



Weaver C. Barksdale & Associates, Inc.

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Disclosure Brochure

March 29, 2012

This brochure provides information about the qualifications and business practices of Weaver C. Barksdale & Associates, Inc ("WCB"). If you have any questions about the contents of this Brochure, please contact us at (615) 665-1085. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

WCB is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about WCB also is available on the SEC's website at www.adviserinfo.sec.gov

Material Changes

As our business is constantly evolving, we review our policies and procedures on a regular basis. In evaluating their continuing effectiveness, we may amend this document along with our policies and procedures from time to time.

Our brochure may be requested by contacting Deborah K. Slocum at (615) 724-2218 or dslocum@wcbarksdale.com. Our brochure is also available on our website www.wcbarksdale.com. We will provide you with a new brochure at any time without charge.

The following is a summary of the material changes to our brochure since our last annual update on March 31, 2011:

- ☐ under Item 4, we revised the description of the fees we receive from unaffiliated third parties and total assets under management;
- ☐ under Item 5, we added information regarding our fee structure;
- ☐ under Item 6, we included a description of how we customize client portfolios according to the specific guidelines of the clients;
- ☐ under Item 7, we revised the list of clients for whom we provide investment advisory services;
- ☐ under Item 8, we added an introduction summarizing the investment strategies we provide;
- ☐ under Item 10, we changed the date in the second paragraph to say “As of the date of this brochure,” instead of a specific date;
- ☐ under Item 11, we revised the description of our Code of Conduct to specifically reference the CFA’s new General Principles of Conduct. We added new sections discussing our standards of conduct with respect to Insider Trading, Gifts and Entertainment, Conflicts of Interest and Charitable Donations;
- ☐ under Item 12, we added a description of our policies concerning aggregation for fixed income trades;
- ☐ under Item 14, we provided additional disclosure on the marketing activities of our personnel to solicit new business and information regarding our interaction with consultants and databases; and
- ☐ under Item 15, we included additional disclosure concerning how we seek to safeguard client assets.

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Item 4: Advisory Business

Weaver C. Barksdale & Associates, Inc. (“WCB”, the “firm”, “we” or “our”) is a “registered investment adviser” under the Investment Advisers Act of 1940.

WCB, based in Nashville, Tennessee, markets its investment capabilities nationwide. The firm was founded in December, 1984, and is structured as a professional C-type corporation.

The heritage and culture of the firm dates back to 1974 when our founder, Weaver C. Barksdale, and our President and CEO, John E. McDowell, began working together at Commerce Union Bank (now a part of Bank of America). The firm began with \$347 million in assets under management, which were subject to a revenue sharing arrangement with Commerce Union Bank. Through that arrangement, Mr. Barksdale purchased the client relationships from the bank. WCB is 100% owned and operated by our professional staff. Weaver Barksdale and John McDowell each own 28% of the Firm’s stock.

WCB is an institutional money management firm specializing in tailoring portfolios to the client’s requirements. For each account, individual securities are purchased to create a unique portfolio using the client’s own guidelines, risk tolerances, liquidity needs and investment restrictions. This method differentiates us from the “one size fits all” approach of mutual funds.

We offer our investment management services on a discretionary basis to clients seeking:

- **Fixed Income**
(both taxable and tax-exempt),
- **Equity, and**
- **Balanced management (a combination of fixed income and equity strategies).**

Our goals are strictly aligned with those of our clients. Our primary source of income is from fees charged for active portfolio management. Included in these fees are amounts received, pursuant to a solicitation agreement, from an unaffiliated third party investment adviser for client referrals. In this case, the third party adviser exercises discretion over the management of the client's account including the determination and execution of all securities transactions for the client. We do not provide investment banking or broker - dealer services and we do not maintain any arrangements or engage in other types of activity which might create a conflict of interest. As of December 31, 2011, the firm managed approximately \$3,967,875,000 in client assets, all on a discretionary basis.

WCB requires all members of the professional staff who render investment advice to have obtained an undergraduate degree and a master's degree in economics, finance or business or enrollment in the Chartered Financial Analysts (“CFA”) program. The Board of Directors, at its discretion, may waive the advanced degree or CFA enrollment requirement if a prospective employee has sufficient experience to warrant such an exception.

Either a client or the firm may terminate an Advisory Agreement without penalty upon at least 30 days written notice.

Item 5: Fees and Compensation

We offer our services on a fee-only basis. We do not receive commissions or mark-ups or mark-downs on securities that we purchase and sell for client account(s). Our fee is calculated based on the market value of the assets in the client's account on the last day of the quarter, unless stated otherwise in the client's Advisory Agreement. The market value of the client's account is determined by a nationally recognized firm specializing in security pricing.

We calculate the total assets based upon the date securities are bought and sold for the client's account (the trade date). If the Advisory Agreement is not in force for a full quarter, the fee for such partial quarter is prorated based on the number of calendar days of the calendar quarter the Advisory Agreement is in effect. Fees are billed on a quarterly basis in arrears based on the market values of each account's assets at the end of each calendar quarter.

In some cases, we receive our quarterly fee directly from the client's custodial account. In order for the client's custodian to debit the account for the amount of our quarterly fee, the client must give us authorization in writing either in the Advisory Agreement or by a separate document (if the account is older). We send a quarterly invoice to each client (and/or its representative) that includes the value of the client's assets, our management fee, and how the

fee is calculated. The custodian also provides statements that show the amount paid directly to us. Clients are advised to compare our invoice to the custodial statement and verify the calculation of the fee. In the case of clients for whom Regions Bank serves as the custodian, custodial fees are collected by us. The custodial fee is then forwarded by us to Regions Bank.

Below are our stated investment management fee schedules:

Institutional Fixed Income

- 0.35 of 1% on the first \$10 million in assets
- 0.25 of 1% on the next \$15 million in assets
- Negotiable on market values in excess of \$25 million; Minimum Fee \$35,000

Institutional Equity and Balanced

- 0.75 of 1% on the first \$10 million in assets
- 0.60 of 1% on the next \$15 million in assets
- 0.50 of 1% on the next \$25 million in assets
- Negotiable on market values in excess of \$50 million; Minimum Fee \$75,000

Institutional Equity Performance Fee

- 0.10 of 1% on assets under management plus
- 25% of performance above that of the benchmark; Minimum Fee \$75,000

Personal Enhanced Cash Management

- 0.45 of 1% on the first \$2 million in assets
- 0.40 of 1% on the next \$3 million in assets
- 0.30 of 1% on the next \$5 million in assets
- Negotiable on market values in excess of \$10 million; Minimum Fee \$9,000

Personal Fixed Income

- 0.75 of 1% on the first \$2 million in assets
- 0.55 of 1% on the next \$3 million in assets
- 0.45 of 1% on the next \$5 million in assets
- Negotiable on market values in excess of \$10 million; Minimum Fee \$15,000

Personal Equity

- 1% on the first \$2 million in assets
- 0.85 of 1% on the next \$3 million in assets
- 0.75 of 1% on the next \$5 million in assets
- Negotiable on market values in excess of \$10 million; Minimum Fee \$20,000

Personal Balanced

- 0.75 of 1% on the first \$2 million in assets
- 0.60 of 1% on the next \$3 million in assets
- 0.50 of 1% on the next \$5 million in assets
- Negotiable on market values in excess of \$10 million; Minimum Fee \$15,000

WCB generally requires a minimum market value for assets under management of \$10 million for institutional accounts and \$2 million for individual accounts. We, at our sole discretion, may accept clients with smaller portfolios based upon certain factors including anticipated future earning capacity, anticipated future additional assets, account composition, related accounts and pre-existing client relationships. We, at our sole discretion, may waive an account minimum or minimum fee charged based upon the customized needs of the client with respect to the portfolio and the client's risk tolerance requirements. The Board of Directors considers each of these special circumstances on a case by case basis.

In addition to our fee, a client may be required to pay its custodian other charges including:

- ☐ custodial fees;
- ☐ brokerage commissions;
- ☐ mark-ups and mark-downs;
- ☐ transaction fees;
- ☐ internal fees and expenses charged by exchange traded funds ("ETFs"); and
- ☐ other fees and taxes on brokerage accounts and securities transactions.

Item 6: Performance-Based Fees & Side-by-Side Management

Currently, we do not manage any performance-based accounts. However, a performance-based fee could be adopted if agreed to by the client and WCB. The client is advised that a performance fee may create an incentive for the adviser to make riskier or more speculative investments than would be the case under other fee arrangements.

WCB customizes portfolios to meet the specific risk tolerance and guidelines of each client's portfolio. While the same disciplined investment process is utilized to manage several individual portfolios requiring a certain style, each portfolio is constructed and managed according to the needs of the client. Portfolios are designed to meet each client's specific requirements for liquidity, credit quality, duration, etc. From time to time, an account's guidelines may change at the initiation of the client, their consultant or the portfolio manager.

Our portfolio managers employ a variety of investment styles, which may differ based on a range of factors including, but not limited to, risk

profiles, benchmarks, tax considerations, liquidity needs, time horizons, durations, sector concentrations, and capitalization ranges. Our portfolio managers may customize client portfolios within the same style because of the client's specific guidelines and how the manager adapts those guidelines to market constraints at any given time. At times, the manager's decision reflects an assessment of the suitability of the particular security for a specific client. Such decisions result in different investment returns between investment styles and among accounts managed by the same portfolio manager. Accounts within the same investment style may also differ as a result of client distributions and/or contributions.

We maintain policies to guard against favoring one account over another and use several backward looking analyses of the trading in each client's portfolio including maturity and duration analysis, sector testing, pricing, credit quality studies, in addition to a performance analysis.

Item 7: Types of Clients

We provide investment management services for employee benefit plans, healthcare entities, insurance companies, charitable organizations, state and local governing bodies, associations, corporations and high net-worth individuals. We manage these portfolios in accordance with each client's objectives. As discussed in Item 5, WCB generally requires a minimum market value for assets under management of \$10 million for institutional accounts and \$2 million for individual accounts.

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

We offer a range of fixed income, equity and balanced investment strategies. Some investment portfolios are managed relative to a benchmark while others are managed to achieve an absolute return. These strategies are described below:

Methods of Analysis

Fixed Income Portfolios are generally constructed by employing a three-step process:

1. **Yield Enhancement** with an emphasis on bond market sectors such as corporate and mortgage-backed securities;
2. **Valuation Analysis** includes:
 - a.) corporate bond selection,
 - b.) yield curve positioning,
 - c.) mortgage security selection;
3. **Maturity & Risk Level Management** whereby the durations of portfolios are adjusted generally within 10% of the duration of each client's specified benchmark based on proprietary models and other research used to forecast economic and interest rate trends.

Equity Portfolios are constructed using publicly traded U.S. companies and American depositary receipts that are generally included in the portfolio's comparable index, such as the Standard & Poors 500 or Russell Growth 1000, for example.

Our investment strategies are proprietary and based on quantitative and qualitative fundamental analysis of companies, driven by strong income and balance sheet data, as well as other portfolio management techniques. Because the stocks are selected from a group of U.S. publicly traded companies, they are well known entities and afford substantial market liquidity.

Balanced Portfolios consist of a combination of our equity and fixed income techniques with the relative commitment to each asset class being dependent on an assessment of each client's income needs and risk tolerance level.

Investment Strategies

Our investment strategies may include long-term, intermediate and/or short-term purchases based on the client's objectives and guidelines, which may be changed at any time. Clients may place reasonable restrictions on the strategies to be employed and the types of investments to be held in their accounts. It is important for the client to remember to update us with any changes in investment objectives and guidelines. Although we manage the client's assets in a manner consistent with the client's risk tolerance, there can be no guarantee that our efforts will be successful. Clients should be prepared to bear the risk of loss.

Risk of Loss

All investments strategies involve the risk of loss and there is no guarantee that any investment strategy will meet its objective. Our portfolio managers constantly keep in mind the risk of loss. Depending on the type of strategy the

client is invested in, the client may face the following risk:

- **Business Risk:** Risk associated with economic, industry and financial circumstances that may affect the price of a company's securities.
- **Call Risk:** The cash flow risk resulting from the possibility that a callable bond will be redeemed before maturity. A bond that is called by an issuer must be redeemed by the bondholder, usually so that the issuer can issue new bonds at a lower interest rate. This forces the investor to reinvest the principal sooner than expected, possibly at a lower interest rate.
- **Credit Risk:** Risk resulting in loss of principal or loss of interest payments or dividends stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk through interest payments from the issuer of a debt obligation.
- **Default Risk:** The risk that a bond issuer will default by failing to repay principal and interest in a timely manner. Bonds issued by the U.S. government or a U.S. government agency historically have not defaulted, although there can be no guarantee that a default will not occur in the future. Bonds issued by corporations are more likely to default than bonds issued by the federal government or a municipal issuer because of insufficient cash flow to make interest and principal payments or the potential for insolvency. Municipalities occasionally

default, although historically, this has been an infrequent occurrence.

- **Diversification Risk:** Concentrating investments in one or a few industries or sectors may involve more risk than more diversified investments, including the potential for greater volatility. Selecting diverse investments with different rates of return may offset losses in one area with gains in another.
- **Economic Risk:** In financing a project, the risk that the project's output will not generate sufficient revenues to cover operating costs and to repay debt obligations.
- **Financial Risk:** Excessive borrowing to finance business operations puts a company's profitability at risk because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Fixed Income Risks:** Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk and market risk, which could reduce the yield that an investor receives from his or her portfolio. These risks may occur from fluctuations in interest rates, a change to an issuer's individual condition or industry, or events in financial markets.
- **High-Yield Fixed-Income Securities Risk:** Investments in high-yielding, non-investment grade bonds involve higher risk than investment grade bonds because of higher volatility and, potentially, a greater risk of default. Adverse conditions may affect the

issuer's ability to make timely interest and principal payments on these securities.

- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Interest-Rate Risk:** Interest rates risk affects the value of bonds more directly than that of stocks. As interest rates rise, bond prices fall, and when interest rates decrease, bond prices rise. Similarly, as interest rates fluctuate, stocks may become a more or less attractive alternative relative to bonds.
- **Investment Risk:** Investment Risk is the probability that an actual return on an investment will be lower than the investor's expectations. All investments have some level of risk associated with them due to the unpredictability of the market's direction.
- **Liquidity Risk:** When consistent with a client's investment objectives, guidelines, restrictions and risk tolerances, we may invest a portion of a client's portfolio in illiquid securities, subject to applicable investment standards. Investing in an illiquid, or difficult to trade, security may restrict our ability to dispose of an investment in a timely fashion, if at all, or at an advantageous price, which may limit the ability to take full advantage of market opportunities.
- **Market Risk:** The price of a security may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For

example, political, economic and social conditions may trigger adverse market events.

- **Principal Risk:** The risk of losing the amount invested due to bankruptcy or default. There is always the possibility that, through some set of circumstances, the principal amount of money invested will lose value or be lost completely. In such case, principal is lost in addition to a share of future profits.
- **Reinvestment Risk:** The risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Small/Mid-Cap Risk:** Stocks of small (market capitalization of between \$300 million and \$2 billion) or mid-cap (market capitalization of between \$2 and \$10 billion) companies may have less liquidity than those of larger (market capitalization greater than \$10 billion), established companies and may be subject to greater price volatility and risk than the overall stock market.

Item 9: Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that are material to an evaluation of our business or the integrity of our management. We have not been the subject of any legal or disciplinary events or lawsuits.

Item 10: Other Financial Industry Activities and Affiliations

We are required to disclose any relationship or arrangements with other related financial entities that is material to our advisory business or to our clients.

In addition to the aforementioned investment advisory services, WCB has also entered into a Solicitor's Agreement with an unaffiliated third party investment adviser for a specific investment advisory service for one of our clients. This adviser exercises discretion over the management of the client's account meaning that they determine and execute all securities transactions for the client. This adviser pays us a fee for introducing the client to them.

WCB is registered as a Commodity Trading Adviser and our Senior Equity Portfolio Manager, S. Guerry Simmons, is registered with us as an associated person. As of the date of this brochure, we have not entered into any client agreements to provide this service.

Senior Vice President, Robert W. O'Donnell, maintains a law practice focused on charter schools. He occasionally advises his law firm clients with respect to tax exempt financings by governmental entities, advises governmental entities on financial matters, advises private and public entities on legislative matters and lobbies state legislatures.

Item 11: Code of Ethics; Participation or Interest in Client Transactions and Personal Trading

We have adopted a Code of Ethics (“Code”), which describes our standards of conduct for employees (and associated persons). Our Code focuses primarily on fiduciary duty, conflicts of interest, insider trading, personal securities transactions, gifts and entertainment, political contributions and charitable donations.

Fiduciary Duty

The Code includes our policies and procedures in connection with our fiduciary obligations to our clients and requires that we:

- ☐ Act in a professional and ethical manner at all times;
- ☐ Act for the benefit of clients;
- ☐ Act with independence and objectivity;
- ☐ Act with skill, competence and diligence;
- ☐ Communicate with clients in a timely and accurate manner; and
- ☐ Uphold the applicable rules governing capital markets.

Conflicts of Interest

Fiduciary responsibility by an adviser includes, but is not limited to, the duty to disclose material facts that might influence an investor’s decision to purchase or refrain from purchasing a security recommended by the adviser or from engaging the adviser to manage the client’s investments. An investment adviser should not engage in fraudulent, deceptive, or manipulative conducts, which includes an obligation to disclose material facts to clients whenever the failure to disclose such facts might cause

financial harm. An adviser’s duty to disclose material facts is particularly important whenever the advice given to clients involves a conflict or potential conflict of interest between the professionals of the adviser and its clients. We are aware that there could be conflicts of interest with our employees and associated persons. We require these employees to disclose any possible conflicts of interest. In addition, we monitor for any possible conflicts.

Insider Trading

Professionals of our firm do not engage in transactions in any securities of any public companies while in possession of material, nonpublic information regarding such securities. Nor should any professional communicate such material, nonpublic information to any person who might use such information to purchase or sell securities. We require our employees to report their personal securities trading in order for it to be monitored for the use of material non-public information.

Information is “nonpublic” until it has been made available to investors generally. In this respect, one must be able to point to some fact or event to show that the information is generally public, such as inclusion in a press release issued by a company, through news programming, such as Bloomberg News or CNN News, or reference to such information in publications of general circulation, such as The Wall Street Journal or the New York Times. Because materiality determinations are often challenged with the benefit of hindsight, if a professional has any doubt whether certain information is “material”

or “non-public”, such doubt generally should be resolved against taking such action.

Personal Securities Transactions

Our employees and associated persons may engage in personal securities transactions as long as they report all personal trades for themselves and their household each quarter. Our Chief Compliance Officer tests these trades against client trades to make certain that employees and associated persons do not receive a better price than clients and for compliance with our insider trading policy.

Personal securities transactions may raise potential conflicts of interest when such trades involve a security that is (1) owned by a client or (2) considered for purchase or sale for a client. Employees and associated persons who wish to purchase or sell securities of the types purchased or sold for clients may do so as long as the trades are reported and do not violate the blackout period. Our blackout period is 1 day following the completion of a trade of the same security for a client’s account with two exceptions. The first exception is an employee who has an account with WCB, and the trade is executed in a block trade with other clients with all getting the same price. The second exception is if this policy is in direct conflict with the contractual agreement of an investment advisory client.

Gifts and Entertainment

A conflict of interest could occur when an employee’s personal interest interferes with their responsibilities of the firm and our clients. The overriding principle is that employees should not offer or accept inappropriate gifts, favors,

entertainment, special accommodations, or other things of material value that could influence their decision-making or make them feel beholden to a person or firm.

Political Contributions

Several directors, employees and associated persons of WCB are actively involved in cultural, civic, philanthropic, and political activities. In connection with political activity, we understand that one or more of our Officers, Directors, Solicitors, and/or employees and associated persons contribute to political campaigns and political parties. We allow and monitor such activities provided these actions comply with applicable federal and state election laws and applicable SEC rules and regulations.

Charitable Contributions

From time to time, we donate to charitable organizations that are clients, supported by clients, and/or supported by an individual employed by one of our clients. In general, these donations are made in response to requests from clients or their personnel and are approved by our senior staff members.

All WCB employees and associated persons must comply and affirm the terms of our Code of Ethics, in writing, upon employment and at least annually. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

Item 12: Brokerage Practices

We have discretionary authority to (a) buy, sell, exchange, convert or otherwise trade in any approved securities and (b) place orders for the execution of such securities transactions with or through such brokers-dealers as we may select, subject to the terms of the client's Advisory Agreement. We adhere to the restrictions of each client's investment policy, objectives and guidelines.

Research and Other Soft Dollars Benefits

We estimate that approximately 75% of the investment research used by the firm is internally generated. The remaining 25% of research products are provided by highly specialized, independent (non-brokerage related) research and service firms for which we pay cash.

We do not use client brokerage commissions or mark-ups or mark-downs to obtain research or other services nor do we cause the clients to pay higher commissions or mark-ups or mark-downs than those charged by other broker-dealers in return for brokerage commissions from transactions for client accounts.

Broker-dealers that execute client trades may provide research products and services to us from time to time. These products and services, which are usually unsolicited, may be in written form, on a website accessible by a PIN number, or available through direct contact with individuals, and may include information as to particular companies and securities as well as market, economic, or institutional information that assists in the valuation and pricing of investments. Examples of research-oriented services provided by broker-dealers include

forecasts and other information concerning the economy, industries, sectors, groups of securities, individual companies, statistical information, political developments, technical market actions, market data, performance and other analyses.

We are not presently under, and do not intend in the future to incur, any obligation to any of the above described broker-dealers to effect any specified number of trades with such broker-dealers. However, we do have one equity agreement to obtain market data which carries no obligation to effect any specified number of trades and the price per trade remains low. A broker-dealer is not precluded from receiving business because it does not provide brokerage or research services. Accordingly, we do not believe that the use of such broker-dealers for client transactions under the circumstances described above has any adverse effect on transaction costs for our clients.

We do not select broker-dealers with any particular criteria other than for them to purchase and sell securities for our client's accounts at prices that represent best execution given a particular set of circumstances.

Research furnished by brokers or dealers may be used in servicing our clients. This research may be used for accounts that do not pay commissions to the broker-dealers providing the research and may not be used for the client accounts that do pay commissions to the broker-dealers providing the research. Research products and services received by us are separate and apart from any arrangements under our Advisory Agreement.

Brokerage for Client Referrals

Neither WCB nor any of our employees recommend brokers or dealers in return for client referrals.

Directed Brokerage

Clients may direct us, in writing, to use a specific broker-dealer to execute some or all transactions for their account. If the client does so, we may not obtain best execution on their behalf, so the client should consider the following information before making that request:

- ☐ WCB may have limited or no ability to negotiate commissions for the client;
- ☐ WCB may be unable to negotiate volume discounts;
- ☐ Disparity in commission charges may exist among clients;
- ☐ Such client may not be able to obtain any of the benefits of block trades that we may enter into for clients who have not directed us to use a particular broker-dealer; and
- ☐ The brokerage commissions and transaction fees charged by broker-dealers are exclusive of, and in addition to, our management fee.

Best Execution

As a fiduciary and money manager, we have an obligation to obtain best execution for client transactions based on the circumstances of each particular transaction. We consider the full range and quality of a broker-dealers service in placing orders with brokerages including, among other things:

- ☐ execution capability;
- ☐ existing relationships;
- ☐ financial strength;

- ☐ reputation;
- ☐ pricing;
- ☐ reporting capabilities;
- ☐ responsiveness to us as the money manager; and
- ☐ types and quality of research.

The determining factor is not solely the lowest possible commission cost, but whether the transaction represents the best qualitative execution for the managed account.

Custodians

As we do not provide custodial services, our clients are required to select their own custodian. However, if a client requests us to suggest a broker-dealer or a bank as a custodian, we will give the client a list of broker-dealers and banks for them to choose from with whom we have prior operational experience. We are independently owned and operated and are not affiliated with any broker-dealers or banks.

Some custodians may also make available to us products and services that benefit us but may be only an indirect benefit to some of our clients. These products and services assist us in managing and administering client accounts and include software and other technology that:

- ☐ provides access to client account data such as:
 - duplicate trade confirmations; and
 - access to an electronic communication network for client order entry and account information;
- ☐ facilitates trade execution including:
 - access to a trading desk serving advisory participants exclusively; and
 - access to block trading, which provides the ability to aggregate trades for multiple

accounts and allocate the appropriate number of shares to each individual account;

- ☐ provides research, pricing information and other market data;
- ☐ facilitates payment of our fees from the client's accounts;
- ☐ assists with back-office functions, record keeping and client reporting; and
- ☐ provides receipt of compliance publications.

Some custodians also make available to us other services intended to help us manage and further develop our business. These services may include:

- ☐ publications and conferences on practice management;
- ☐ information technology;
- ☐ business succession;
- ☐ regulatory compliance; and
- ☐ marketing.

Many of the services described above may be used to benefit all or a substantial number of our client accounts, including client accounts not maintained at a particular custodian. We do not allocate these benefits to specific clients.

Aggregation

We engage in block trading, a circumstance when securities are purchased or sold through the same broker-dealer for multiple discretionary accounts. However, some trades are "stepped out" to meet client-directed brokerage instructions.

In a step-out trade, a brokerage firm executes an entire order and then gives other firms a credit, or commission, for a specified piece of the trade.

For example, an order to a brokerage firm to purchase or sell 500,000 shares could be stepped out to three other brokerage firms in blocks. For example, Firm A may receive a block of 100,000 shares, Firm B may receive a block of 250,000 shares, and Firm C may receive a block of 150,000 shares, and all may receive the same per share commission.

The portfolio manager for each account must reasonably believe that the block trade is consistent with our duty to seek best execution and may benefit each client participating in the aggregated order.

Fixed income trades are executed in a manner to meet the characteristics (including yield and duration) of the specific client's portfolio. On the rare occasion of a sequential trade (for instance, we may buy a new issue corporate at the syndicate price and then follow up with an additional purchase at a higher re-offered price), we allocate securities to clients receiving the bonds from sequential trades on a pro-rata basis so that the effective cost is the same for all clients receiving bonds.

For equity trades, the average price per share of each block trade is allocated to each account that participates in the block trade. Accounts that participate in the same block trade are charged commissions, if applicable, in accordance with the client's Advisory Agreement.

Unrelated client accounts participating in a block transaction may not be charged the same commission rate due to the fact when trades are executed through a broker there generally are two factors that enter into the commission cost:

(1) the per share commission, and (2) the minimum ticket charge.

If a block trade cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day must be allocated in a manner that is consistent with the initial pre-allocation. This must be done in a way that does not consistently advantage or disadvantage particular client accounts. For example, partial fills generally are filled pro rata among participating accounts. Prior to entry of a block trade, a written pre-allocation is generated, which identifies the group of client accounts participating in the order.

Changes in allocation prior to final allocation may be made for good cause provided that all client accounts receive fair and equitable treatment. A written explanation of the reason for any material change in the allocation must be provided to our Operations Department along with a new trade ticket which is attached to the old trade ticket.

We are not obligated to include any client account in an aggregated trade. Transactions for a client's account may not be aggregated for execution if inconsistent with that client's guidelines. No client is favored over any other client. Advisory accounts of our employees and associated persons may participate in block trades. They receive the same average price for all transactions that day and pay commissions and other transaction costs, if applicable, in accordance with their Advisory Agreement.

Some employees and associated persons of WCB may also be clients of the firm. Generally, securities are bought and sold for employees' accounts at the same time and at the same price as other clients' accounts. However, since various broker-dealers may be used to execute such transactions, the same prices may not be possible to achieve. In no case will an employee's account receive a better price than a client account. Such transactions are reported to us in the same manner as other personal securities transactions, but will not be subjected to the blackout period described in Item 11.

Agency Transactions between Advisory Clients

WCB may sell securities from one client's portfolio and subsequently repurchase the same security in another client's portfolio (referred to as an "agency cross trade"). We may execute an agency cross trade when, in our determination, each client benefits from the transaction. As we are not a broker-dealer, or affiliated with a broker-dealer, and we receive no compensation for such transactions, other than our customary advisory fee, the provisions of Section 206(3) of the Investment Advisers Act of 1940, as amended, are not applicable to such transactions. Notwithstanding, we disclose to clients in the Advisory Agreement or in a separate written letter that we engage in agency cross trades. If the client is an ERISA account with under \$100 million in plan assets, we effect agency cross transactions in conformity with the Department of Labor's requirements.

Item 13: Review of Accounts

All accounts are monitored on an ongoing basis and at intervals as agreed to with the client. The reviews focus primarily on consistency of portfolio investments with objectives, benchmarks and risk tolerances. On at least a quarterly basis, performance is reviewed to monitor consistency with the benchmark that has either been provided by the client or agreed to by the client. Account reviews may also be triggered by changes in general economic and market conditions or by a change of investment guidelines. Performance is verified by an independent performance verification service.

In addition to the monthly and quarterly statements provided by us, clients (and their designee) generally also receive statements from the respective custodian at least quarterly. These written statements outline the client's current positions, security cost basis and current market value. Our clients (and their designee) may also receive performance analysis reports prepared by us, which display the time weighted rates of return (a measure of the compound rate of growth which eliminates the distorting effects created by inflows and outflows of money through a portfolio) realized in the client's account.

On a *daily* basis, the **Portfolio Management Staff** conducts the following reviews of client's account: portfolio composition for conformity to regulatory, firm, and client guidelines; asset allocation; and performance reviews.

The **Portfolio Management Staff** is comprised of:

- Charles Webb (CIO & Portfolio Manager),
- Frank Puryear (Senior Portfolio Manager & Director of Research),
- Marshall Cox (Senior Credit Analyst & Portfolio Manager),
- Tim Carpenter (Operations Manager & Portfolio Manager),
- Deena Raja (Portfolio Manager & Corporate Bond Analyst), and
- Guerry Simmons (Equity Portfolio Manager).

The **Portfolio Review Committee**, on a *monthly* basis, conducts a review of all portfolios including performance data, conformity to investment guidelines and regulations, client service issues, best execution, brokerage and custodial issues.

The **Portfolio Review Committee** is comprised of:

- John McDowell, Chairman (President & CEO),
- Charles Webb (Chief Investment Officer & Portfolio Manager),
- Tim Carpenter (Operations Manager & Portfolio Manager),
- Marshall Cox (Senior Credit Analyst & Portfolio Manager),
- Frank Puryear (Senior Portfolio Manager & Director of Research),
- Deena Raja (Portfolio Manager & Corporate Bond Analyst),
- Ann Roberts (Executive Vice President-Marketing and Client Relations),
- Guerry Simmons (Equity Portfolio Manager), and
- Deborah Slocum (Chief Compliance Officer, Director of Administration & Corporate Secretary).

Item 14: Client Referrals and Other Compensation

We rely primarily on the marketing activities of our personnel to solicit new business. However, we have entered into written compensation agreements with certain unaffiliated marketers.

Third Party Cash Solicitors

We pay "cash solicitors" a percentage of the fee paid to the firm by clients who use our services as a result of the cash solicitor's direct or indirect efforts to introduce the client to us. The fee paid to the cash solicitor, which is not passed on to the client, can change from time to time based on events such as the renewal of a contract or the addition of money into the account. All solicitation or referral arrangements comply with applicable laws that govern the nature of the service, fees to be paid, disclosures to clients and obtaining client consent.

WCB has an agreement to act as a cash solicitor for an unaffiliated third-party investment manager. We receive from the manager a percentage of the fee that the client pays to the manager as a result of our direct or indirect efforts to introduce the client to the manager. All solicitation or referral arrangements comply with applicable laws that govern the nature of the service, fees to be paid, disclosures to clients and obtaining client consent.

Consultants and Databases

Many of our clients and prospective clients retain investment consultants to advise them on the selection and review of investment

managers. We provide information on our investment strategies to consultants who use that information in connection with the searches they conduct for their clients. On occasion we respond to request for proposals in connection with those searches. In addition, consultants may, from time to time, request information from us or provide direction to us concerning the accounts we manage for our mutual clients. We will cooperate with such consultants only with prior written approval of our clients.

We do not compensate any consultant for making such introductions but we may have other interactions with them that could include the following:

- ☐ We may pay for the opportunity to participate, along with other investment managers, in conferences or other organized events arranged by consultants. These events provide us with the opportunity to discuss a broad variety of business topics with consultants, clients and prospective clients.
- ☐ We may purchase software applications, access to databases, and other products or services of some consultants.
- ☐ We may invite consultants to events or other entertainment hosted by our firm.

Upon request by individual clients, we provide information regarding the existence of a relationship between our firm and that client's consultant. In general, however, we rely on the consultant to make the appropriate disclosure to its clients of any conflict that the consultant believes to exist due to its business relationship with our firm.

We compensate some third parties to include information about our investment styles in the databases that they maintain to describe the services provided by investment managers.

Item 15: Custody

WCB does not maintain custody of client assets except in the event that the management fee is paid directly to us from the custodial account. As discussed in Item 5: Fees, the client's custodian may debit the account for the amount of WCB's advisory fee only if the client has provided authorization to us to do so in writing. Our clients receive, at a minimum, quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the investment assets. We urge clients to carefully review these statements and compare them to the account statements that we provide, as described in Item 13. Clients should verify that the transactions in both statements agree and are consistent with their investment goals and objectives.

Although we do not maintain custody of our clients' accounts, we seek to safeguard our clients' assets against unauthorized access or disposition by conducting certain internal reviews. Among these are:

- ☐ As transactions are submitted, our recordkeeping system performs several levels of edit processes. These edit processes range from verifying the format of data being entered (e.g., numerical versus alpha, data verification, etc.) to detecting a critical error. If errors are detected at the time of input, the system

will not accept the data and it must be corrected before the data can be input;

- ☐ manual review of trades by our Operations Department to ensure the accuracy of the data being processed;
- ☐ a daily reconciliation of the previous day's transactions, including a reconciliation of the cash position, ensuring trading activity was processed correctly; and
- ☐ reconciliation of our monthly statement to the custodian's statement.

Item 16: Investment Discretion

We offer our advisory services on a discretionary basis. We exercise our discretion in a manner that is consistent with the stated investment objectives for the account. We only exercise discretion in accounts where we have been authorized to do so, in writing, by the client. Such authorization is typically included in the Advisory Agreement, which is signed by the client. This means that we do not need advance approval from clients to determine the type and amount of securities to be purchased and sold for their accounts. We are authorized to, without prior consent, choose broker-dealers to be used (unless instructed otherwise by the clients in writing), negotiate brokerage commissions, and withdraw funds from accounts solely for the purpose of debiting our advisory fee, pursuant to the client's written permission as discussed in Items 5 and 15.

Item 17: Voting Client Securities

We do not take any action or give any advice with respect to voting of proxies solicited by or with respect to the issuers of securities in which client assets may be invested. However, if requested by the client in writing, and if we expressly agree in writing to make such an exception, we will use our best efforts to vote proxies in the client's interest. In addition, we do not take any action or give any advice with respect to any securities held in any accounts that are named in or subject to class action lawsuits. We do, however, forward to the client (or their custodian) any information received by us regarding class action legal matters involving any security held in the client's account. We do take action on tender offers and consents agreements with respect to client securities held in custody.

Item 18: Financial Information

We are required to provide clients with certain financial information or disclosures about our financial condition because we have discretionary authority over our client's accounts. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to the clients. We have not been the subject of a bankruptcy proceeding.