

McDonald Capital Investors, Inc.

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This brochure provides information about the qualifications and business practices of McDonald Capital Investors, Inc. If you have any questions about the contents of this brochure, please contact us at 925-258-5401 or email the Compliance Officer at linda@mcdonaldcapital.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 McDonald Capital Investors, Inc. is also available on the SEC's website at www.advisorinfo.sec.gov.

Item 2 – Summary of Material Changes

The last annual update of McDonald Capital Investors' brochure (formerly ADV Part 2) was done on March 31, 2011 and reflected on the firm's assets, investment approach and business practices as of December 31, 2010.

This **brochure** reflects on the firm's assets, investment approach and business practices as of December 31, 2011. There were no material changes to the firm, its investment approach or business practices during calendar 2011.

The only changes to this brochure (3.30.2012) relate to the firm's assets under management. These changes were very modest:

- Item 4 - Section B: Services Provided to Clients with Equity-only and balanced portfolios, page 5:
 - Last year:
As of December 31, 2010, equity-only and balanced account assets represented 93% of the firm's total assets. Of that 93%, balanced accounts were 5%
 - Change – this year:
As of December 31, 2011, equity-only and balanced account assets represented **92%** of the firm's total assets. Of that 92%, balanced accounts were **9.5%**
- Item 4 - Section B: Services Provided to McDonald Investment Assoc. and North Star Hedge Fund, page 6:
 - Last year:
As of December 31, 2010, assets in North Star Hedge Fund represented 7% of all McDonald Capital Investors' assets under management.
 - Change – this year:
As of December 31, 2011, assets in North Star Hedge Fund represented **7%** of all McDonald Capital Investors' assets under management.
- Item 4 - Section B: Services Provided to McDonald Investment Assoc. and North Star Hedge Fund, page 6:
 - Last year:
As of December 31, 2010 assets in North Star represented 7% of all McDonald Capital Investors' assets under management. Eight limited partners in North Star were also clients of McDonald Capital Investors' (10% of the total number of MCI clients).
 - Change – this year:
As of December 31, 2011 assets in North Star represented **8%** of all McDonald Capital Investors' assets under management. **Six** limited partners in North Star were also clients of McDonald Capital Investors' (**8%** of the total number of MCI clients).
- Item 4 - Section E: Client Assets Under Management, page 7:
 - Last year:

Discretionary Assets:	\$573,540,570
North Star Hedge Fund:	<u>\$ 48,841,636</u>
Total:	\$619,382,206
 - Change – this year:

Assets Under Management (all discretionary):	\$567,501,335
North Star Hedge Fund (also discretionary)	<u>\$ 51,952,575</u>
(private fund related to McDonald Capital)	Total \$619,453,910

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Item 4 - Advisory Business

A. Description of Firm, History and Ownership

McDonald Capital Investors, Inc. (MCI) is an independent, privately owned corporation. The firm has been in continuous operation since 1981. The firm has one office (Orinda, CA), no subsidiaries and no affiliates. Every employee of the firm is considered a “supervised” person and has contact with clients. Only the firm principals, Drew and Trent McDonald, provide investment advice and portfolio management to clients.

Andrew (Drew) McDonald founded the firm in 1981. Drew was born in 1955. He received a bachelor’s degree in Psychology and a graduate degree in Industrial Engineering from Stanford University in 1977 and 1980, respectively. His brother, Trent McDonald, joined the firm in 1986. Trent was born in 1958. He received a bachelor’s degree in Economics from Stanford University in 1980 and a graduate degree from the Stanford Graduate School of Business in 1982. He worked as a management consultant on strategic planning and financial management matters before joining McDonald Capital.

When Trent joined the firm, he and Drew divided the equity ownership of the business: 50% each. Subsequently, another individual purchased a minority financial interest in the firm of 16.5% and Drew and Trent now own 41.75% each. The individual who purchased 16.5% is a passive investor and has no role in the shaping of investment policy, portfolio management or the operations of the firm.

Drew and Trent McDonald are the firm principals, investors, analysts and portfolio managers. Linda Udall, the Chief Compliance Officer, has been with the firm since 1991 and supervises administration, operations, client service and compliance. Linda was born in 1957, received a bachelor’s degree from Stanford University in 1979 and a graduate degree from the University of California, Los Angeles, School of Public Health in 1982. Prior to joining the firm she worked in public health program planning and administration.

Two additional employees currently support back office operations including trade clearing, settlement, and client service. Over the years the firm has employed up to three people performing this function.

B. Services Provided

Discretionary Advisory Services to Clients with Equity-only and Balanced Portfolios

The firm primarily provides investment management services for client portfolios with either an equity-only or balanced approach. The equity-only product is open to new clients, while the balanced product was closed to new clients in 1995. Equity-only and balanced account assets represented 92% of all assets under management as of December 31, 2011. Of that 92%, only 9.5% of the assets are in the few remaining balanced accounts. McDonald Capital has complete discretion over the investment decisions (selection and amount of securities to be bought or sold) for the accounts of clients receiving either of these services.

The firm's equity investment philosophy and approach are consistent for the equity-only accounts and for the equity portion of its balanced accounts. Our fundamental objective is to acquire interests in well capitalized, well managed, growing businesses when the market substantially understates their economic value. Companies selected for investment meet certain financial and operating criteria. These criteria include: low debt, high return on equity, substantial free cash flow, superior management and evidence of a sustainable competitive advantage in their business or industry. Companies meeting these criteria are then purchased when they can be found in the market at a substantial discount to their intrinsic or fair value.

In order to find attractive business that fit our criteria, our research process begins with screening roughly 9,000 U.S. (domestic) publicly traded companies for the financial and operating characteristics just described. Of these, approximately 200 are selected to research in-depth and are followed on an ongoing basis. We acquire ownership interests in 13-20 of these businesses, regardless of their industry group or size, when we believe they are selling at a discount to their intrinsic value. We expect to hold investments over three to five years, over which time we expect to benefit from price appreciation - as the market price better reflects its intrinsic value - and also from the underlying growth of each company over the holding period. These securities are either U.S. publicly traded stocks or the convertible bonds of domestic companies. Convertible bonds may or may not be investment grade.

Drew and Trent McDonald both participate in the research and stock selection process. Our buy/sell discipline may be simply stated as a process which leads us to buy the stocks of certain companies when they can be purchased at material discounts to "fair" value (their appraised value) and sold when they reach that value. Over our projected holding period business results may deviate from our expectations or other circumstances may arise which cause us to believe that our original appraisal was incorrect. As new information becomes available, we adjust appraisals and sell if appropriate.

Balanced accounts hold a combination of equity securities and fixed income (bond) securities. Bonds selected for balanced clients are typically investment grade. Bond maturities range from one to fifteen years. Government, corporate, and municipal bonds may be selected as appropriate for balanced clients. Bonds are typically purchased for yield and not as a vehicle to profit from interest rate changes.

Discretionary Advisory Services to McDonald Investment Associates and North Star Hedge Fund

The firm provides investment advice at no fee to North Star Hedge Fund, LP, a private fund that has as its general partner, McDonald Investment Associates. Drew and Trent McDonald are the General Partners of McDonald Investment Associates (MIA). As of December 31, 2011, assets in North Star Hedge Fund represented 8% of all McDonald Capital Investors' assets under management.

Several investment strategies are employed for North Star, which we believe are complementary to one another and derive from McDonald Capital's core research efforts. One strategy is the same equity investment approach just described in this section (Item 4.B., previous page). Two additional strategies most often employed are convertible arbitrage and risk arbitrage. Asset allocation between the three strategies is opportunity driven.

A convertible arbitrage investment may have two components: the purchase of an interest bearing convertible bond or preferred stock ("the convertible") and the short sale of the underlying common stock ("the underlying stock"). The proceeds from the short sale of common stock create a credit balance. The credit balance earns interest commonly referred to as a "short rebate". Given the interest (or dividends) from the convertible and the short rebate, convertible arbitrage investments typically produce relatively positive cash flows or income. Absent fluctuations in the principal value of the convertible and the short stock position (the hedge), income from a convertible arbitrage investment is typically above Treasury bond yields of similar maturity.

A risk arbitrage investment considers the securities of companies that are being acquired, merged with other companies, or restructured in publicly announced transactions. Publicly available information is used to identify securities that may be purchased for a finite period to earn an attractive annualized rate of return, given our assessment of the likelihood that the transaction will be completed. We focus on transactions that have regulatory approval and for which there is sufficient information from public filings and the company(s) involved with the transaction to assess the expected return from its investment.

Clients of McDonald Capital Investors are not solicited to invest in North Star. Clients who are qualified investors are however not prohibited from purchasing a limited interest in North Star Hedge Fund. As of December 31, 2011, 6 limited partners in North Star were also clients of McDonald Capital Investors (8% of the total number of MCI clients).

Because Drew and Trent McDonald advise both North Star and other clients of McDonald Capital, a logical question might be are there conflicts of interest for them in allocating management time, services and functions between the two entities? Drew and Trent believe that the investment strategies utilized for North Star and McDonald Capital are synergistic and leverage the same research effort, mitigating any conflict. Because of the profit incentive fee from North Star to Drew and Trent as its general partners, a conflict of interest could exist in allocating investment opportunities between North Star and McDonald Capital clients. We believe that adequate policies and procedures are in place at McDonald Capital to mitigate the conflict of interest regarding the allocation of investment opportunities.

Drew and Trent McDonald also have personal accounts that they invest alongside their McDonald Capital clients. They each have accounts that are invested as balanced accounts and managed in the same manner as those of our clients. As general partners of North Star Hedge Fund, they are co-investors in that private fund as well. Drew and Trent McDonald believe that investing their assets alongside those of their clients aligns the interests of both the advisor and the clients and avoids the potential for conflict.

C. Tailoring Services to the Individual Client

Generally the firm does not tailor its investment services to an individual client's needs. The investment philosophy, strategy and process are the same for all equity and balanced clients. The limited partners in North Star all receive the exact same service because it is a pooled fund. On occasion, the firm will adjust the asset allocation of a balanced portfolio to account for the specific needs of that client, meaning the portfolio will contain the exact same securities but in a slightly different mix.

The firm does tailor its management (non-investment) services to clients. Examples of this include: we will hold cash in reserve for a client who needs a routine quarterly distribution of a certain amount; from time to time, the firm will agree to retain legacy securities in an account that we manage as an accommodation for a client; at the client's direction, we may affect a sale of unsupervised securities in order to assist the client in obtaining reasonable execution. These are not advertised services and the firm does not charge additional fees for holding unsupervised assets, directing quarterly distributions or selling unsupervised assets.

MCI will on occasion accept an account where the client imposes as specific security restriction (e.g. do not buy XYZ company) or a more broad mandate such as "no tobacco stocks". The firm agrees to manage these accounts on a case by case basis and only when it concludes that the requested restriction will not have a significant impact on our ability to execute our stated investment approach.

D. Wrap Fee Programs

The firm does not participate in any wrap fee programs.

E. Client Assets Under Management

As of December 31, 2011 total assets under management are equal to \$619,453,910 and are discretionary.

Item 5 - Fees and Compensation

A. Compensation Schedule

Equity and Balanced Accounts:

- Accounts of three million dollars and under are charged a management fee of 1% annually (or 0.25% quarterly). Accounts between \$3 million and \$10 million are charged an annual fee of 1%/year on the first \$3 million and .75%/year on the balance. Accounts of \$10 million or greater are assessed a management fee of 0.75%/year (0.1875% per quarter) on all of their assets.
- Performance based fees are considered for qualified clients and such arrangements are made on a case by case basis.
- Fees may be waived or modified for a client.
- Fees are negotiable.
- Some clients may pay more or less than others for similar services and may receive similar services elsewhere at lower cost.

Private Fund – North Star Hedge Fund

McDonald Capital Investors does not charge North Star Hedge Fund (McDonald Investment Associates) a fee to manage the assets in the account. McDonald Investment Associates, with Drew and Trent McDonald as the general partners, receives a quarterly management fee equal to .125% on beginning net assets each quarter. Under the Management Agreement, the General Partner bears certain specified day-to-day operating expenses of the Partnership, including salaries, rent and other office expenses. All other Partnership expenses (including for example interest on margin accounts, legal and accounting fees, custodial fees, brokerage commissions and bank service fees) are borne by, or reimbursed to the General Partner by, the Partnership. The General Partner also receives a profit reallocation of 15% of the net income to the limited partners, subject to a high water mark.

B. How Fees are Calculated and Billed

Equity and Balanced Accounts

Fees are billed quarterly in arrears. Fees are calculated based on the fair market value of assets at the end of each quarter (March 31, June 30, September 30 and December 31).

For portfolios that have had significant cash flows during a quarter (defined as total contributions or withdrawals greater than ten percent of the fair market value on the last day of the previous quarter), fees are based on the average of the three month-end portfolio values during the quarter.

Clients are given the option of having their custodian pay McDonald Capital's management fees directly from their account or paying the fees themselves. Those who elect to have McDonald Capital bill the custodian may: (1) sign a letter of authorization to that effect which is kept with their permanent records in their correspondence file; (2) provide such authorization in the body of a custodial account agreement (kept with our permanent records if made available to us); or (3) in some instances where McDonald Capital Investors is not involved in setting up the relationship with the custodian, the agreement between the custodian and client may be that the custodian requests permission from the client each time a bill is submitted. Often such approval is verbal and there may be no documentation for our file.

All clients receive an invoice for their quarterly fees that reflects to whom the invoice is directed, the calculation method used and the period that the fee covers. All clients are notified that verifying the accuracy of the invoiced amount is their responsibility. McDonald Capital Investors does not submit invoices to custodial accounts for clients who elect to have the fee paid from the account until at least ten days after the invoice has been mailed to the client for review.

Fees are prorated for clients whose accounts are initially funded at any day other than the first day of the quarter (January 1, April 1, July 1 or October 1) as well as for clients who terminate their accounts before a quarter-end. The proration calculation is as follows:

Market value as of termination date multiplied by that client's fee rate

Divided by the number of days in that quarter

Multiplied by the number of days the portfolio was managed until the termination

Private Fund – North Star Hedge Fund

MIA, the general partner, invoices the Fund – North Star – for all fees and expenses at the end of each calendar year, following the completion of the annual audit.

See above section Item 5 A.

C. Other Fees

Equity and Balanced Accounts

Private Fund – North Star Hedge Fund

All client accounts will incur brokerage, other transaction costs and/or fees as a result of investment decisions McDonald Capital makes. In the case of brokerage commissions, the firm seeks to find the best execution for every client (see Item 12. A. of this document).

- In the process of buying and selling securities for equity and balanced accounts, brokers will charge a commission to execute trades. Please read Item 12. A. of this document for more information about brokerage choices and costs.
- Commission rates generally range from \$0.02/share to \$0.05/share, although some brokers impose a minimum commission on smaller trades. The minimum commission varies by broker but is usually around \$20/trade (not per share).

Certain custodians that also have a brokerage unit may charge a fee for the execution of securities trades at other brokers. These charges range from \$15 to \$35 depending on the custodian and type of trade (equity or bond). Transaction costs and expenses charged by custodians may or may not be negotiable.

D. Fees in Advance

Equity and Balanced Accounts

Advisory fees are not charged or paid in advance for these services.

Private Fund – North Star Hedge Fund

McDonald Capital Investors does not charge McDonald Investment Associates (MIA), the general partner of North Star Hedge Fund, a fee to manage the fund's assets. MIA does receive a management fee from North Star in an amount equal to .125% of the net asset value of the fund as of the first day of the quarter (.5% of the assets of the Partnership per year). The fee may be paid in advance. Under the management agreement, MIA bears certain specified day-to-day operating expenses such as rent and other office expenses. All other expenses to manage the fund (examples include: interest on margin accounts, legal and accounting fees, custodial fees, brokerage commissions and bank service fees) are borne by, or reimbursed to MIA by North Star.

The fund's income or loss (that is, all portfolio gains and losses, whether realized or unrealized, dividends and interest etc.) less all expenses (including the management fee) will be allocated to the partners in the fund in proportion to their capital account balances as of the start of each period. Annually MIA receives a reallocation of fifteen percent (15%) of the net income to limited partners and that reallocation is subject to a "high water mark" (defined in Item 6 to follow).

Limited partners are allowed to withdraw capital once per year at December 31 [after their initial two year lock-up period lapses.] Pursuant to the Partnership Agreement all fees - management or otherwise - are only charged on assets that are under management for a contractual period so Limited Partners are not eligible for refunds.

E. Other Compensation

Neither McDonald Capital nor its employees accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

Item 6 - Performance-Based Fees and Side-By-Side Management

Equity and Balanced Accounts

All of McDonald Capital's managed accounts are charged an agreed upon fee, stated in their investment advisory agreement, that is based on their assets under management at the end of each calendar quarter. Although the firm is willing to accept performance based fees as an alternative fee arrangement to its standard schedule, it currently has no clients with this arrangement.

Private Fund – North Star Hedge Fund

As described in the previous section (Item 5.D.), McDonald Capital Investors does not charge an investment advisory fee to North Star. However, Drew and Trent McDonald, as the general partners of the fund, charge a management fee based on the net asset value of the fund as of the first of each calendar quarter. Further, they receive a reallocation of 15% of Fund's the net income (a performance based fee) at the end of each calendar year, subject to a high water mark.

The "high water mark" generally means that the General Partner will receive the 15% reallocation only to the extent that a limited partner's share of net income in any year exceeds the highest previous level of cumulative net income allocated to the Limited Partner for prior years. No reallocation will occur with respect to current income which restores previous losses. If a limited partner makes a partial withdrawal at a time when unrestored net losses exist, the amount of such losses will be reduced in the proportion that the amount withdrawn bears to the Limited Partner's capital account balance.

Drew and Trent McDonald as the general partners of MIA have a portion of their personal assets invested alongside with the Limited Partners of the Fund. (They also invest separate personal accounts alongside the equity and balanced clients managed by McDonald Capital.) The management fee that MIA charges North Star is asset based - as is the fee McDonald Capital charges is clients. The fact that MIA also receives an additional profit reallocation based on the appreciation of the assets in the account (a performance based fee) could provide an incentive for Drew and Trent McDonald to favor this account over other accounts that they manage.

We believe the conflict of interest is mitigated in several ways:

- Drew and Trent align their interests with those of their clients by investing their assets alongside their clients - both as investors in North Star and with separate non-pooled accounts managed in line with equity and balanced clients - applying the same investment approach.
- Drew and Trent's livelihood depends on their ability to make money for the clients of McDonald Capital. Relative to the client base of McDonald Capital, North Star is a small account. Favoring North Star over other clients would be counterintuitive and counterproductive for everyone.
- North Star and all other clients of McDonald Capital have their assets held/custodied by a qualified custodian. Securities transactions in all of the accounts are allocated, cleared and settled by all back office staff employees that see every trade placed in all accounts. Any unethical activity would be easily observed by employees and the CCO and is prohibited by McDonald Capital's compliance and policy and procedures manuals.
- All of McDonald Capital's accounts – including North Star – are typically traded in blocks together to assure that there is no price discrimination or preferential treatment provided to North Star or any other account.

Item 7 - Types of Clients

The firm has a stated account minimum of \$5 million. This minimum can be modified by Drew and Trent McDonald at their discretion. The types of clients that the firm currently serves are banks (generally as trustees of private client accounts), individuals, trusts, estates, foundations, other charitable organizations, corporations, IRAs, pension and profit sharing plans, endowments, and partnerships.

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

Investing in equity and debt securities of any kind involves the risk of permanent capital loss (examples of which include business failure or impairment) and market loss (the risk that market fluctuations cause the price of the security to fluctuate unfavorably). Clients should be prepared to bear and accept these risks.

The investment approaches for all clients (equity, balanced and North Star Hedge Fund) were described in detail in Item 4.

A. Analysis, Investment Strategies and Risks for Equity and Balanced Accounts

MCI believes capital preservation is central to successful investing. MCI applies a value-oriented approach to investing that focuses on superior, growing businesses. We seek to profit from both the growth in economic value during our holding period and a more favorable pricing relative to intrinsic value. Each investment has been the subject of intensive preliminary and ongoing research by Drew and Trent McDonald. Drew and Trent together are responsible for all investment decisions at the firm. Their experience, skills and judgment are the underpinnings of their success and of course, since no one is infallible, reliance on them solely is a source of risk for clients.

Our approach seeks to attain superior risk adjusted returns relative to broad measures of the market over an investment horizon of three to five years. All research is conducted internally and acquired from multiple sources including SEC filings, company reports to shareholders, trade journals, and conversations with management, investment bankers, suppliers and competitors. Drawing from a universe of about 9,000 public companies, the firm rigorously analyzes about 200 businesses on an ongoing basis.

MCI's value investment strategy is implemented through a disciplined research effort that is original, broad in scope and considers the investment potential of many publicly traded companies regardless of industry type or market capitalization. Companies are selected for the portfolio based on characteristics such as consistent growth, low debt, strong management, the ability to generate free cash flow and high return on equity.

Equity portfolios are composed of stocks, convertible bonds and money market instruments. Portfolios typically contain 13-20 holdings and each portfolio is essentially identical in composition. No one position will be greater than 15% of a portfolio. A normal cash position in a portfolio is 3-15%, with a maximum limit of 30%. Each investment is considered within a three to five year context, resulting in an average annual portfolio turnover of less than 20% historically.

Risks:

McDonald Capital explicitly chooses to hold a concentrated portfolio, meaning it will invest in relatively few opportunities. Accordingly, an account will not hold a broadly diversified investment portfolio and by this measure may be more risky than one which holds more securities. We believe that quantitative measures of risk such as diversification do not fully capture all aspects of risk, however, and that certain measures of qualitative risk (debt to equity ratios for example) of our portfolio are generally superior to the broad market.

McDonald Capital will invest in publicly traded securities which it deems "undervalued". Inherent in such a strategy and in such types of investments is:

- the risk that McDonald Capital has incorrectly valued the securities in which it will invest
- the risk that even if we correctly assess the securities, the market will continue to undervalue such securities to the disadvantage of client portfolios
- the risk that "undervalued" investments may decline in value over time as a result of external or internal events.

The success or failure of particular investments may be largely dependent upon external factors over which McDonald Capital will have no control. Such factors may include general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in law, national and international political and economic circumstances, shortages, and currency fluctuations.

B. Analysis, Investment Strategies and Risks for North Star Hedge Fund

The investment philosophy of the Fund incorporates equity investments, convertible arbitrage and risk arbitrage. Allocation of the fund's capital across strategies and within a strategy is opportunity-driven. Asset allocation is reconsidered periodically and may range broadly.

The equity investments are guided by the same analysis and strategies discussed in this section for equity and balanced accounts which have the same associated risks (Item 8.A.). North Star may hold from 7 to 20 positions on average, although the Fund may have fewer or more positions at any given time. The capital committed to each position may vary in amount and may exceed the allocations utilized in McDonald Capital equity-only portfolios. Because the investments will be concentrated in a relatively small number of securities and the positions likely will be selected in companies with certain common characteristics (e.g. high cash flow relative to market value), the portfolio will have an element of "nonmarket" risk. Drew and Trent as the general partners believe that the risks of investment concentration are merited by the prospects for attractive returns.

Portfolio turnover in both of the arbitrage segments of the Fund is expected to be high. Investments in this category are short-term in nature and may involve the use of financial leverage. An investment in the Fund involves a high degree of risk and is suitable only for persons who have sufficient knowledge and experience in financial and business matters to be capable of understanding and evaluating such risks, who can afford to bear such risks and who have no need for immediate liquidity from such investment. Each prospective investor is advised to carefully consider the risk factors involved in an investment in the Fund, including but not limited to those discussed below.

Drew and Trent as the general partners of North Star are responsible for all investment decisions for the Fund. Their experience, skills and judgment are the underpinnings of their success and of course, since no one is infallible, reliance on them solely is a source of risk for clients. Further, the Fund will invest in publicly traded securities deemed "undervalued" by Drew and Trent. Inherent in such strategy and in such investments is the risk that:

- they incorrectly value the securities in which the Fund will invest
- even if they are correct, the market will continue to undervalue such securities to the disadvantage of the Fund
- "undervalued" investments may decline in value over time as a result of external or internal event

The success or failure of particular Fund investments may be largely dependent upon external factors over which neither McDonald Capital nor the Fund will have control. Such factors may include general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in law, national and international political and economic circumstances, shortages, and currency fluctuations.

Although the Fund anticipates investing only in publicly traded securities, the Fund may be required to hold some of its investments for an extended period of time before they can be liquidated in the event the market for a particular security becomes thin, the security ceases to be publicly traded, or the Fund possesses material non-public information about the relevant company or otherwise is disabled from trading. The Fund will invest in relatively few opportunities. Accordingly, the Fund will not necessarily hold a diversified investment portfolio.

C. No Specialization in one type of Security

McDonald Capital does not recommend any one particular type of security that would have significant or unusual risks not already discussed in this section.

Item 9 - Disciplinary Information

- Neither the firm nor any of its employees (including the owners/principals) has experienced any legal or disciplinary event whatsoever, domestic, foreign or military.
- Neither the firm nor any of its employees (including the owners/principals) has experienced any administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority, whatsoever.
- Neither the firm nor any of its employees (including the owners/principals) has experienced any SRO proceeding whatsoever.

Item 10 - Other Financial Industry Activities and Affiliations

Neither McDonald Capital Investors nor any of its employees:

- Are registered or have an application pending to register as a Broker Dealer.
- Are registered or have an application pending to register as a futures commission merchant, a commodity pool operator, a commodity trading advisor or an associated person of these entities.

Neither McDonald Capital Investors nor any of its employees have a relationship or arrangement with broker dealers, investment companies, mutual funds, other investment advisors or financial planners, banking or thrift institutions, accountants or accounting firms, lawyers or law firms, insurance companies or agencies, pension consultants, futures commission merchants, commodity pool operators, a commodity trading advisor or an associated person of these entities and/or real estate brokers or dealers that is material to our business or our clients or that creates any kind of conflict of interest for clients.

McDonald Capital Investors does not recommend or select other investment advisors for our clients and we do not receive compensation directly or indirectly from any other business relationship that could create a conflict of interest. The firm receives no referral fees of any kind.

A. North Star Hedge Fund, LP

As described in previous sections, Drew and Trent McDonald are the principals and investment managers for McDonald Capital Investors and are also the General Partners of North Star Hedge Fund. North Star is a small (fourteen entities make up the limited partners of the fund) private fund that Drew and Trent created as a pooled vehicle for family and friends. This fund has had no new investors since 2002 and although the fund is not “closed”, Drew and Trent McDonald do not solicit existing McDonald Capital clients to invest in the fund. They consider North Star a client, just as they do any other client of McDonald Capital Investors. North Star is managed with the equity investment approach that is congruent with the approach for all other clients although additional strategies that are not offered to balanced and equity-only clients may be employed (described in Section 4.B. and 8.B.)

Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

A. Code of Ethics

McDonald Capital will provide a copy of our Code of Ethics to any client or prospective client upon request.

The firm's written Code of Ethics outlines the standards of business conduct for employees and details for them their obligations to comply with Federal securities laws. This Code explains for employees their obligations around buying and selling securities for their own personal accounts as well as their obligation to report those activities to the firm. Employees are required to review the Code of Ethics and acknowledge that review in writing, once a year. Further, employees are required to promptly report to Linda Udall or Drew/Trent McDonald any violations of this Code of Ethics or more importantly, any behavior that they feel is dishonest, inherently deceitful, or criminal, [regardless of whether it is specifically described in the Code]. Employees who do report such violations will be protected from retaliation.

Summary:

McDonald Capital Investors and its employees have the following specific fiduciary obligations:

- A duty to have a reasonable, independent basis for the investment advice provided
- A duty to obtain best execution for clients' transactions
- A duty to ensure that the investment advice given is suitable to meeting a client's objectives, needs, and circumstances
- A duty to be loyal to clients

In order to meet our fiduciary duties, McDonald Capital Investors expects every employee to demonstrate the highest standards of ethical conduct and strict compliance with this Code of Ethics is a basis condition of employment at the firm.

McDonald Capital recognizes its responsibility to: prevent the misuse of material, non-public information (prevent insider trading), provide guidance for employees so their own personal securities transactions are compliant with SEC rules, and ensure that neither the firm nor its individual employees use any device, scheme or other strategy to manipulate and/or defraud its clients.

Our firm is a small business whose success is based on hard work and integrity. The firm's honor and reputation are only as solid as the integrity of its employees. Drew and Trent McDonald hold themselves to the highest ethical standards and expect all employees to do the same: to comply with all Federal and state securities laws, to be forthcoming and communicative with clients and colleagues, to protect the personal information of clients as if it were their own, to put clients' interests before their own, to be completely honest and forthright with colleagues, clients, and others regarding all business activities, to assume responsibility for and ownership of errors made and at all times to treat both their co-workers and clients with respect. Good communication, personal responsibility, and honesty are the foundation for such integrity. The firm requires all employees to be mindful that they are in a position of trust which requires that they maintain the highest possible ethical standards at all times.

B. Personal Trading

Personal investment activities by McDonald Capital principals and employees are governed by the following principles:

- The interests of all client accounts will be placed first at all times.
- Any personal transaction will be conducted to avoid any actual or potential conflict of interest or abuse of the individual's position of trust and responsibility
- Principals and employees will not take inappropriate advantage of their positions
- Employees may not purchase or sell securities in IPOs (initial public offerings) or limited offerings with getting prior approval from the principals or the compliance officer.

Buying and selling of securities in which a firm employee has a material financial interest:

Drew and Trent McDonald have a material financial interest as the general partners of, and as investors in, North Star Hedge Fund, one of the clients of McDonald Capital Investors. North Star is generally traded in blocks with other McDonald Capital clients to ensure that it receives comparable pricing and execution and is not favored over other clients. Because it has a slightly different investment strategy, there will be trades done for North Star that are not done for other McDonald Capital clients.

Buying and selling of securities for employee accounts that are also purchased/sold for clients

Employees may purchase and sell securities for their personal accounts that are also owned by clients. Employees may not trade "ahead" of clients. This rule does not apply to situations when an existing client account is being rebalanced for an addition or withdrawal or when a new account is being invested. As we have no control over market pricing, the practice does not ensure that clients will get better pricing than employees. Clients' interests/transactions will take precedence over transactions for employees of McDonald Capital.

Buying and selling securities for employee accounts at the same time as a client(s)

Whenever possible, employee accounts are blocked together with client accounts for trading. That is, every account traded in a block receives the same average price and commission, ensuring that employee accounts are not favored or unfairly advantaged over client accounts. No preferential treatment is afforded to employee accounts in allocating partially filled trades (trades where we are only able to execute a portion of the targeted the number of shares we hoped to buy or sell). McDonald Capital is committed to providing superior investment management to all clients. Investing alongside with clients means that the firm principals' and employees interests are aligned with those of clients and the performance of employee accounts and investments is transparent and comparable to that of clients.

Conflicts of Interest

The firm principals (and other employees) invest in securities and also manage/advise/invest in securities for clients. These circumstances give rise to the potential for conflict of interest. McDonald Capital takes several steps to mitigate the potential conflict. As discussed in Item 6 of this document, Drew and Trent McDonald and the employees of McDonald Capital align their interests with those of their clients by investing their assets alongside their clients. They use the same approach for their accounts that they do for clients, generally investing in the same securities and generally trading alongside clients to assure equal and fair pricing and execution.

Client accounts and employee accounts are held by qualified custodians. These accounts and the transactions therein are monitored by back office staff (in alternating roles so that there is more than one person looking at the accounts frequently), by the compliance officer and by the principals. Any unethical activity on the part of the principals or any employee would be easily observed by other employees, the principals and/or the CCO within a matter of days.

Reporting, Monitoring and Review of Employee Transactions

At the end of every calendar quarter employees provide the Compliance Officer with a list of the securities transactions they have done in their personal accounts during the quarter and a list of their securities holdings. The Compliance Officer reviews them to evaluate whether the employee followed all internal procedures for trading and reporting and pre-cleared and IPO or limited offering transactions. Reports are evaluated to ascertain that there is no apparent conflict with clients' best interests that securities within the firm's universe are being purchased or sold at prices that are in line with those received by clients and that no trade appears to be potentially harmful to the firm for any other reason. Transactions will also be reviewed for trading patterns or other attributes that might indicate abuse of some kind. These reviews are documented and any violations dealt with according to policies and procedures in place.

Item 12 - Brokerage Practices

A. Factors Considered in Selecting Broker Dealers

McDonald Capital has a fiduciary duty to and will seek to obtain the best possible trade execution (the best possible terms reasonably available under the circumstances) for its clients. The firm considers all of the following factors when choosing a broker for a particular transaction:

- Commission Rate: Rate should be considered both on a per trade basis as well as on an over time basis. Brokers who provide *consistent* low rate execution often offer total cost advantages (that is, the price obtained for a stock plus commission) as compared with brokers who offer more discounted rates on a limited number of larger trades.
 - Broker Quality: The relationship with brokers is important. Consistent, high quality and error free execution is weighed in the evaluation of “best possible execution”. Factors considered in the selection of brokers may include; past experience with a broker, integrity, reputation, front and back office efficiencies, willingness to resolve disputes fairly and evidence that the broker is willing to stand behind a transaction.
 - ECNs: Electronic trading is often the lowest cost alternative with respect to commission. The firm considers electronic trading where market liquidity, market transparency and the nature of the market (normal or fast) are suitable. The firm has made available systems which facilitate access to electronic trading. Drew and Trent assume responsibility to seek the lowest effective total cost of the trade, however, not simply the lowest commission cost and they evaluate alternatives to ECNs when trading securities in illiquid, non-transparent or fast markets (among other conditions).
 - Liquidity: The firm’s concentrated style leads to the acquisition of a relatively small, and yet meaningful, block of certain companies’ securities. Drew and Trent must be aware that the firm’s acquisition or divestiture of such securities potentially imparts information to the marketplace. They seek to maintain the confidentiality of such information and therefore allocate brokerage to parties they have deemed to be trustworthy. More specifically to further this objective, they seek to utilize the fewest number of brokers when trading a particular security to minimize the disbursement of trading information.
1. No Soft Dollar or Client Referral Arrangements: McDonald Capital has no affiliations with any broker dealers, has no soft dollar arrangements with any broker dealers and has no client referral arrangements with broker dealers. The firm does not receive research or other products from brokers or third parties in connection with client securities transactions. The firm has a relationship with Bloomberg’s Tradebook such that if commissions using their electronic trading platform exceed a certain hurdle over a three month period, a discount is applied to the cost of a Bloomberg terminal. The discount is an insignificant figure relative to the firm’s total revenue and therefore provides no incentive to favor this broker over any other firm. The discount hurdle is not met every quarter and the terminal would be in place regardless of this arrangement.
 2. No Directed Brokerage: The firm does not recommend, request or require that a client direct us to execute transactions through any particular broker. In the past the firm has allowed a few clients to specify that we direct brokerage, although such relationships are discouraged. There are currently no clients who have requested or receive directed brokerage. Upon receiving a request from a client to manage such an account, the client is informed in writing of the potential disadvantages such a relationship presents.

B. Block or Aggregate Trading:

Drew and Trent understand the cost efficiencies of trading a block of securities. They will aggregate multiple client allocations into one trade whenever possible. This provides advantages for clients in that it can mean a more favorable price and commission. If a desired trade represents a significant percentage of the daily volume of a certain stock, they will preference trades to brokers who can provide greater liquidity at market prices (given that the trade size may influence trading activity). A slightly higher commission rate in this circumstance will likely be more than offset by a lower average security price.

Allocations to clients traded in a block may be different and is determined based on what is suitable and appropriate for each client. Clients for whom a particular trade is appropriate are included in target allocations. If a trade is only partially filled (completed) on a particular day, the total allocation is adjusted to reflect the number of shares received. The reduced number of shares is distributed on a “pro-rata” basis (approximately) to each client who was targeted to receive shares. Clients whose altered allocations in a partial fill situation would result in a number of shares inefficient for trading (e.g. a small odd lot) or where such clients would incur additional trading costs (e.g. they would pay a custodian’s trade away fee twice) would be exceptions to this rule. For such clients McDonald Capital would use its discretion to determine the most reasonable and fair course of action. Perhaps the client would receive a full allocation or receive zero shares and be included in the next block trade to be executed.

Item 13 - Review of Accounts

A. Periodic review of accounts

Drew and Trent McDonald review client accounts (including North Star, the private fund) on an ongoing basis (at least weekly, often daily) to assure asset allocations are appropriate and to monitor securities pricing, dividend and income payments, client-directed capital changes, etc. Both of them act as portfolio managers and participate in the reviews. It is possible to monitor client accounts on this schedule because all client accounts are managed alike and portfolios have a limited number of securities (13-20).

Information from custodians for the large majority of client accounts – those for whom custodians provide electronic access and clients approve that access - is reconciled by back office staff to our portfolio management system on a daily basis. When electronic access is not available, accounts are reconciled to the paper copy of the custodial statement that is mailed to the firm at the end of each month. Every account, whether we can access it electronically or not, is reconciled at month end.

An annual audit of the administrative and financial accounting for North Star is done by a PCAOB registered accountant. The written results of this audit are provided to the limited partners of the fund before March 30 of each year.

B. Factors that trigger an account review

An extensive review outside of our normal pattern would be triggered by a significant change in a client's personal situation or to the assets that we are managing. Such changes may include a meaningful addition or withdrawal by a client or notice by a client that there has been a change in income or tax needs that would require an allocation adjustment or the imposition of a proposed investment restriction.

C. Written reports

A written review is provided to every client (including the limited partners of North Star) on a quarterly basis, usually within 3 weeks of the end of the quarter. That is four written reviews each year. These reviews include an overview of the performance of each account for the quarter and trailing twelve months, a comparison of that client's results to an appropriate benchmark, a discussion of the current market and economic environment and Drew and Trent's investment outlook and approach for the period and looking forward. Reviews may cover asset allocation decisions, discussions of the qualities of companies purchased or reasons that companies have been sold.

Drew and Trent are available to meet with clients upon request, either in person or by phone, to review their portfolios and discuss any investment issues.

Item 14 - Client Referrals and Other Compensation

No third parties provide economic benefits (sales awards, gifts or any other compensation) to the firm for providing investment advice or other services to our clients.

Neither the firm nor any of its employees directly or indirectly compensates any person or organization for client referrals. Firm employees are not compensated for client referrals.

Item 15 - Custody

McDonald Capital Investors is not a broker-dealer, bank or a qualified custodian. All client accounts are held with a qualified custodian of the client's choosing and, with the exceptions noted below, neither the firm nor its employees are able to instruct any custodian to release funds or securities from the accounts to anyone other than the client. For these clients the firm does not have custody of client assets. Again, exceptions are noted below.

All clients are encouraged and expected to receive monthly account statements from their custodian (broker-dealer, bank, or other qualified institution). Clients are advised of this and advised to carefully review these statements. If a client is not getting a custodial statement monthly, they should contact either the custodian and/or McDonald Capital to correct the situation. As noted in our quarterly client letters, clients should carefully compare the account statements that we provide in our reports with those provided by their custodian for the same period. If there are discrepancies or questions, they are encouraged to contact us right away.

Certain clients authorize McDonald Capital to submit our quarterly management fee invoices to their custodians. In turn, they authorize their custodians to pay the fees due to us directly from the investment account that we manage. The SEC has determined that this type of fee payment arrangement creates a specific and limited type of custody relationship between McDonald Capital and those clients.

Exceptions: In the following situations, McDonald Capital would also be deemed to have custody of the assets in the accounts described because an employee has the ability to direct the custodian to disburse the assets to someone other than the account holder.

- McDonald Capital manages North Star Hedge Fund for McDonald Investment Associates (MIA). Because Drew and Trent McDonald are the general partners of MIA and have access to the assets in that account, they are deemed to have custody and by extension, McDonald Capital Investors has custody. The fund receives an annual audit by a PCAOB registered accountant and the audited financial statements are provided to the limited partners of the fund before March 30 every year.
- Drew, Trent and Linda (and their immediate families) all have personal accounts that are managed by McDonald Capital Investors. Because these are our own accounts, we have custody of them and therefore so does the firm.
- The firm has a pension and profit sharing plan account that is also invested in line with that of clients. Drew and Trent have access to the assets in this account as trustees of the plan.
- Drew, in his capacity as an officer of a non-profit, has access to the assets in that account which is subject to review by an external committee of the entity he serves.

Item 16 - Investment Discretion

McDonald Capital and its clients operate under the terms of an investment advisory agreement executed by both parties. The agreement stipulates that McDonald Capital has full discretion over the client(s)' account and will supervise and direct the investment of the clients(s)' account, subject to such limitations as the client may put in writing. McDonald Capital is the agent and attorney-in-fact as it pertains to the management of the accounts under the agreement and, when it deems appropriate, without prior consultation with the client, the firm can buy, sell, exchange, convert and otherwise trade in any stocks, bonds and other securities including money market instruments. MCI can also place orders for the execution of such securities transactions with or through such brokers, dealers or issuers as we may select.

The firm will not begin investing a client's assets until the advisory agreement is signed and dated by each party. Upon receipt of the advisory agreement, clients have an option of requesting restrictions on our discretion over the account: These may be prohibitions on purchasing specific securities or securities in specific industries, specifications regarding asset allocation or more broad mandates focused on avoiding companies with specific social or political positions. The firm will only accept restrictions when we believe we can still reasonably execute our investment approach while adhering to the client request and the restrictions must be documented in writing.

The standard advisory agreement, which is signed by both parties, provides that it may be terminated by either party upon seven days' notice unless another period is negotiated. [The investment advisory agreements are subject to modification by the client and McDonald Capital with mutual agreement.] Termination notice must be done in writing by either party and acknowledgement of that termination notice must also be done in writing by either party.

Item 17 - Voting Client Securities

Any client may obtain a copy of McDonald Capital's proxy voting policies and procedures upon request.

Upon entering in to an investment advisory agreement with a client, McDonald Capital Investors provides its proxy voting policies and procedures and asks the client to state in writing whether they direct us to vote proxies or not. If they elect for McDonald Capital to vote proxies for them, they are not given an option of directing us regarding specific votes. We are not opposed to hearing a client's view point on a particular vote and can decide how to best handle such a request on a case by case basis.

For clients who have elected not to have us vote their securities, they make arrangements with the qualified custodian of their account regarding proxy voting and we are not involved in or further informed of those arrangements. Clients are welcome to contact us any time either by phone, email or regular mail regarding proxy voting and we will answer questions they have regarding issues for a particular company at a particular time.

We vote proxies for the majority of our clients. Clients are reminded annually that they may contact us for a record of how we voted on their securities and we will provide that record in writing within 10 business days of receipt of such a request.

When directed to do so by the client, we make every effort to vote on shareholder and management proposals (proxy statements) for all U.S. companies held in every client's portfolio. McDonald Capital recognizes that certain proposals, if implemented, may have a substantial impact on the market valuation of portfolio securities and that in such situations the right to vote may be powerful.

MCI generally votes in favor of management. This policy is consistent with the firm's equity investment philosophy, which considers the strength of management to be an important investment selection criterion. The companies selected for investment by MCI are those that the advisor considers to be superior, growing businesses. These businesses are expected to continue to grow and increase in value over a 3-5 year time horizon, resulting in superior performance for client portfolios. This tenet of the investment philosophy relies on the management team to continue to make good business decisions and to provide direction to the company that is consistent with their continued success. The firm continually evaluates the performance of the management teams of the companies it owns and carefully considers the results of these evaluations in its analysis of their potential to enhance performance for our clients. It follows that voting with management is then in the best long term interest of each client and any decision to vote against management would be counterintuitive to the firm's investment strategy.

The decision to vote with management is not an automatic one, however. Drew and Trent McDonald follow every company in the portfolio very closely and consider the details of each proxy issue before deciding how to vote. McDonald Capital may vote "against" management's position on certain proposals when management's position (1) may have negative effects on stock price and/or shareholder rights, (2) appears to benefit unreasonably existing management at the expense of its shareholders or (3) may be contrary to what McDonald Capital perceives as the long term interest of the company. Should they disagree with management on an issue, they will direct the voting of the proxy issue accordingly. In the event that a decision is made to vote against management, this decision and its rationale will be documented and retained, along with a record of the vote, for five years.

MCI will do its best to identify internal conflicts of interest. While the size and nature of the firm make such conflicts unlikely, they are possible. Examples of such conflicts might include situations where MCI manages a portion of a company's pension plan, administers the company's employee benefit plan, manages money for an employee group, or where an executive of the firm has a personal or business relationship with an executive of the company, a director of the company, a person who is a candidate to be a director of the company or a participant in a proxy contest. Any identified conflicts will be disclosed to clients when they are recognized and clients' consent obtained before voting.

McDonald Capital has retained, at its own expense, Broadridge, an outside proxy voting service (agent) to submit proxy votes for its clients, pursuant to our instructions. For those clients who return instructions to us to vote their proxies, their custodians are contacted and provided with information so that proxies can be directed to Broadridge. Broadridge receives ballots on behalf of clients MCI is set up to receive alerts as soon as a ballot is available. Broadridge has assured us that such notification will be within 2-3 weeks of the meeting date, providing adequate time to provide us with the information we need to vote proxies for all clients who have so instructed.

In addition, Drew and Trent McDonald are following the portfolio companies closely and will generally be aware when proxy materials have been issued and meetings are scheduled. The meeting vote alerts keep coming until the ballot is completely voted.

Generally the materials received will be routine proposals, those that do not change the structure, bylaws, or operations of the corporation to the detriment of the shareholders. Traditionally, these issues include: Approval of auditors, election of directors, indemnification provisions for directors, liability limitations of directors, and name changes. Non-routine proposals are less common and are more likely to affect the structure and operations of the corporation and therefore will have a greater impact on the value of a shareholder's investment. Non-routine matters include: merger/acquisition, increase authorized capital, preference shares, dual capitalization, other preferential voting rights, election of directors and appointment of accountants, and executive compensation. As previously stated, voting decisions will be made based on the financial interest of the client.

Item 18 - Financial Information

A. Fees in Advance

McDonald Capital Investors does not require or solicit prepayment from its clients in advance.

B. Discretionary Authority and Custody

The firm has no financial condition remotely likely to impair its ability to meet contractual commitments to its clients.