a certain level of skill or training.

Table of Contents

Advisory Business	Page 1
Fees and Compensation	Page 2
Performance-Based Fees and Side-By-Side Management	Page 3
Types of Clients	Page 3
Methods of Analysis, Investment Strategies and Risk of Loss	Page 3
Disciplinary Information	Page 5
Other Financial Industry Activities and Affiliations	Page 5
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	Page 5
Brokerage Practices	Page 7
Review of Accounts	Page 8
Client Referrals and Other Compensation	Page 9
Custody	Page 9
Investment Discretion	Page 9
Voting Client Securities	Page 9
Financial Information	Page 10

Advisory Business

Richmond Capital Management is a fixed income investment adviser located in Richmond, Virginia. The firm originally registered as an investment adviser in 1982. The principals, believing that Richmond Capital Management could better serve its clients as an independent firm, purchased the firm from then parent company, AON Corporation, in 1987 and the firm has remained independent since that time.

The firm is 100% owned by nine investment, client servicing and operations professionals. No one individual owns more than 33%. The current owners are:

<u>Name</u>	<u>Title</u>	<u>Ownership</u>
Mark J. Walker	President & Chief Compliance Officer	33%
William H. Schultz	Managing Director	33%
Howard K. Bos	Managing Director	15%
Elizabeth M. Harris	Managing Director	Less than 10%
R. Wheatley McDowell	Managing Director	Less than 10%
Beth L. Baron	Managing Director	Less than 10%
Paul H. Lundmark	Managing Director	Less than 10%
Patton H. Roark, Jr.	Managing Director	Less than 10%
Janis H. Warren	Managing Director	Less than 10%

Richmond Capital Management offers fixed income investment management services to a broad range of institutional and high net worth clients. While our ongoing services primarily involve the investment management of our clients' portfolios, the firm may also assist clients in other areas such as the review of investment objectives and guidelines, performance reviews and education of new market opportunities that might fit our clients' investment needs.

Investment management of client portfolios involves developing and implementing an investment program to meet each client's fixed income needs. The process begins with each client establishing a portfolio benchmark and investment guidelines. The benchmark, which is typically a publicly available benchmark index such as the Barclays Capital Aggregate Index, sets the appropriate duration and maturity risk range for that portfolio. The investment guidelines serve as a "roadmap" detailing allowable investments and establishing client imposed limitations. These limitations typically include items such as the percentage of the portfolio that can be invested in one credit name, market sector, or rating category and an allowable range of duration deviation from the benchmark index. Additionally, clients may impose socially responsible or other restrictions on the management of their assets.

Investment management of the portfolios is performed by the firm's portfolio managers. All of the portfolio managers are specialists in fixed income investing and come from a broad diversity of investment backgrounds, such as banking, brokerage and insurance. This experience allows them to understand the investment and client servicing needs of a broad array of clients. The portfolio managers develop an investment strategy that is then implemented by executing trades with non-affiliated brokerage firms. Portfolios are monitored on an ongoing basis to ensure compliance with both the investment guidelines and current firm investment strategy.

The firm participates in one wrap fee program. Portfolios in this program are managed in the same manner as non-wrap fee portfolios. Richmond Capital Management does not receive a portion of the wrap fee. Consistent with all clients except sub-advisory clients, the firm executes a contract directly with each wrap-fee client.

As of February 29, 2012, the firm managed \$5,506,466,000 on a discretionary basis and \$7,868,000 on a nondiscretionary basis. The firm has a diverse client base, which includes public entities, corporations, endowments and foundations, Taft-Hartley plans, educational institutions, healthcare and faith-based organizations, a pooled investment vehicle and high net worth individuals.

Fees and Compensation

Richmond Capital Management bills clients quarterly in arrears for investment management services based on an annual fee schedule (unless clients request to be billed differently). The maximum annual fees charged for accounts over \$10 million are:

\$0 - \$40,000,000	0.35%
Above \$40,000,000	0.15%

The maximum annual fee charged accounts funded under \$10 million is 0.40%. Clients are either billed directly or information is provided to each client's custodian bank for payment of our fees. If the firm is paid by the custodian bank, a copy of the fee calculation is provided to the client. Clients may select either billing method. Clients also have the option to pay fees in advance. Upon termination of the investment advisory contract (either by the client or the firm) the client will be refunded a prorated portion of any fees collected in advance.

The above fees are subject to negotiation. Some clients have different breakpoints than the fee schedule above but in no instance is the total fee greater than the fee schedule noted above. The firm may offer reduced fees for eleemosynary institutions or mandates utilizing passive management, among other considerations. Additionally, fees may be reduced based on a client's total amount of assets under management. The firm does not offer performance-based fees.

Cash in portfolios is invested in money market or short-term mutual funds provided by the clients' custodian (often referred to as sweep funds). These funds charge a separate management fee in addition to our management fee. We do not receive any part of this separate management fee. Clients are directed to the prospectus or other documents provided by such funds for a detailed disclosure of the underlying risks.

All of our clients have the right to cancel our services upon a maximum of 30 days written notice. We reserve the right to terminate the investment adviser contract by giving at least 30 days prior written notice to the client. We or the client may terminate such contracts for any reason.

Clients will incur additional fees from unaffiliated vendors. These fees paid by the client may include custody, transaction and brokerage fees (see brochure section "Brokerage Practices" for a more detailed explanation). Richmond Capital Management does not receive any compensation

from these fees. It is the policy of the firm that all goods and services for the firm should be purchased with “hard dollars” and that “soft dollars” should not be used to benefit the firm.

Performance-Based Fees and Side-By-Side Management

Richmond Capital Management does not charge performance-based fees.

Types of Clients

Richmond Capital Management serves public entities, corporations, endowments and foundations, Taft-Hartley plans, educational institutions, healthcare and faith-based organizations, and high net worth individuals. Additionally the firm serves in a sub-advisory capacity for certain clients and one pooled investment vehicle. The minimum account size is \$7 million. However, in certain instances we accept smaller account sizes.

Methods of Analysis, Investment Strategies and Risk of Loss

Richmond Capital Management’s investment philosophy is:

We believe that the investment grade fixed income market misprices default and call risk. Therefore, we strive to outperform our relevant fixed income benchmark by concentrating our investments in corporate bonds, Agency mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. We carefully manage the risk in these sectors with a quality bias and extensive diversification.

With this philosophy as a guide, the firm will construct portfolios to take advantage of current market opportunities. The first step in constructing a portfolio is to set the overall duration. Portfolios managed by the firm will typically be duration neutral to the benchmark index. However, when the portfolio managers believe that a market opportunity exists to change the duration, the portfolio will be positioned within a band of 80-120% of the benchmark index. Regardless of the firm’s relative duration decision, client portfolios are at risk of low or negative absolute returns should fixed income rates rise. This is more likely with a longer duration portfolio as the longer the duration, the more exposed a portfolio is to the impact of higher (or lower) interest rates.

Once the duration decision is made, the portfolio managers decide which sectors of the bond market are appropriate for investment. Consistent with our investment philosophy, the majority of the securities in our clients’ portfolios will consist of corporate bonds, Agency mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. The firm manages the risk of these asset classes by 1) diversifying the risk of each individual credit, and 2) portfolio managers performing credit research on each risk position.

Investing in securities involves risk of loss that clients should be prepared to bear. Risks associated with these asset classes include:

- Interest rate risk: The level of interest rates will vary with the economic cycle and be influenced by other factors, such as when the Federal Reserve engages in policies to stimulate or contract the economy. When interest rates rise, the value of fixed income

securities will fall. Thus, during a period of rising interest rates a fixed income portfolio may experience a loss.

- **Default risk:** For corporations, this is the risk that a business may become insolvent and seek bankruptcy or a restructuring. For mortgage and asset-backed securities, this is the risk that the assets underlying the pools of assets comprising the deal structure may become insufficient to pay the bondholder's claims. In both of these cases, should a default occur, it is likely that the bondholders will not receive par for their bonds and may receive zero.
- **Credit Spread risk:** Securities with credit risk are typically quoted in the market as the sum of the underlying Treasury yield (often referred to as a risk-free rate) and credit spread. Thus, a corporate bond would be quoted as "Treasury plus 80," meaning the equal maturity Treasury yield plus 80 basis points (0.80%). The credit spread will vary based on the quality of the underlying corporate bond or mortgage security and the market's assessment of the overall economy (spreads will be narrower in times of economic prosperity and wider in times of economic distress). Since the majority of the investments in the portfolios will be in assets subject to credit spread risk, the portfolios may lose value should the credit spread risk increase.
- **Rating risk:** The ratings of securities managed by Richmond Capital Management may change over time. Ratings risk occurs when a holding is downgraded by the rating agencies due to a decline in credit quality of the rated entity. The firm typically invests in investment grade securities and many clients have investment restrictions limiting the holding of non-investment grade securities. Thus, in cases of a ratings downgrade to non-investment grade, a loss may occur due to the credit spread widening.
- **Prepayment risk:** Mortgage securities typically grant the underlying mortgagee the right to prepay their mortgage. When the firm purchases such mortgage-backed securities an assessment is made of the likely rate of prepayment and that "prepayment rate" is modeled in the yield calculation of that security. Should actual prepayments differ from that initial assessment, the realized total return of the security will differ from the purchase yield. When interest rates fall, many homeowners have an incentive to prepay their mortgage in order to obtain the lower interest rate offered in the market. In such instances, individual mortgage securities may suffer a loss.
- **Yield curve risk:** Portfolio managers will purchase individual securities based on current firm strategy. A typical portfolio will contain many securities and will range in maturity from very short maturities to 30 years (although in some cases longer bonds may be purchased). How these securities are positioned along the yield curve will impact the total return of the portfolio and the portfolio managers will make an assessment as to the best positioning for each portfolio. Over market cycles the shape of the yield curve (the relationship of short-term interest rates to long-term interest rates) will change. A risk to our clients is that the yield curve shifts in a manner that our clients' portfolios suffer losses.
- **Call risk:** Federal Agencies, municipalities and corporations issue some securities that gives them the right to "call" (redeem early) those securities. This call right is clearly specified in the offering documents for each security. While Richmond Capital Management typically invests in "non-call" securities, should a "callable" security purchased above par be called before the anticipated call date, that security may incur a loss.

- **Reinvestment risk:** Fixed income securities pay a fixed coupon until the maturity of the security. Note that the yield of a fixed income security assumes that each coupon payment is reinvested at the yield of the security. Thus should each individual coupon payment be reinvested at a higher or lower yield than the purchase yield, the realized total return over time will differ from the quoted yield. For a portfolio of fixed income securities held for a long period of time, reinvestment risk is significant. Periods of higher interest rates will result in total returns being above the quoted yield on a portfolio, and periods of lower interest rates will result in total returns lower than the quoted yield.
- **Liquidity risk:** Fixed income securities typically do not trade on exchanges, but in an over-the-counter market. Thus, Richmond Capital Management is dependent on market making brokers to both purchase and sell our client's securities. During periods of financial market stress the ability of market making brokers to make bids and offers on client securities may diminish. Note that the firm utilizes electronic trading platforms (TradeWeb and Market Axess) whenever possible. Further, the firm currently has 43 different brokers on the firm's Approved Broker/Dealer list which reduces the risk of any one broker being unable to make bids and offers.
- **Treasury Inflation Protected Security (TIPS) risk:** Investments in TIPS pay a fixed coupon representing a real return. The inflation return of the security is reflected in an accretion of principal for actual inflation (as measured by the Consumer Price Index). TIPS can lose value either by increases in the real return (the impact is equivalent to a rise in interest rates on a nominal bond) or if realized inflation is negative.

Disciplinary Information

Registered investment advisers are required to disclose all facts regarding any legal or disciplinary events that would be material to your evaluation of Richmond Capital Management or the integrity of the firm's management. Richmond Capital Management has no legal or disciplinary events to report.

Other Financial Industry Activities and Affiliations

We provide investment sub-advisory services to one pooled investment vehicle and one investment adviser. Investment sub-advisory services are the only services we provide to these entities. As such, we do not believe that these relationships create a material conflict of interest with our other clients.

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

Honesty, integrity and professionalism are hallmarks of Richmond Capital Management. We are fiduciaries that owe our clients a duty of honesty, good faith and fair dealing and as such we will maintain the highest standards of ethics and conduct in all of our business relationships. At all times the firm and its employees will place the interests of their clients first.

The firm has adopted a Code of Business Conduct and Ethics that covers a wide range of business practices and procedures and applies to employees of the firm in their conduct of business and affairs. Further, this Code sets out basic principles to guide employees in discharging their duties. This Code has been adopted by the Board of Directors with the objectives of promoting (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, (2) full, fair, accurate, timely and understandable disclosure in reports and documents which the firm files with the Securities and Exchange Commission and in other public communications, (3) compliance with applicable governmental laws, rules and regulations, (4) prompt internal reporting of violations of this Code, and (5) accountability for adherence to this Code.

Additionally, the firm has adopted the Code of Ethics and Standards of Professional Conduct of the CFA Institute (CFAI).

A copy of the firm's Code of Ethics will be provided to any client or prospective client upon request.

Conflicts of Interest

Employees of Richmond Capital Management are fiduciaries that have an affirmative duty of care, loyalty, honesty and good faith to act in the best interests of a client. The firm and its employees shall try to avoid conflicts of interest. However, some conflicts arise in the normal course of business and the firm will disclose all material facts concerning any conflict. Identified conflicts are as follows:

- The Chief Compliance Officer (CCO) of the firm is also the firm's President and a portfolio manager. Richmond Capital Management strongly believes in creating and maintaining a culture of compliance with all state and federal laws. The firm believes that having the President serve as the CCO reinforces that belief. This conflict is mitigated by the active involvement of the firm's Vice President for Portfolio Analytics and Compliance (VP-PAC) in the compliance function. The daily compliance monitoring of client portfolios is performed by the VP-PAC, who does not have investment discretion over client portfolios. Any portfolio that is out of compliance is reported daily on the RCM Compliance Error Report. Additionally the VP-PAC annually tests portfolios for bias in performance and the allocation of trades. Finally, the CCO and VP-PAC communicate the results of these tests and other compliance matters to the firm's Board of Directors in the Annual Compliance Review.
- Clients may have different fee schedules. The firm may offer different clients different fee schedules based on eleemosynary status, portfolio size, or other factors. The firm affirms that all clients are treated equally in the portfolio management and client reporting process, and any other responsibility the firm has to a client.
- Clients of Richmond Capital Management may issue fixed income debt. Richmond Capital Management may purchase these securities for other clients' portfolios. Potential conflicts regarding investing in client's fixed income securities are mitigated by the firm's procedures for approving new corporate bond investments. All investments for our clients must be approved by the portfolio managers and meet quality, maturity, valuation, and (if

applicable) social restriction criteria. Should a security meet these criteria, it may be added to our clients' portfolios.

- Richmond Capital Management invests only in fixed income securities. Because of this there are rarely conflicts regarding shareholder votes. In the unlikely event an action is required, any vote will be made in accordance with the firm's Voting Policy With Respect to Client Securities.
- The firm or its employees may at times make donations to support the charitable activities of clients. Consistent with the spirit of the firm's Business Gifts and Entertainment Policy, such donations are not intended to bias our clients' decisions.
- Employees of the firm may have a financial interest in and trade in securities that the firm also purchases or sells for its clients. The firm maintains a Personal Securities Trading Policy which states that transactions for the firm's clients have priority over transactions in securities by firm employees. Any security transaction an employee makes must not involve a limited opportunity that the firm could utilize and take advantage of for its clients.
- Richmond Capital Management is not a general partner for any partnership. Employees of the firm may be general partners of unaffiliated entities such as real estate or family partnerships. Transactions in these partnerships are subject to the Firm's Personal Securities Trading Policy.
- The firm may participate in conferences sponsored by consulting firms if the Board of Directors believes the conferences are educational in nature. In cases where the firm is hired to manage assets by a client that employs such consulting firm, Richmond Capital Management will disclose to the potential client Richmond Capital Management's participation in such conferences.

Brokerage Practices

Richmond Capital Management selects broker-dealers to execute client transactions based on two criteria. First, the broker-dealer must have adequate capital. In this regard, the firm's Board of Directors must approve each broker-dealer after a review of the broker-dealer's financials. Typically Richmond Capital Management requires at least \$5 million in equity capital for a broker-dealer to be considered. Second, each broker-dealer must be able to execute and settle trades for the firm's clients. Increasingly, the ability to execute trades on an electronic exchange is preferable for new broker-dealers.

The firm's Board of Directors reviews broker-dealer performance at their quarterly Board meetings. Because the firm invests in fixed income securities – which trade over the counter and without commission – the firm does not review the compensation of the broker-dealers, rather that the “all-in” price they provide to the firm's clients results in “best execution.” In this regard the firm maintains a Best Execution Policy detailing the firm's obligation to obtain the best execution on client transactions.

It is the policy of Richmond Capital Management that all goods and services for the firm shall be purchased with “hard dollars” and that “soft dollars” shall not be used for the benefit of the firm.

The firm does not direct any trades to broker-dealers in response to a client referral.

The firm or its employees, as principal, does not buy securities from (or sell securities to) our clients.

Clients may occasionally direct Richmond Capital Management to execute transactions with certain brokers. These brokers will generally then rebate a portion of the “commission” amounts generated back to the client. This practice is known as “directed brokerage.”

The firm discourages such “directed brokerage” relationships. The reasons relate primarily to the intricacies of the fixed income markets in which we invest. First, fixed income transactions do not trade with a commission. Given the narrow margins Treasury, Agency and mortgage-backed securities trade, it is the firm’s experience that the amounts generated through “directed brokerage” arrangements are very small. Second, “directed brokers” do not position securities directly and are forced to go out into the open market for execution. In many cases the firm finds that “directed brokers” will be requesting bids and offers from the same dealers the firm is requesting bids and offers. Thus, the “directed brokers” should have no advantage in executing trades when compared to Richmond Capital Management.

When a client instructs us to utilize “directed brokerage,” the firm still has an obligation to obtain best execution. Each client requesting a “directed brokerage” arrangement is informed that it is the firm’s policy that for “directed brokerage” transactions 1) the executing portfolio manager may decide not to execute using a “directed brokerage” broker-dealer, and 2) the amounts for clients requesting “directed brokerage” will be segregated into two or more blocks and that the block not involving “directed brokerage” will be executed first. After that block is executed, the “directed brokerage” transactions will be executed. Note that due to the size of the positions the firm typically executes, and the liquidity in the markets we participate in, it is the firm’s opinion that prioritizing “non-directed brokerage” executions should not impact the execution price of a “directed brokerage” trade.

Review of Accounts

All portfolios at Richmond Capital Management are managed on a team basis and each client portfolio has an assigned portfolio manager. We have developed a proprietary risk management system that receives information from our portfolio accounting system. The design of the system groups accounts with the same benchmarks together, allowing for comparisons based on duration, market sector, yield curve, diversification and convexity. Reports are generated from the system at least daily allowing portfolio managers to monitor critical portfolio characteristics.

Richmond Capital Management’s risk management system incorporates firm-wide risk tolerances as well as specific preferences expressed in our clients’ investment policy statements. Any violation of these parameters results in an error on the daily report allowing portfolio managers time to correct the error in a timely manner. Examples of risk measures that are monitored are diversification, percentage held in BBB-rated bonds, and social restrictions directed by the client.

Clients receive monthly or quarterly reports (in some instances both) from the firm. Monthly reports include a listing of assets and transactions that occurred during the month. Quarterly reports are more detailed and include investment performance, quality and market sector graphs, and statistical information on the portfolio, including duration, yield to maturity, sector allocation and ratings. Additionally, market and strategy commentary is included in the quarterly report.

The firm has always placed a tremendous emphasis on reconciliations and maintaining accurate accounting records. We perform a comparison of par amount held and price for each bond in each portfolio and reconcile accruals in the aggregate. Additionally, cash differences are reconciled to highlight any differences in expected and actual cash received into the portfolio (in most cases daily through on-line access). We communicate with the custodian bank any inconsistencies and follow up until solutions are reached. We make available to each client and their consultant a detailed reconciliation of the custodian statement if requested.

Client Referrals and Other Compensation

Richmond Capital Management derives 100% of its revenue from investment advisory services. The firm does not utilize third-party marketing firms. We do not compensate anyone to solicit client referrals. Employees of Richmond Capital Management are the only individuals compensated by the firm. The firm does not receive economic benefits from anyone who is not a client.

Custody

We do not take custody of client funds or assets. Clients choose their own custodians and contract for those services independently. We send out account statements to clients including a recommendation urging them to compare Richmond Capital Management's statement with their custodian statement.

Investment Discretion

When a client engages our services they enter into a contract giving us discretionary authority to purchase and sell securities on their behalf. Any restrictions as to the types of securities or companies we purchase on behalf of our clients are expressed in their contract or investment policy statement. The firm manages only a few non-discretionary portfolios. Transactions in these portfolios are executed only at the direction of the client.

Voting Client Securities

Richmond Capital Management primarily invests in fixed income securities. Therefore, the firm is rarely presented with the responsibility to vote on matters pertaining to the securities invested for our clients as voting is typically for equity securities and is the responsibility of the shareholders of a company. However, for situations that require the casting of a vote, the firm maintains a detailed Client Securities Voting Policy.

When a vote must be cast, the responsibilities to vote are governed by the investment advisory agreement and client guidelines. Where a client retains the responsibility to vote, the firm will inform the client and request the vote decision. For votes that will be cast by Richmond Capital Management, the firm acknowledges the responsibility to cast votes in the best interests of our clients. The firm will vote to maximize, in its opinion, the value of the securities in the portfolio. The only exceptions are in cases where the vote conflicts with the direct interests of a client (for instance, if a vote would conflict with a social restriction of a client).

Financial Information

Richmond Capital Management does not solicit clients to prepay fees in advance. No client of Richmond Capital Management prepays fees more than six months in advance.