

# FIDUCIARY CAPITAL MANAGEMENT, INC.

## SEC Form ADV Part 2A Firm Brochure

March 2012

This brochure provides information about the qualifications and business practices of Fiduciary Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 203-269-0440 and/or [peter.bowles@fcmstablevalue.com](mailto:peter.bowles@fcmstablevalue.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority.

Additional information about Fiduciary Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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• *Affiliated with Ohio National Financial Services, Inc.* •

## CONTENTS

	Page
Advisory Business_____	3
Fees and Compensation_____	3
Types of Clients_____	5
Methods of Analysis_____	5
Disciplinary Information_____	8
Other Financial Industry Activities and Affiliations_____	8
Code of Ethics_____	8
Brokerage Practices_____	9
Review of Accounts_____	9
Client Referrals and Other Compensation_____	9
Custody_____	10
Investment Discretion_____	10
Voting Client Securities_____	10
Financial Information_____	10
Brochure Supplement_____	11

## **Advisory Business**

Fiduciary Capital Management, Inc. (FCM) was founded in 1987 and registered with the SEC (the SEC requires us to state that registration does not imply a certain level of skill or training). As of April 1, 2012 FCM will have been in business for 25 years. Our owners include Ohio National Financial Services, Inc. (ONFS) headquartered in Cincinnati Ohio, a \$30.6 billion diversified international financial services company, with approximately 60% of FCM's stock and Peter E. Bowles, FCM's founder and President, who owns the remaining 40% of FCM's stock. In 1998, ONFS bought all of the outstanding shares of FCM's other employees all of whom were previously minority stockholders.

Although the bulk of what FCM does is the discretionary management of stable value portfolios for institutional plan sponsors of tax qualified defined contribution retirement plans, we have also provided non-discretionary stable value advisory services to those relatively few plan sponsors who are comfortable in assuming the fiduciary liability and wish to serve as their own stable value manager with the benefit of our advice. As of December 31, 2011, \$1,994.5 billion of our AUM was fully discretionary subject to our management in accordance with investment guidelines mutually agreed to with the client, and \$873.8 million was non-discretionary although managed subject to similar investment guidelines. From time to time, we have also been asked to assist in the purchase of the annuities required when a tax qualified defined benefit retirement plan is terminated since the process of buying the annuity is similar to that for buying a traditional Guaranteed Investment Contract (GIC), and the universe of insurance companies that issue such annuities is much the same as those from which we buy GICs for stable value portfolios. And we are able to provide such plan sponsors with the credit assessment of the annuity purchased, as called for under the U.S. Department of Labor Interpretive Bulletin 95-1 since we have developed the required expertise in assessing the credit worthiness of these issuers in order to consider buying their GICs for our stable value portfolios. We do not participate in any "wrap fee programs".

## **Fees and Compensation**

### **Discretionary Separate Account Stable Value Portfolio Management**

<u>Total Assets under Management</u>	<u>Annual Investment Management Fee as a Percent of Assets</u>
First \$ 50 Million-----	0.26%
Next \$ 50 Million-----	0.14%
Next \$150 Million-----	0.08%
Above \$250 Million-----	0.04%

Minimum Annual Fee: \$26,400

Fees are billed monthly in arrears.

Minimum account size: \$20 million

Fiduciary Capital Preservation Plus Fund

Annual Trustee, Custody and  
Investment Management  
Fee as a Percent of Assets

Total Assets----- 0.35%

The trustee accrues fees on a daily basis.

The minimum account size is \$250,000

Non-Discretionary Stable Value Retainer Service

Total  
Fund Assets

Non-Discretionary Annual Retainer  
Fee as a Percent of Fund Assets

First \$ 50 Million-----	0.16%
Next \$ 50 Million-----	0.08%
Next \$150 Million-----	0.04%
Above \$250 Million-----	0.02%

Minimum Annual Fee: \$18,000

Fees are billed monthly in arrears.

Minimum Account Size: \$20 million

Fees for new clients are not generally negotiable, but older clients have been grandfathered with a somewhat lower fee schedule that may have been in place at the time.

FCM does not have custody of any client funds. Clients generally select their own bank custodian for the retirement plan's assets and pay the custodian whatever fee they may have agreed upon. That fee may be paid out of the plan's assets or by the employer based upon whatever their customary practice has been and the specific plan provisions themselves. There are no brokerage costs when FCM purchases traditional GICs since they are purchased directly from the issuer. A synthetic or insurance company separate account GIC consists of two parts; an underlying fixed income investment portfolio and a "wrap contract" issued by an insurance company or bank that effectively amortizes investment gains and losses incurred by the investment portfolio each calendar quarter over the average life of that portfolio and guarantees that the contract will never experience a return of less than 0.00%. For a synthetic GIC structure, there may be the opportunity to employ a custodian for the contract, in which case the client may select the custodian or may request that FCM do so. Any Brokerage fees, wrap contract fees or sub-advisor fees incurred by a "traditional" synthetic GIC or an insurance company separate account/synthetic GIC contract are netted out of the crediting rate for the contract purchased. Typical wrap fees are about 20 basis points and sub-advisor fees may range from about 15-35 basis points.

Neither FCM nor any of our “supervised persons” accept any commissions or compensation of any sort other than the management fees disclosed above.

Neither FCM nor any of our “supervised persons” accept any performance based fees.

### **Types of Clients**

FCM provides investment advice exclusively to tax qualified retirement plans and other institutions such as trust companies.

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

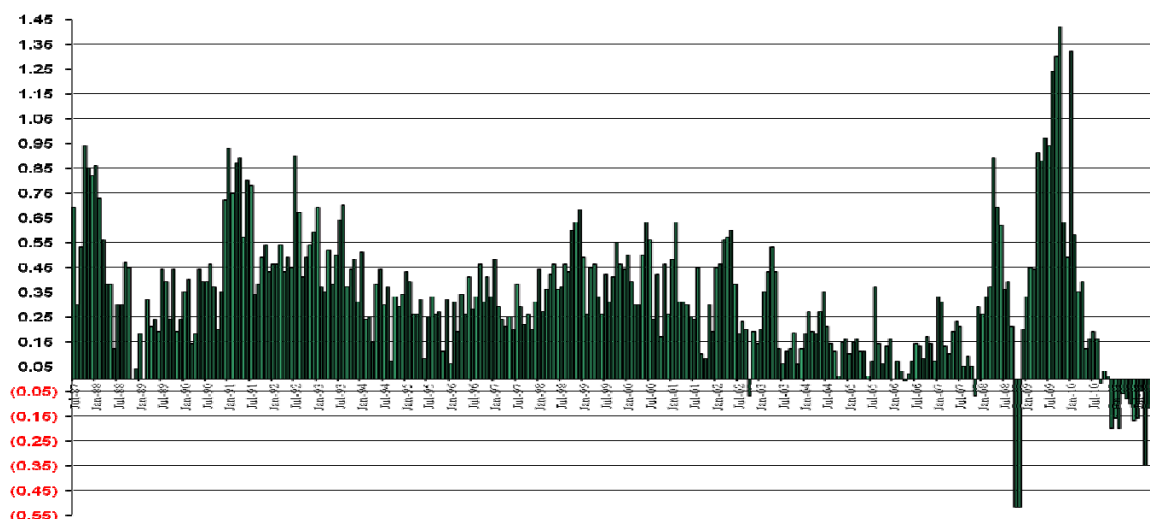
FCM offers both separate account stable value management and a bank trustee pooled fund. If a given plan is large enough to justify a separately managed account, the plan sponsor is able to individually determine the investment guidelines and risk parameters that will shape a separately managed fund rather than having to simply accept the investment guidelines of the pooled fund. And the separately managed account will be unaffected by the impact of cash flows from other plans that may impact negatively on the returns and risks experienced in a pooled fund. Some traditional GIC issuers and wrap writers are reluctant to issue contracts to pooled funds and may offer lower rates or higher wrap fees as a result if they are even willing to end up offering a contract. Moreover, most pooled fund fees are actually higher than those of a separately managed stable value account, so all other things being equal participants are likely to receive a higher net return after fees if they are invested in a separately managed account. For example, the fees for FCM’s pooled stable value fund are a flat 35 basis points regardless of the size of the plan invested in the fund. In contrast, FCM’s fees for a \$100 million separately managed account are only about 20 basis points since our fees scale down as the size of the fund scales up. However, the minimum practical size for a separately managed account is about \$20 million.

We believe in managing portfolios to produce attractive returns while preserving capital in a manner consistent with the client’s needs and preferences. The starting point is to review any existing Investment Guidelines and Performance Measures and make appropriate comments for improvement in discussion with the client. If there are no guidelines in existence, FCM will propose a set for the client’s consideration. Investment Guidelines and Performance Measures are vital, so that the client and we are operating from a mutual understanding of our assignment.

We employ a “top-down” process to make strategic decisions. A team of FCM professionals will have responsibility for each relationship. Our philosophy of teamwork has contributed not only to our very low turnover among staff, but also continuity of process and consistency of results among clients, as well as depth and breadth of experience and cross fertilization of knowledge among our staff. Firm wide investment policy is set in our regular Investment Committee meetings in which all personnel involved in managing client portfolios participate. The job of the individual portfolio manager is to implement the firm-wide policy to which they inputted, while also adhering to their client’s individual investment guidelines. Specific security, managed bond and GIC selection decisions are made by the team based upon their evaluation of relative value added to the portfolio.

The economic value offered by a traditional GIC is very attractive. GICs are issued by one of the highest quality industries followed by the rating agencies, and FCM studies have shown the high GIC exceeds the yield to maturity of a comparable quality/duration bond by 0.33% on average as illustrated by the chart that follows this description. Moreover, most evergreen synthetic GICs incur a wrap fee of about 20 basis points currently and management fees of about 15-35 basis points for a total yield disadvantage compared to GICs of up to about 65-85 basis points. (The combined fees for an evergreen insurance company separate account / synthetic GIC tend to be somewhat lower.) In addition, many active fixed income managers under-perform their benchmarks even before these fees. Consequently, not only does FCM advocate a significant allocation to traditional GICs, but we also feel it is desirable to avoid allocating new assets to evergreen synthetics when interest rates are relatively low and therefore the contract crediting rate is likely to be hampered by the need to amortize capital losses going forward.

### Yield Premium of High Five-Year GICs Over AA Bonds 7/87-12/11



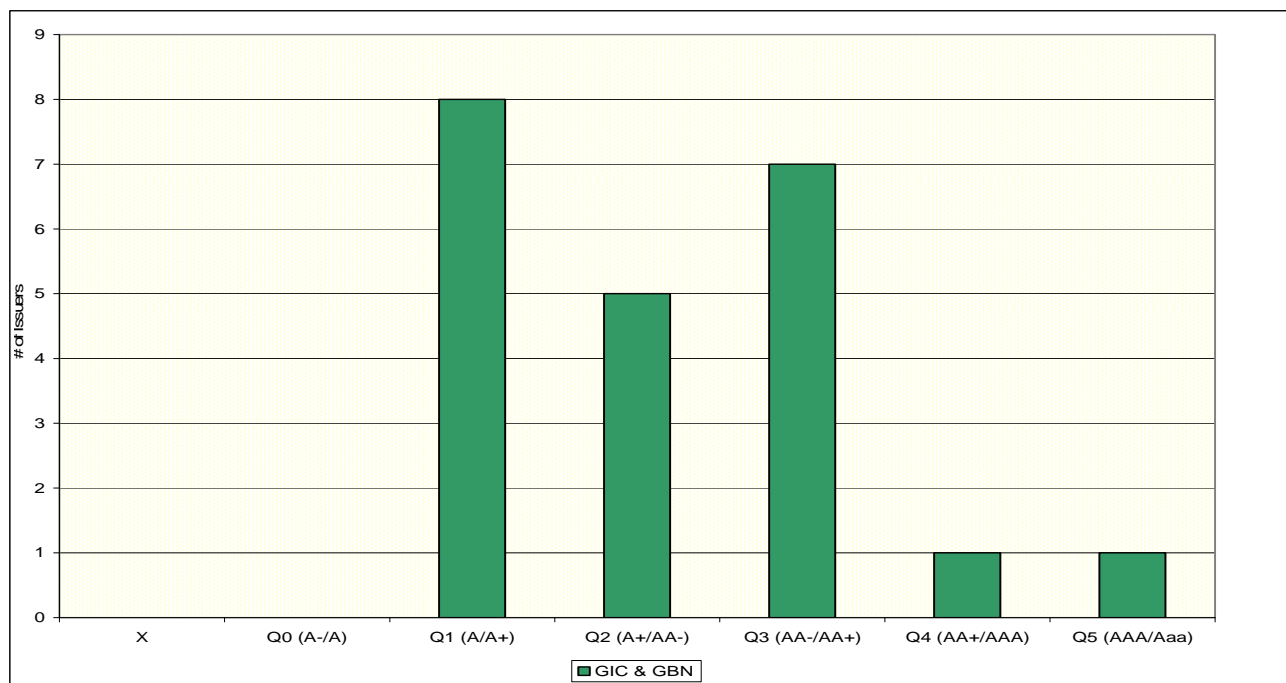
- 294-month average high GIC yield premium over most comparable bond = 0.33%
- GICs = or exceeded bonds in 277 out of 294 months, even before 20+ bps wrap fee.
- Investing in GICs vs. wrapped bonds generally puts more \$\$ in participant accounts.

Although we do not forecast future interest rate movements, we do track the current spot yield of the 5-year treasury relative to the 286-week moving average. When the spot yield is significantly lower than the moving average, we can surmise that new assets invested in evergreen portfolios are more likely to experience capital losses due to the greater probability of interest rate increases in the relative near term. Consequently, if possible, we would avoid adding assets to evergreen portfolios under these circumstances. Conversely, when the spot yield is significantly higher than the moving average, we can surmise that new assets added to evergreen portfolios are more likely to experience

capital gains due to the greater probability of interest rate decreases in the relative near term. Therefore, under these circumstances we would be more likely to add assets to evergreen portfolios.

Historically we had used bonds for buy & hold synthetics which were purchased as GIC substitutes when GIC yield premiums over bonds are relatively tight. Currently, there is virtually no wrap contract capacity for buy & hold synthetics, but if and when it becomes available, we would use them once again opportunistically. As mentioned above, the economic value offered by a traditional GIC is very attractive, with the high GIC exceeding the yield to maturity of a comparable quality/duration bond by 0.33% on average. However, we have found in tracking the GIC yield premium that there is a fair amount of variability. Moreover the fund's investment guidelines regarding diversification may appropriately restrict the manager's ability to buy some of the highest yielding GICs on any given day if concentration maximums for any given issuer have already been met. Consequently, we would survey the bond market concurrent with soliciting GIC bids in order to make a direct comparison. In addition to the other considerations, we are also mindful of the up to 20 basis point wrap fee that must be subtracted from the buy & hold bond yield.

FCM's Research Department currently follows the 27 insurance companies (22 after consolidation of subsidiaries) that represent, by far, the major portion of insurance company assets in the United States. This universe includes every current issuer of GICs and book value wrap contracts as well as those past issuers with a material amount of contracts still outstanding. The FCM credit research process incorporates the use of a wide variety of data from a number of sources, including original GAAP and Statutory Financial Statements, and encompasses the internal analysis of financial statistics using several databases, as well as periodic on-site meetings with management. FCM's independent analysis has proven to be an invaluable component of the management of credit risk. Although FCM's proprietary quality rating system is internally developed and maintained through independent research and analysis, FCM draws upon a number of services, including Standard & Poor's Corporation, Moody's Investors' Service, Fitch, Insurance Research Group, and A.M. Best, as sources of information. In addition, FCM receives extensive research on insurance companies from the Bloomberg Professional Service, including current news and debt pricing levels. FCM's proprietary ratings range from X, non-investment grade, to Q5, our highest rating, as illustrated in the chart which appears below and which indicates the approximate equivalent agency rating. However, since we are investing participant dollars, we generally restrict investments to issuers rated Q2 and higher as a matter of practice.



It is noteworthy that no FCM managed stable value portfolio has ever experienced any loss of principal during our 25-year history. However, the SEC requires us to point out that no investment is risk-free.

As mentioned earlier, FCM does not forecast the future course of interest rates, a market-timing tactic that has been shown to be problematic. However, we do actively manage the duration of the portfolio in accordance with the agreed upon investment guidelines. Typically this is a range from approximately 1.75 years up to about 3.75 years. We shrink the portfolio duration when current rates are low as compared to near-term historical rate levels and the converse when current rates are high. FCM employs its proprietary model that draws upon historical rate comparisons. The average duration of the total fund over time is likely to be approximately the midpoint of the agreed upon range. In recognition of the relatively low rates currently, our duration target is now 1.75 years, although only one of our accounts has yet reached this level since shrinking stable value portfolio duration is very much like turning the proverbial ocean liner.

Even though the fixed income portfolios within evergreen separate account/synthetic contracts are internally diversified, it is also important to have multiple investment styles and philosophies represented in the stable value fund so that when one approach is out of favor there is the possibility that another style or philosophy is performing relatively better to compensate for the one that is underperforming. For this reason, FCM suggests limiting the maximum exposure to any single insurance company separate account/synthetic GIC contract to about 20%-25% of the Fund.



### **Disciplinary Information**

At no time during FCM's 25-year history has the firm been involved in any criminal, civil administrative or regulatory disciplinary events nor have we ever been found to have violated any laws. In addition, we have never been involved in any self-regulatory organization (SRO) proceeding.

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

FCM is a member of the Plan Sponsor Council of America (PSCA) and the Stable Value Investment Association (SVIA). In addition, FCM is 60% owned by Ohio National Financial Services, Inc. which also owns Ohio National Life Insurance Company, a sometime issuer of traditional GICs. FCM has occasionally purchased Ohio National GICs for its clients when they offered the best combination of rate and quality then available and consistent with the client's investment guidelines. Their contracts currently represent only about 2.3% of our total assets under management. Any client who wishes to do so may specify in their investment guidelines that we are not permitted to buy Ohio National GICs, but to date none have done so. FCM does not receive any compensation or commission when purchasing Ohio National GICs other than the management fees paid by the client that are defined above.

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

Pursuant to SEC rule 204A-1, FCM has adopted a Code of Ethics that sets forth standards of conduct reasonably necessary to prevent any of our employees from engaging in acts:

- (a) To employ any device, scheme or artifice to defraud;
- (b) To make any untrue statement of material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances in which they are made, not misleading;
- (c) To engage in any act, practice or course of business that operates or would operate as a fraud or deceit; or
- (d) To engage in any manipulative practice.

This Code of Ethics sets forth a standard of conduct and professionalism that applies to all persons designated as Supervised Persons and Access Persons of FCM. We will be happy to provide any client or prospective client with a copy of the Code upon request.

### **Brokerage Practices**

As mentioned above, the traditional GICs and insurance company separate account/synthetic GICs that we buy for our clients' accounts are purchased directly from the original issuer, so it is very rare that a broker is ever involved in our purchase of securities for client accounts. On those rare occasions where we buy an individual fixed income security to be wrapped as a buy & hold synthetic as a substitute for a traditional GIC, we draw upon one of several brokerage relationships that we have developed for this purpose. The purchase decision is always made exclusively based upon availability of the security needed and the net yield. FCM never receives any soft dollar benefits

from any of our brokerage relationships, and only a minimal amount of unpaid research. Moreover, we have never received any client referrals from any broker.

### **Review of Accounts**

Our monthly accounting includes an exhibit which provides the three primary agency ratings from Fitch, S&P and Moody's as well as the proprietary FCM credit rating on all GIC issuers held in the portfolio at that time as well as the percentage held of each issuer. The quality distribution is summarized at the bottom of the same exhibit. In addition, a page is included updating the plan on any credit ratings changes or affirmations that have occurred during the preceding month.

Our quarterly management report communicates how the portfolio is doing in meeting its investment guidelines and performance measures and includes a variety of exhibits dealing with credit: The Portfolio Summary lists all issuers held in descending order of commitment, with their proprietary FCM credit rating. There is also a summary of the allocation within the portfolio by credit quality with both the FCM proprietary and equivalent agency ratings plus a chart illustrating the same information. An alphabetic listing and chart of all credits in the account is included. Finally, there is a narrative explanation of the proprietary FCM credit ratings and a chart showing their distribution included.

### **Client Referrals and Other Compensation**

We do not have any agreements in place with third party marketers which would result in our paying them compensation if they referred clients or were material in our gaining a new client.

### **Custody**

FCM has never had custody of any client funds. Clients generally select their own bank custodian for the retirement plan's assets and pay the custodian whatever fee they may have agreed upon. For a synthetic GIC structure, there may be the opportunity to employ an institutional custodian for the contract, in which case the client may select the custodian or may request that FCM do so.

### **Investment Discretion**

FCM does accept investment discretion as mentioned above. In every case there is a mutually agreed upon Investment Management Agreement that has a detailed set of Investment Guidelines as an attachment. The Investment Guidelines permit the client to define the risk parameters of the portfolio that FCM is delegated the responsibility to manage.

### **Voting Client Securities**

Since FCM does not purchase any equities, there are not voting right associated with our portfolios.

**Financial Information**

FCM does not require prepayment of any fees. FCM does have discretionary authority over many of its clients' accounts, but has more than a year's worth of expenses in its capital accounts and a parent (ONFS) with over \$30 billion in AUM, so there is no risk of our not being able to continue our operations.

# **FIDUCIARY CAPITAL MANAGEMENT, INC.**

## **SEC Form ADV Part 2A Brochure Supplement**

**March, 2012**

**This brochure supplement provides information about Peter Bowles, Robert McEvitt, David Molin, Sandra Costa and Kristine Pavelchak that supplements the Fiduciary Capital Management, Inc. brochure. You should have received a copy of that brochure. Please contact us at 203-269-0440 or [peter.bowles@fcmstablevalue.com](mailto:peter.bowles@fcmstablevalue.com) if you did not receive Fiduciary Capital Management's brochure or if you have any questions about the contents of this supplement.**

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FCM Professional Biographies

Peter E. Bowles, CEBS, President and Chief Investment Officer, born in 1942, is the founder of Fiduciary Capital Management and has more than 47 years of diversified pension, investment, trust and investment consulting experience, 25 years of it with FCM. He serves as a Senior Peer Reviewer and chairs FCM's Investment Committee. Prior to founding FCM, Mr. Bowles served as Principal, Senior Investment Consultant and National Director of Insurance Consulting Services with Meidinger Asset Planning and William M. Mercer, Inc. He has also served as Vice President at National Securities and Research Corporation, and as Vice President and Pension Investment Officer at Citytrust Bank, N.A. Mr. Bowles was previously with Connecticut General Life Insurance Company (CIGNA) as Assistant Director, Group Pensions. Mr. Bowles began his business career with Sterling Grace & Co. where he was a broker assistant on the trading floor of the New York Stock Exchange and served as an equity trader in OTC stocks. Mr. Bowles graduated from Hamilton College having earned a B.A. in Economics, and from Phillips Exeter Academy. He earned the Wharton School "Certified Employee Benefit Specialist" designation, is a past member of the Board of Directors of the Stable Value Investment Association, and the Profit Sharing/401(k) Council of America's Communications Committee. Mr. Bowles has been a periodic commentator in the trade press and speaker at industry seminars.

Robert J. McEvitt, Executive Vice President and Senior Portfolio Manager, born in 1952, has over 36 years of investment experience, 17 years of it with FCM, and is responsible for the investment of client assets, reporting, client relations, and accounting for certain discretionary portfolios. He serves as a member of the FCM Investment Committee. Mr. McEvitt was previously with The Travelers Insurance Co. Asset Management and Pension Services Department, where he served as Assistant Director of Account Management, Assistant Director of Group Pension Underwriting, and as a Manager in Contract/Legal and Regulatory Affairs. Mr. McEvitt is a graduate of Union College, NY having earned a B.A. in English.

David J. Molin, CFA, Senior Vice President and Director of Research, born in 1970, has 19 years of investment experience, including nearly 12 years with FCM, and is responsible for managing FCM's proprietary credit assessment process and evaluating the investment merits of new and emerging GIC and synthetic products. He is a member of the FCM Investment Committee and actively contributes to the investment decisions made on behalf of FCM clients. Mr. Molin previously served with Fleet Boston as Audit Supervisor, and the FDIC as a Commissioned Bank Examiner. He graduated from Bentley College, having earned a B.S. degree in Finance and has attained his Chartered Financial Analyst designation from the Association of Investment Management and Research (AIMR).

Sandra A. Costa, Vice President and Portfolio Manager, born in 1976, has over 16 years of experience with FCM in providing client service and assisting in the portfolio management process for FCM Stable Value clients and participates in FCM Investment Committee meetings. She graduated from Post University with a B.S. Degree in Finance.

Kristine R. Pavelchak, Assistant Portfolio Manager and research assistant, born in 1980, has 9 years of investment experience, including approaching 6 years with FCM. She works closely in support of

Messrs. Costa, McEvitt, and Molin and participates in FCM Investment Committee meetings. ING Investment Management previously employed Ms. Pavelchak in their investment department. She graduated from the University of Connecticut with a B.S. in Business Administration.

None of the above FCM “supervised persons” has ever been subject to any criminal or civil legal action, or administrative proceedings before the SEC or any other regulatory agency, or self-regulatory organization (SRO) disciplinary proceedings, or any other proceedings material to a client’s or prospective client’s evaluation of the supervised person.

None of the supervised persons above are actively engaged in any investment-related business or occupation other than their work at FCM.

None of the supervised persons above receive any economic benefits for providing advisory services other than for their work at FCM.

### Supervision

We employ a “top-down” process to make strategic decisions. A team of FCM professionals has responsibility for each client relationship. Our philosophy of teamwork has contributed not only to our very low turnover among staff, but also continuity of process and consistency of results among clients, as well as depth and breadth of experience and cross fertilization of knowledge among our staff. Firm wide investment policy is set in our monthly Investment Committee meetings in which all supervised persons involved in managing client portfolios participate. The job of the individual portfolio manager is to implement the firm-wide policy to which they inputted, while also adhering to their clients’ individual investment guidelines. Individual security selection decisions are made by the team based upon their evaluation of relative value added to the portfolio. As a result of the above, the supervised persons effectively provide oversight over each others activities, which are also still subject to the supervision of the Chief Investment Officer, Peter Bowles.

For each discretionary client portfolio, FCM provides monthly accountings to the client of the portfolio holdings reflecting all receipts, investments, redemptions and disbursements, including brokerage commissions and other transaction costs during the month, and the opening and closing totals values of the Account within approximately seven (7) business days after the close of that month after reconciliation with the Fund custodian selected by the client. And as mentioned earlier, our quarterly management report provides the client with information as to how the portfolio is doing in meeting its investment guidelines and performance measures.

All supervised persons are required to submit a Quarterly Report of Securities Transactions reflecting personal securities transactions within 30 days after the close of each calendar quarter to the office of our Chief Compliance Officer (CCO), Dennis Taney, who is located with Ohio National Financial Services in Cincinnati.

The CCO and his staff also conduct an annual on-site review of our compliance with SEC and other regulatory requirements.