

## Item 1 – Cover Page

### **Donaldson Capital Management, LLC**

20 Northwest First Street, Fifth Floor

Evansville, IN 47708

(812) 421-3211

(800) 321-7442

[www.dcmol.com](http://www.dcmol.com)

[www.risingdividendinvesting.blogspot.com](http://www.risingdividendinvesting.blogspot.com)

### Wrap-Fee Program Brochure

Date of Brochure Appendix: March 2011

Amended: March 2012

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This **Wrap-Fee Program Brochure** provides information about the qualifications and business practices of Donaldson Capital Management, LLC (DCM). If you have any questions about the contents of this brochure, please contact Laura Roop at (812) 421-3201 or at [lroop@dcmol.com](mailto:lroop@dcmol.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 Donaldson Capital Management is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view DCM's information on this website by searching for Donaldson Capital Management. You may search for information by using either the Firm's name or by an identification number known as a CRD number. The CRD number for Donaldson Capital Management is **106131**.

Registration as an investment advisor does not imply a certain level of skill or training.

## Item 2 – Material Changes

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that Donaldson Capital Management, LLC provides to clients as required by applicable rules and regulations. This item will discuss only specific material changes that are made to the Disclosure Brochure Appendix and provide readers with a summary of such changes. We will also reference the date of the last annual update of the brochure.

Pursuant to new rules, we will ensure that you receive a summary of any material changes to this and subsequent Disclosure Brochure Appendices within 120 days after our fiscal year ends. Our fiscal year ends on December 31 so you will receive a summary of material changes, if indicated, no later than April 30 each year. At that time we will also offer a copy of the most current Disclosure Brochure Appendix. We may also provide other ongoing disclosure information about material changes as necessary.

### ANNUAL UPDATE: MARCH 2012

- A. Item 6: *Client Assets Managed by Donaldson Capital Management* -- updated to reflect Regulatory Assets Under Management (RAUM) figures as of March 16, 2012.

#### USD

Discretionary:	\$ 526,895,980.02
Non-Discretionary:	\$ 32,020,501.77
Total:	<u>\$ 558,916,481.79</u>

- B. Item 9: *Account Reviews* -- updated to include Senior Portfolio Manager, Joseph Zabratanski who joined DCM in November, 2011.

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## Item 4 – Services, Fees and Compensation

### **Introduction**

Donaldson Capital Management, LLC sponsors the One Fee Program (referred to as “Program”). Program is a wrap-fee program. Only investment advisor representatives of Donaldson Capital Management (referred to as “Advisory Representatives”) may serve as portfolio managers in Program. Therefore, participants in Program must be advisory clients of Donaldson Capital Management.

### **The Program sponsored by Donaldson Capital Management**

Donaldson Capital Management provides services to two general types of clients. The first category can be described as its proprietary-retail clients. These are clients for whom the relationship with DCM has been established directly, without the involvement of a Solicitor or other unaffiliated investment advisor firm as intermediary. Proprietary-retail clients may receive investment management (which may include limited financial planning advice) and/or consulting services. We also provide services to clients of unaffiliated investment advisor firms. Under this arrangement, clients are introduced to DCM through the unaffiliated investment advisor which serves as Solicitor for the Firm. In return, the Firm will agree to compensate the Solicitor for the referral. Compensation to the Solicitor is dependent on the client entering into an advisory agreement with Donaldson Capital Management. Compensation to the Solicitor will be an agreed upon percentage of DCM's investment advisory fee with the exact amount determined between the client and the Solicitor. The Firm's referral program will be in compliance with federal or state regulations (as applicable). The solicitation/referral fee is paid pursuant to a written agreement retained by both Donaldson Capital Management and the Solicitor. The Solicitor will be required to provide the client with a copy of DCM's Disclosure Brochure and a Solicitor Disclosure Document prior to or at the time of entering into any investment advisory contract with the Firm. Clients referred by unaffiliated investment advisor firms are not eligible to receive Donaldson Capital Management's financial planning services and other services received by DCM's proprietary clients.

Donaldson Capital Management provides investment management services defined as providing continuous and on-going investment advice based upon the individual needs of each client. DCM may allocate Program assets of its client accounts, on a discretionary or non-discretionary basis, among one or more of its proprietary investment management portfolio strategies (i.e., *Cornerstone*, *Capital Builder*, *Income Builder*, *Sectors*, *Endowment – Cornerstone*, *Endowment – Capital Builder*, *Endowment – Income Builder*, and *Preservation of Capital*). Additional details and disclosures regarding the Firm's investment management portfolio strategies (management styles) are provided to clients via separate documentation prior to or at the time a portfolio strategy is determined.

Upon receiving written authorization from the client, Donaldson Capital Management provides discretionary management services for client accounts. The Firm's discretionary authority will be granted by the client in the *Investment Advisory Services Agreement*. When discretionary authority is granted, it is limited in that the Firm will be given discretionary trading authority. This authority will allow the Firm to determine the type of securities and the amount of securities that can be bought or sold for the client portfolio without obtaining the client's consent for each transaction.

Clients will be provided on or more of the following services:

- A detailed **Discovery Process** during the first meeting that is designed to gather important factors regarding each client's particular situation;

- The presentation of an **Investment Plan** designed specifically for each client before becoming a client;
- A **Retirement Income Plan** designed to outline the income needs for a client during retirement;
- A **Progress Review** during the first sixty days to let the client understand how the strategies in the Investment Plan are being implemented;
- A **daily reconciliation of every account** to ensure that all transactions, positions, and prices have been properly updated;
- **Portfolio Quality Assurance** conducted, no less often than monthly, adjusting every account, as needed, to Donaldson Capital Management's model portfolios;
- Periodic review of account **performance**;
- Regularly scheduled personal **portfolio reviews**;
- **Quarterly Reports** that include;
  - ✓ A detailed appraisal of assets under management;
  - ✓ Estimated income being generated by each portfolio; and
  - ✓ An advisory letter written by the Investment Policy Committee.
- Year-end tax reporting information; and
- Reconciliation and decision-making concerning: tenders, spin-offs and mergers.

In performing its services, the Firm shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains the client's responsibility to promptly notify DCM if there are ever any changes in the client's financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

A copy of this One Fee Program Wrap-Fee Program Brochure (as applicable) shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Services Agreement*. Any client who has not received a copy of Donaldson Capital Management's written disclosure statement at least forty eight (48) hours prior to executing *Investment Advisory Services Agreement* shall have five (5) business days subsequent to executing the agreement to terminate the Firm's services without penalty.

Participation in the Program is primarily facilitated by affiliated investment advisor representatives. However, clients of unaffiliated independent investment advisors contractually engaged by Donaldson Capital Management are also eligible for the Program. Through this program clients engage the Firm to design an investment portfolio and provide ongoing corresponding investment management services on a *fee-only* basis. This service is structured so that Donaldson Capital Management will serve as the sole investment advisor to the account.

Donaldson Capital Management or the third party investment advisor collects financial and demographic information and will assist the client in identifying their financial objectives by filling out the Firm's client

questionnaire. Donaldson Capital Management or the third party investment advisor will describe the different investment programs available from the Firm that may be most beneficial and appropriate given the client objectives in light of the client's responses.

In addition to Donaldson Capital Management's Program fee, the client shall also incur, relative to mutual fund purchases, charges imposed directly at the mutual fund level (i.e. fund advisory fees and expenses), and any transaction charges, commissions, or redemption fees charged by the broker-dealer/custodian. Donaldson Capital Management does not receive any portion of the brokerage commissions or transaction fees charged to the client in connection with a money manager program. Clients may incur certain charges imposed by the program sponsor and other third parties, other than Donaldson Capital Management, in connection with investments made through a money manager program Account, including but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, IRA and qualified retirement plan fees.

The investment advisory agreement between Donaldson Capital Management and the client will continue in effect unless terminated by either party by written notice in accordance with the terms and conditions of the *Investment Advisory Services Agreement*. Donaldson Capital Management's Program fee shall be prorated through the date of termination. After the Firm receives notice of termination, all transaction expenses generated as a result of requests made by the client, new advisor, agent or custodian become the financial responsibility of the client.

The Program has been designed to comply with the provisions set forth under Rule 3a-4 of the Investment Company Act of 1940. Rule 3a-4 provides similarly managed investment programs, such as Donaldson Capital Management's strategic allocation program, with a non-exclusive safe harbor from the definition of an investment company. In accordance with Rule 3a-4, the following disclosure is specifically applicable to the Firm's management of client assets:

1. **Initial Interview** – at the opening of the account, Donaldson Capital Management or the third party investment advisor shall obtain from the client information sufficient to determine the client's financial situation and investment objectives;
2. **Individual Treatment** - the client's account is managed on the basis of the client's financial situation and investment objectives;
3. **Quarterly Notice** – at least quarterly Donaldson Capital Management shall notify the client to advise the Firm whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the client's account;
4. **Annual Contact** – at least annually, Donaldson Capital Management, through the client's Portfolio Manager, shall contact the client to determine whether the client's financial situation or investment objectives have changed, or if the client wants to impose and/or modify any reasonable restrictions on the management of the client's account.
5. **Consultation Available** – Donaldson Capital Management and the client's Portfolio Manager shall be reasonably available to consult with the client relative to the status of client's account;
6. **Quarterly Statement** – the client shall be provided with a statement, at least quarterly, that is prepared by the account custodian and delivered to the client directly from the custodian. That statement shall contain a description of all activity in the client's account during the preceding period;

7. **Ability to Impose Restrictions** – the client shall have the ability to impose reasonable restrictions on the management of his/her/its account, including the ability to instruct Donaldson Capital Management not to purchase certain specific securities or mutual funds;

8. **No Pooling** – the client's beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the client's account;

9. **Separate Account** - a separate account is maintained for the client with the custodian; and

10. **Ownership** – each client retains indicia of ownership of the account (e.g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

### **Opening an Account**

Prior to Donaldson Capital Management providing Program services, the client will be required to enter into a formal *Investment Advisory Services Agreement* with Donaldson Capital Management setting forth the terms and conditions under which the Firm shall manage the client's assets, and a separate custodial/clearing agreement with the broker-dealer/custodian. Both Donaldson Capital Management's investment advisory agreement and the broker-dealer/custodian's custodial/clearing agreement may authorize the broker-dealer/custodian to debit the account for the amount of the Firm's Program fee and to directly remit that management fee to DCM.

### **Fee Schedule and Information**

#### **Program Fees – One Fee Standard v. Fee Plus Accounts**

Clients in the Program are charged an investment management fee based upon a percentage of the market value of the assets being managed by Donaldson Capital Management. The annual investment management fee rate charged shall vary (generally between 0.5% and 2.10%) depending upon the market value of assets under management and the specific type of investment management services to be rendered.

For Donaldson Capital Management's proprietary clients, the Firm will retain the entirety of the Program fee. The following is the basic fee schedule charged to Donaldson Capital Management's proprietary clients.

<u>Market Value of Portfolio Assets</u>	<u>Annual Fee</u>
First \$500,000	1.500%
Next \$1,000,000	1.000%
Next \$2,000,000	0.875%
Next \$3,000,000	0.750%
Over \$6,500,000	0.500%
Over \$10,000,000	Negotiable

The following is the basic fee schedule charged by Donaldson Capital Management to clients introduced to the Firm by third-party independent investment advisors. The total Program fee charged to a client will include a portion paid to the third-party independent investment advisor in the form of an asset based service fee. The service fee rate will be negotiated and agreed upon by the client and the third-party independent investment advisor. The total annual fee charged to clients for the Program will generally not exceed 2.10%. This is higher than the maximum fee Donaldson Capital Management charges its

proprietary clients. Therefore, clients of third-party independent investment advisor may pay higher fees for the Program than if the client would have contracted directly with the Firm.

<u>Market Value of Portfolio Assets</u>	<u>Annual Fee</u>
First \$500,000	0.600%
Next \$1,000,000	0.500%
Next \$2,000,000	0.450%
Next \$3,000,000	0.375%
Over \$6,500,000	0.250%
Over \$10,000,000	Negotiable

Multiple accounts from a single client household may be combined for the purpose of meeting breakpoints of a fee schedule. For the purposes of fee calculations, accounts from a single client household are defined as accounts of the client, spouse, and minor children living at the same address for which one set of reports will be produced. Trust and similar accounts of the client or spouse may also be included in the household providing their reports are included in the combined household report package. Since the value of every account contributing to the household fee calculation typically appears on the same fee statement, any account, including any account that otherwise qualifies for household treatment, that is to be reported on separately or any account where the fee schedule differs from other accounts for the household will not be eligible for household treatment in the calculation of fees. Amounts invested at each fee schedule for a household of accounts may also be aggregated to meet the breakpoints of other fee schedules for accounts of that household. On occasion, separate households may be combined for the purpose of meeting breakpoints of a fee schedule. In this instance, separate invoices are produced for each relevant household. Donaldson Capital Management's annual Program fee shall be pro-rated and paid quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter.

Clients may open a One Fee Standard or Fee-Plus account. In a Fee-Plus account, in addition to the investment advisory fee, the client will pay certain transaction charges to defray the costs associated with trade execution. These costs are set out and determined by TD Ameritrade. In a One Fee Standard account, the client does not pay transaction charges associated with trade execution.

### **Other Fees and Expenses**

Clients may incur certain charges imposed by third parties other than Donaldson Capital Management in connection with investments made through the account, including but not limited to, 12b-1 fees and surrender charges, and IRA and qualified retirement plan fees. Management fees charged by Donaldson Capital Management (which include transaction and execution fees charged by TD Ameritrade for One Fee Standard accounts) are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. A description of these fees and expenses are available in each investment company security's prospectus. Donaldson Capital Management and its Advisory Representatives do not retain any portion of these "other" fees. The only compensation earned by Donaldson Capital Management is the investment advisory fee described above.

The Program may cost the client more or less than if the assets were held in a traditional brokerage account. In a traditional brokerage account, the client is charged commissions for each transaction, and the representative has no duty to provide ongoing advice with respect to the account. If the client plans to follow a buy and hold investment strategy for the account or does not wish to purchase ongoing investment advice or management services, the client should consider opening a brokerage account



rather than a Program account. Donaldson Capital Management does not offer commission-only brokerage account services.

The Firm does not always charge a lower advisory fee for Fee-Plus accounts versus One Fee Standard accounts. Therefore, there is the potential for Fee-Plus Program account clients to pay higher overall costs which are derived from the amount of trading activity within an account. This is because transaction costs are passed along to the client in Fee-Plus Program accounts whereas transactions costs are covered under the overall fee charged for One Fee Standard Program accounts.

As disclosed in this section, Donaldson Capital Management receives compensation as a result of a client's participation in the Program. The Firm therefore has a financial incentive to recommend the Program over other programs or services. The amount of compensation received from Donaldson Capital Management may be more than what it would receive if the client participated in programs sponsored by other financial firms or paid separately for investment advice, brokerage, and other services.

### **Termination of Services**

The initial term of the *Investment Advisory Services Agreement* shall extend from the date of acceptance by Donaldson Capital Management through the end of the current calendar quarter and shall thereafter automatically be extended for additional three month terms unless terminated prior thereto as allowed by the agreement. Either party may terminate the agreement by providing written notice to the other party prior to the end of such calendar quarter. Donaldson Capital Management's investment management fee shall be prorated through the date of termination and the unearned portion returned to the client.

Termination of the agreement shall not, in any case, affect or preclude the completion of any transaction initiated prior to the date the termination notice was received. There will be no termination charge except those resulting from re-registration of securities. After Donaldson Capital Management receives notice of termination, all transaction expenses generated as a result of requests made by the client, new advisor, agent or custodian become the financial responsibility of the client.

### **Brokerage Arrangements**

#### ***Advisor Directed Brokerage Recommendations***

For proprietary clients, and clients of third-party independent investment advisors, opening an account through Donaldson Capital Management's One Fee Program, the Firm generally recommends (and in some cases requires) the use of TD Ameritrade. Donaldson Capital Management participates in the TD Ameritrade Institutional program for advisors. TD Ameritrade Institutional is a division of TD Ameritrade, Inc., ("TD Ameritrade") member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. It offers to independently registered investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. The next paragraph describes additional benefits Donaldson Capital Management receives from TD Ameritrade through its participation in the program.

It should be noted that not all investment advisory firms require or even recommend the use of a specific brokerage platform. By directing clients to open accounts through TD Ameritrade, DCM may be unable to achieve the most favorable execution of client transactions and the use of TD Ameritrade may be more expensive than other brokerage platforms.

There is no direct link between Donaldson Capital Management's participation in the program and the investment advice it gives to its clients, although the Firm receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include receipt of duplicate client statements and confirmations; access to a trading desk serving

the Firm participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and possible discounts on compliance, marketing, research, technology, and practice management products or services provided to Donaldson Capital Management by third party vendors. These benefits received by the Firm, or its associated persons, through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade.

As part of its fiduciary duties to clients, Donaldson Capital Management endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by the Firm, or its associated persons, in and of itself creates a potential conflict of interest.

#### Soft Dollar Arrangement

Generally, in addition to a broker's ability to provide the "best execution," Donaldson Capital Management may also consider the value of "research" or additional brokerage products and services a broker-dealer has provided or may be willing to provide. This is known as paying for those services or products with "soft dollars." Because many of the services or products could be considered to provide a benefit to the Firm and because the "soft dollars" used to acquire them are client assets, the Firm could be considered to have a conflict of interest in allocating client brokerage business: Donaldson Capital Management could receive valuable benefits (without paying for or producing the benefits) by selecting a particular broker or dealer to execute client transactions and the transaction compensation charged by that broker or dealer might not be the lowest compensation the Firm might otherwise be able to negotiate. In addition, the Firm theoretically could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage compensation with which to acquire products and services. Further, we have an incentive to select or recommend the broker/dealer based on our interest in receiving benefits, research and other products or services, rather than on our clients' interest in receiving most favorable execution. The Firm's "soft dollar" funds are calculated as ten percent (10%) of commissions from qualified trades.

Donaldson Capital Management's use of soft dollars is intended to comply with the requirements of Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a "safe harbor" for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. As required by Section 28(e), the Firm will make a good faith determination that the amount of commission or other fees paid is reasonable in relation to the value of the brokerage and research services provided. That is, before placing orders with a particular broker, the Firm generally determines, considering all the factors described below, that the compensation to be paid to TD Ameritrade is reasonable in relation to the value of all the brokerage and research products and services provided by TD Ameritrade. In making this determination, the Firm will typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services and products in our performance of our overall responsibilities to all of our clients. In some cases, the commissions or other transaction fees charged by a particular broker-dealer for a particular transaction or set of transactions may be greater than the amounts another broker-dealer who did not provide research services or products might charge. In some cases, with a particular client's consent, Donaldson Capital Management may consider a broker-dealer's provision of non-research

products and/or services (i.e., products or services that the Firm does not use in making investment decisions or executing transactions for clients). In such cases, however, the products or services involved are used solely for the benefit of the client in whose account the commissions or other fees are incurred.

These funds are used to offset a portion of the cost of using the services of Bloomberg Professional terminal. The Firm's benefit utilizes a soft dollar mixed use ratio whereby the Firm confirms that ninety percent (90%) of Bloomberg Professional will be used to determine market and industry trends as part of the Firm's Investment Decision-Making process and not in the administration or management of Donaldson Capital Management. The Firm does not use Bloomberg Professional for any non-research elements. DCM believes this allocation demonstrates a good faith attempt to assign the anticipated use of the service to its research and non-research components.

*Research and Brokerage Products and Services.* "Research" products and services Donaldson Capital Management may receive from broker-dealers may include economic surveys, data, and analyses; financial publications; recommendations or other information about particular companies and industries (through research reports and otherwise); and other products or services (e.g., computer services and equipment, including hardware, software, and data bases) that provide lawful and appropriate assistance to the Firm in the performance of its investment decision-making responsibilities. Consistent with Section 28(e), brokerage products and services (beyond traditional execution services) consist primarily of computer services and software that permit us to effect securities transactions and perform functions incidental to transaction execution. We generally use such products and services in the conduct of our investment decision-making generally, not just for those accounts whose commissions may be considered to have been used to pay for the products or services.

*Other Uses and Products.* Donaldson Capital Management may use some products or services not only as "research" and as brokerage (i.e., to assist in making investment decisions for clients or to perform functions incidental to transaction execution) but for our administrative and other purposes as well. In these instances, the Firm makes a reasonable allocation of the cost of the products and services so that only the portion of the cost that is attributable making investment decisions and executing transactions is paid with commission dollars and Donaldson Capital Management bear the cost of the balance. Our interest in making such an allocation differs from clients' interest, in that the Firm has an incentive to designate as much as possible of the cost as research and brokerage in order to minimize the portion that the Firm must pay directly.

*Amount and Manner of Payment.* A broker-dealer through which Donaldson Capital Management wishes to use soft dollars may establish "credits" arising out of brokerage business done in the past, which may be used to pay, or reimburse the Firm for specified expenses. In other cases, a broker-dealer may provide or pay for the service or product and suggest a level of future business that would fully compensate it. The actual level of transactional business Donaldson Capital Management does with a particular broker-dealer during any period may be less than such a suggested level, but may exceed that level and may generate unused soft dollar "credits." Where a client has authorized us to consider a broker-dealer's provision of services outside the Section 28(e) safe harbor, a broker-dealer may generate "credits" based on transactions effected in the past and allow Donaldson Capital Management to use such "soft dollars" to acquire services and products provided by third parties. We do not exclude a broker-dealer from receiving business simply because the broker-dealer has not been identified as providing soft dollar research

products and services, although Donaldson Capital Management may not be willing to pay the same commission to such broker-dealer as the Firm would have paid had the broker-dealer provided such products and services.

#### Referrals from TD Ameritrade

Donaldson Capital Management may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect (the "referral program"). In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, the Firm may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with Donaldson Capital Management and there is no employee or agency relationship between them. The fact that we participate in the AdvisorDirect program creates an incentive to recommend TD Ameritrade because we receive referrals from them rather than based solely on our clients' interest in receiving most favorable execution.

TD Ameritrade has established the referral program as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise Donaldson Capital Management and has no responsibility for the Firm's management of client portfolios or the Firm's other advice or services. Donaldson Capital Management pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to Donaldson Capital Management (Solicitation Fee). The Firm will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by Donaldson Capital Management from any of a referred client's family members, including a spouse, child or any other family member who resides with the referred client and hired Donaldson Capital Management on the recommendation of such referred client. Donaldson Capital Management will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

Donaldson Capital Management's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, Donaldson Capital Management may have an incentive to recommend to clients that the assets under management by the Firm be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, Donaldson Capital Management has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. The Firm's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts; however, under directed brokerage circumstances, Donaldson Capital Management will not have the ability to negotiate commissions or obtain volume discounts and best execution may not be achieved.

Securities held by TD Ameritrade are automatically insured up to \$250 million.

Securities may also be held at a bank or an eligible custodian other than TD Ameritrade, provided prompt payment and certificate delivery can be assured. In some instances, additional charges will be incurred when utilizing an outside custodian.

### ***Client Directed Brokerage Arrangements***

While Donaldson Capital Management generally recommends, and in some cases requires, the use of TD Ameritrade, a client may be allowed to select a broker-dealer of their own choosing and still participate in the One Fee Program. When a client directs the use of a particular broker-dealer or other custodian, Donaldson Capital Management may not be able to obtain the best prices and execution for the transaction. Clients who direct the use of a particular broker-dealer or custodian may receive less favorable prices than would otherwise be the case if clients had not designated a particular broker-dealer or custodian. Further, clients with directed brokerage arrangements will not be able to participate in aggregate trades (i.e. block trades) and directed trades may be placed by the Firm after effecting non-directed trades.

### ***Cross Transactions***

When advantageous to both parties, Donaldson Capital Management may implement cross transactions for fixed income securities between two clients of the Firm. Prior to implementing a cross transaction in a client's account, the client must provide standing authorization allowing Donaldson Capital Management to implement such transactions. A cross transaction occurs when securities are bought and sold between two client accounts. Cross transactions made by the Firm are always implemented between fee-based investment advisor accounts. Donaldson Capital Management does **not** implement cross transactions between a commission-based brokerage account and a fee-based advisory account.

An independent third party is used to determine the price when implement cross transactions. Donaldson Capital Management employs cross transactions when the prices to both buyers and sellers are at least equivalent to or better than prices generally available on the open market.

### ***Handling of Trade Errors***

Donaldson Capital Management has implemented procedures designed to prevent trade errors; however, trade errors in client accounts cannot always be avoided. Consistent with its fiduciary duty, it is the policy of the Firm to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction. Depending on the specific circumstances of the trade error, the client may not be able to receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole and any loss resulting from the trade error will be absorbed by Donaldson Capital Management if the error was caused by the Firm. If the error is caused by the broker-dealer, the broker-dealer will be responsible for covering all trade error costs. If an investment gain results from the correcting trade, the gain will remain in the client's account unless the same error involved other client account(s) that should also receive the gains and it is not permissible for all clients to retain the gain.

If the gain does not remain in the client's account and TD Ameritrade is the custodian, TD Ameritrade will deposit gains into Donaldson Capital Management's trade error account with TD Ameritrade. Donaldson Capital Management will maintain the gain to minimize and offset its administrative time and expense against losses the Firm may incur as a result of other trading errors. Generally, if related trade errors result in both gains and losses in an account, they may be netted.

If the gain does not remain in the account and a broker-dealer other than TD Ameritrade is the custodian, the client's introducing broker-dealer will maintain gains that may result from correcting a trade error and in some instances may use such gains to offset overall losses the introducing broker-dealer incurs from trading errors.

### ***Block Trading Policy***

Transactions implemented by Donaldson Capital Management for client accounts are generally effected independently, unless the Firm decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used by the Firm when Donaldson Capital Management believes such action may prove advantageous to clients. When Donaldson Capital Management aggregates client orders, the allocation of securities among client accounts will be done on a fair and equitable basis with no particular group or client(s) being favored or disfavored over any other clients. Typically, the process of aggregating client orders is done in order to achieve better execution or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among the Firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When Donaldson Capital Management determines to aggregate client orders for the purchase or sale of securities, including securities in which Donaldson Capital Management may invest, the Firm will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, Donaldson Capital Management does not receive any additional compensation or remuneration as a result of aggregation.

### ***Ability to Select Fixed Income (Bond) Broker-Dealers***

Donaldson Capital Management may elect to purchase bonds through bond broker-dealers in order to obtain a better price for the client. The bonds may be delivered into either a block account that DCM has at TD Ameritrade where the bonds are then allocated to the client's brokerage account or the bonds can be delivered directly into the client's account. This practice is known as Directed Trade whereby DCM "directs the trade" away from TD Ameritrade to another bond broker-dealer. TD Ameritrade still executes the trade and sends out confirmations to the client. This is the only case in which Donaldson Capital Management selects a broker-dealer to be used without specific client consent. TD Ameritrade charges the client a fee per order entered at an executing broker-dealer by the Firm. The Directed Trade fee is built into the price of the bond.

### ***Custody***

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

The following are descriptions of ways we have custody.

- ✓ Donaldson Capital Management is deemed to have custody of client funds and securities whenever Donaldson Capital Management is given the authority to have fees deducted directly from client accounts.
- ✓ Greg Donaldson, in his individual capacity, serves as trustee to a one of DCM's proprietary clients. The role of Mr. Donaldson as a trustee is imputed (i.e. assigned) to the Firm, and

therefore Donaldson Capital Management is deemed to have custody of client funds and securities for which Mr. Donaldson serves as trustee. Depending on the total amount of compensation Mr. Donaldson is expected to receive as a result of his trustee services and advisory fees collected by Advisor, Mr. Donaldson may waive or reduce the amount of the trustee fee charged.

For accounts in which DCM is deemed to have custody, the Firm has established the following procedures.

1. All client funds and securities are held at a qualified custodian in a separate account for each client under that client's name.
2. Clients or an independent representative of the client (other than the Firm's affiliated trustee, i.e. Mr. Donaldson) will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained.
3. Account statements are delivered directly from the qualified custodian to each client, or the client's independent representative (other than the Firm's affiliated trustee, i.e. Mr. Donaldson), at least quarterly. Clients (and their representatives) are urged to compare account statements received from the qualified custodian against reports provided by Donaldson Capital Management.
4. Finally, trustee accounts for which Mr. Donaldson serves as trustee and other accounts the Firm may have custody other than the deduction of advisory fees are subject to annual surprise verification examination conducted by an independent accounting firm.

## **Item 5 – Account Requirements and Types of Clients**

### **Minimum Investment Amounts Required**

Donaldson Capital Management generally imposes an account minimum value of \$500,000 for Program services. Exceptions to these minimums may be granted by the Firm. When exceptions to the minimum are allowed for the one-Fee Program, clients may be responsible for paying all transaction costs. Donaldson Capital Management, in its sole discretion, may charge a lesser management fee and/or reduce or waive the account client minimum based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, type of services required, account composition, negotiations with client).

### **Types of Clients**

Donaldson Capital Management generally provides investment advice to the following types of clients:

- Individuals
- High-Net Worth Individuals
- Pension and profit sharing plans
- Trusts, estates, or charitable organizations
- Corporations or business entities other than those listed above

All clients are required to execute an agreement for services in order to establish a client arrangement with Donaldson Capital Management and/or the sponsor of third-party money manager platforms.

## **Item 6 – Portfolio Manager Selection and Evaluation**

Program does not allow Advisory Representatives or clients to utilize portfolio managers that are not associated with Donaldson Capital Management. In other words, the only portfolio managers selected for managing client assets in the Program are Advisory Representatives of Donaldson Capital Management. Therefore, conflicts of interest present in other wrap-fee programs that make available both affiliated and unaffiliated portfolio managers are not present in this Program. Because Program does not provide for a multitude of outside portfolio managers, Donaldson Capital Management does not have procedures designed to select outside portfolio managers. Most of the items required by this item of the Wrap-Fee Program Brochure instructions do not apply to Donaldson Capital Management. Items that do apply are answered below.

Clients are advised that the investment recommendations and advice offered by Donaldson Capital Management do not constitute legal or accounting advice. Therefore, you should coordinate and discuss the impact of financial advice with your individual attorney and/or accountant. Clients are advised that it is necessary to inform Donaldson Capital Management promptly with respect to any changes in their financial situation, investment goals and objectives. Failure to notify DCM of any such changes could result in investment recommendations not meeting the needs of the client.

### **General Description of Primary Advisory Services**

Donaldson Capital Management provides investment advisory services other than the Program described in this Wrap-Fee Program Brochure. A description of all fee-based investment advisory services provided by Donaldson Capital Management is available in the Donaldson Capital Management's Form ADV Part 2 Disclosure Brochure.

Clients should have a conversation with their Advisory Representative and read this Wrap-Fee Program Brochure carefully as it explains, in detail, the Program. The following are brief descriptions of Donaldson Capital Management's primary services.

**Investment Management Services** - We provide advisory services in the form of Investment Management Services which involve providing clients with continuous and on-going supervision over client accounts. This means that Donaldson Capital Management will continuously monitor a client's account and make trades in client accounts when necessary.

**Investment Consulting Services** – We also provide investment consulting services in the form of oral advice and written recommendations. Investment consulting services may cover, but are not limited to, the following topics: portfolio analysis, asset allocation strategies, and specific investment recommendations. The Firm may provide consulting services on accounts and other investment holdings owned by the client but not included under the Firm's investment management services. These are accounts for which trading authorization is not granted to DCM. Clients signing up for this service must understand that the Firm does not provide on-going reviews of accounts through this service and information about such accounts is limited to information provided exclusively by the client. Clients always have the sole discretion to accept or reject DCM's advice. The client must implement all trades in such accounts because the Firm will have no access to the account.

### **Limits Advice to Certain Types of Investments**

Donaldson Capital Management provides investment advice on the following types of investments.

- No-Load (i.e. no trading fee) and Load-Waived (i.e. trading fee waived) Mutual Fund Shares



- Exchange-listed securities (i.e. stocks)
- Securities traded over-the-counter (i.e. stocks)
- Fixed income securities (i.e. bonds)
- Closed-End Funds and Exchange Traded Funds (ETFs)
- Foreign Issues
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- United States government securities
- Options contracts on securities and commodities
- Interests in partnerships investing in real estate, oil and gas interests

Donaldson Capital Management does not provide advice on futures contracts on tangibles or intangibles or hedge funds and other types of private (i.e. non-registered) securities.

When providing Investment Management Services, DCM will typically construct each client's account holdings using equities, fixed income or a combination of both to build a diversified portfolio based on the client's financial situation and investment objectives. It is not Donaldson Capital Management's typical investment strategy to attempt to time the market but we may increase cash holdings modestly as deemed appropriate, based on your risk tolerance and our expectations of market behavior. We may modify our investment strategy to accommodate special considerations such as -- low basis stock, stock options, legacy holdings, inheritances or special tax situations. If requested, a client may impose reasonable restrictions on investing in certain securities or certain types of securities.

#### **Participation in Wrap Fee Programs**

Donaldson Capital Management offers services through both wrap-fee programs and non-wrap fee programs. A wrap fee program is defined as any advisory program under which a specified fee or fees not based directly upon transactions in a client's account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and the execution of client transactions. Whenever a fee is charged to a client for services described in this brochure (whether wrap fee or non-wrap fee), Donaldson Capital Management will receive all or a portion of the fee charged. The only significant difference is the way in which transaction services are paid. Under the wrap-fee program, the firm pays transaction fees while the client pays transaction fees if participating in a non wrap-fee program. There is no significant difference in the manner in which DCM manages the portfolios.

#### **Tailor Advisory Services to Individual Needs of Clients**

When managing client accounts through the Firm's Investment Management Services program, DCM may allocate investment management assets of its client accounts, on a discretionary or non-discretionary basis, among one or more of its proprietary investment management portfolio strategies (management styles) developed and monitored by our Investment Policy Committee (IPC). When client accounts are managed using one or more of our proprietary portfolio strategies (management styles), investment selections are based on the underlying model(s) and we may not necessarily develop customized (or individualized) portfolio holdings for each client. However, the determination to use a particular model or models is always based on each client's individual investment goals and objectives.

To determine which management style best suits the needs of a client, a DCM Portfolio Manager or a third party investment advisor representative conducts an initial interview with the client during which time the Portfolio Manager or third party investment advisor representative obtains from the client information sufficient to determine the client's financial situation and investment goals and objectives. The Portfolio Manager or third party investment advisor representative will describe the different management styles Donaldson Capital Management offers that might be most beneficial and appropriate in light of the client's responses and objectives. Then, a portfolio strategy (management style) is chosen by agreement with the client for each account.

Because Donaldson Capital Management specializes in generating income for clients, which investment management portfolio strategy (management style) and asset allocation are chosen depends in large part on how much income the client needs. Beyond that, personal risk tolerance and time horizon are factored into the decision.

Each equity model is comprised of roughly thirty securities and each client account is uniquely tailored to that particular client as a result of the investment decisions the Portfolio Manager makes. The client's account(s) is managed on the basis of the client's financial situation and investment objectives. Different clients whose accounts are managed using the same portfolio strategy may not be invested in all of the securities included in the underlying model and different clients whose accounts are managed using the same portfolio strategy may not be invested in exactly the same securities.

Clients are advised to promptly notify Donaldson Capital Management if there are ever any changes in their financial situation or investment objectives, or if they wish to impose any reasonable restrictions upon the Firm's management services.

#### **Client Assets Managed by Donaldson Capital Management**

The amount of clients assets managed by Donaldson Capital Management totaled \$558,916,482.00 as of March 16, 2012. \$526,895,980.00 is managed on a discretionary basis and \$32,020,502.00 is managed on a non-discretionary basis.

#### **Performance-Based Fees and Side-By-Side Management**

Donaldson Capital Management **does not charge or accept performance-based fees** which can be defined as fees based on a share of capital gains on or capital appreciation of the assets held within a client's account.

#### **Donaldson Capital Management uses the following methods of analysis in formulating investment advice.**

**Fundamental** – Fundamental analysis of a security involves analyzing everything that can affect its value such as its business financial statements and health, its management and competitive advantages, and its competitors and markets. This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

**Technical** – Technical analysis of a security maintains that all information is reflected already in the stock price. It is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but

instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

**Statistical** – Statistical analysis of a security involves finding historical relationships between stock prices and other variables. In the Firm's case, the most common relationship used is between dividend growth and price growth.

**Donaldson Capital Management uses the following investment strategies when managing client assets and/or providing investment advice.**

- ✓ Long term purchases - Investments held at least a year.
- ✓ Short term purchases - Investments sold within a year.
- ✓ Trading - Investments sold within 30 days.
- ✓ Short sales. A short sale is generally the sale of a stock not owned by the investor. Investors who sell short believe the price of the stock will fall. If the price drops, the investor can buy the stock at the lower price and make a profit. If the price of the stock rises and the investor buys it back later at the higher price, the investor will incur a loss. Short sales require a margin account.
- ✓ Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from Donaldson Capital Management.
- ✓ Option writing including covered options, uncovered options, or spreading strategies. Options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.

As stated in Item 4 of this Disclosure Brochure, clients will be interviewed for the purpose of gathering sufficient information to determine the most appropriate investment portfolios given their unique investment mandates. All clients receive supplemental information from our Firm that provides greater detail of our various investment portfolios. The following are brief descriptions of our standard investment portfolios (i.e. models) along with any unique risks associated with the portfolios.

1. Rising Dividend Equities -

- a. Cornerstone – invests primarily in common stocks of companies that have both a current dividend yield greater than that of the Standard and Poor's 500 Stock Index (S&P 500) and what we believe to be a higher-than-average projected dividend growth rate. This style seeks a combination of capital appreciation and growing income. While these companies are generally less volatile than the average stock, investors must be able to assume the risk and volatility that is inherent with investing in stocks.
- b. Capital Builder – invests primarily in the common stocks of companies with mid to large capitalization that have demonstrated an ability to produce growth of sales, earnings, and to a lesser degree, dividends, at a rate greater than that of the average company. This style of management is for investors who are financially able to assume the risk and volatility of investing in stocks in exchange for the potential rewards of long-term capital appreciation.

- c. **Income Builder** – invests primarily in companies that have dividend yields two to four times higher than the average company in the S&P 500. Like the other Rising Dividend management styles, companies in this investment style will normally be larger, well-established companies. This style of management is suited for investors who are willing to trade future growth of principal and income for a higher level of current income. The market prices for these companies typically do not follow the prices for the stock market in general. These companies can, because they pay out large portions of their annual earnings in dividends, expose investors to a different set of risks than the typical publicly-traded company.
  - d. **Sectors** – invests primarily in Exchange-Traded Funds (ETFs) and index funds, and in larger accounts, individual companies. This style seeks to take advantage of current macro-economic trends. The allocations in this portfolio change across industry sectors as those same allocations change in DCM management styles that hold individual securities. Investing in securities involves risk of loss that clients should be prepared to bear.
- 2. **Endowment** - seeks to produce a stable yet growing stream of income by combining fixed income securities such as those described in Preservation of Capital with any of DCM's three Rising Dividend Management Styles: Cornerstone, Capital Builder, or Income Builder.
  - 3. **Preservation of Capital** - primary objective is safety of principal. A portfolio for clients seeking limited volatility and a high, secure level of income. Fixed income securities, whether corporate, government, or municipal bonds, will represent the primary types of investments utilized in this style of management. It may also include preferred stocks and collateralized mortgage obligations. Selection of this management style implies both a level of risk and an assumed total return significantly less than that of common stocks in general.

### **Risk of Loss**

Clients must understand that past performance is not indicative of future results. Therefore, current and prospective clients (including you) should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, DCM is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through our investment management program.

- **Equity (Stock) Market Risk** – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- **Company Risk** -- When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate

diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.

- Fixed Income Risk -- When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk -- Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- ETF and Mutual Fund Risk -- When our Firm invests in a an ETF or mutual fund, it will bear additional expenses based on its pro rata share of the ETFs or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.
- Management Risk -- Your investment with our Firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.
- Margin Risk -- When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from your broker/dealer. If you intend to borrow funds in connection with your account, you will be required to open a margin account, which will be carried by the broker/dealer of your account. The securities purchased in such an account are the broker/dealer's collateral for its loan to you.

If the securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and, as a result, a brokerage firm is required to take action, such as issue a margin call and/or sell securities or other assets in your accounts, in order to maintain necessary level of equity in the account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any Margin Account that may be established as a part of our Investment Management Services and held by your broker/dealer. These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The broker/dealer can force the sale of securities or other assets in your account.
- The broker/dealer can sell your securities or other assets without contacting you.

- You are not entitled to choose which securities or other assets in your margin account that may be liquidated or sold to meet a margin call.
- The broker/dealer may move securities held in your cash account to your margin account and pledge the transferred securities.
- The broker/dealer can increase its “house” maintenance margin requirements at any time and are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

### **Voting Client Securities**

Donaldson Capital Management will **not** vote proxies on behalf of your account. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, we have determined that taking on the responsibility for voting client securities does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities. Therefore, it is your responsibility to vote all proxies for securities held in accounts managed by our Firm.

Clients will receive proxies directly from their custodian or transfer agent and such documents will not be delivered by our Firm. Although we do not vote client proxies, if you have a question about a particular proxy feel free to contact us.

### **Legal Actions**

The client retains the right under the applicable securities laws to initiate individually a lawsuit or join a class-action lawsuit against the issuer of a security that was held, purchased or sold by or for the client. The Firm will not initiate such a legal proceeding on behalf of the client and does not provide legal advice to the client regarding potential causes of action against such a security issuer and whether the client should join a class-action lawsuit. DCM recommends that the client seek legal counsel prior to making a decision regarding whether to participate in such a class-action lawsuit. Moreover, the Firm's services do not include monitoring or informing the client of any potential or actual class-action lawsuits against the issuers of the securities that were held, purchased or sold by or for the client. However, upon the client's specific instruction, the Firm may provide assistance to the client regarding the client's investment history related to the security underlying the individual or class-action lawsuit and provide assistance with the completion of this portion of certain class-action paperwork. At no time should such assistance by the Firm be deemed as a substitute for consulting with legal counsel.

## **Item 7 – Client Information Provided to Portfolio Managers**

Because only Advisory Representatives of Donaldson Capital Management serve as portfolio managers, Advisory Representatives or their assistants are responsible for gathering all information provided by clients. Advisory Representatives will interview and work with clients to gather all information needed relative to their investment objectives and needs in order to provide management services through Program. Clients need to contact their Advisory Representative or assistant whenever there are changes to their financial situation that will impact or materially influence the way Donaldson Capital Management manages accounts.

## **Item 8 - Client Contact with Portfolio Managers**

Because only Advisory Representatives of Donaldson Capital Management serve as portfolio managers, there are no restrictions placed on clients' ability to contact and consult with their portfolio managers. It is the policy of Donaldson Capital Management to provide an “open channel” of communication between

Advisory Representatives and their clients. Clients are encouraged to contact their Advisory Representative whenever they have questions about the management of their account.

## **Item 9 - Additional Information**

### **Disciplinary Information**

We have no legal or disciplinary events that are material to your evaluation of our business or the integrity of our management. Therefore, this item is not applicable to our brochure.

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

Donaldson Capital Management is an independent investment advisory firm and only provides investment advisory services. The Firm is not engaged in any other business activities and offers no other services than those described in this Disclosure Brochure Appendix. We do not have any arrangements whereby we recommend (or refer) clients to a third-party investment advisor.

Donaldson Capital Management is **not** and does **not** have a related company that is a (1) broker/dealer, municipal securities dealer, government securities dealer or broker, (2) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund), (3) other investment adviser or financial planner, (4) futures commission merchant, commodity pool operator, or commodity trading advisor, (5) banking or thrift institution, (6) accountant or accounting firm, (7) lawyer or law firm, (8) insurance company or agency, (9) pension consultant, (10) real estate broker or dealer, or (11) sponsor or syndicator of limited partnerships.

### **Code of Ethics Summary**

Donaldson Capital Management, as a matter of policy and practice, and consistent with industry best practices and SEC requirements (SEC Rule 204A-1 under the Investments Advisers Act of 1940), has adopted a written Code of Ethics covering all supervised persons. Our Firm's Code of Ethics requires high standards of business conduct, compliance with federal securities laws, reporting and recordkeeping of personal securities transactions and holdings, reviews and sanctions.

This Code establishes rules of conduct for all employees of Donaldson Capital Management and is designed to, among other things, govern personal securities trading activities in the accounts of employees. The Code is based upon the principle that our Firm and its employees owe a fiduciary duty to our clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid (i) serving their own personal interests ahead of clients, (ii) taking inappropriate advantage of their position with the Firm and (iii) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

The Code is designed to ensure that the high ethical standards long maintained by Donaldson Capital Management continue to be applied. The purpose of the Code is to preclude activities which may lead to or give the appearance of conflicts of interest, insider trading and other forms of prohibited or unethical business conduct. The excellent name and reputation of our Firm continues to be a direct reflection of the conduct of each employee.

Pursuant to Section 206 of the Advisers Act, both Donaldson Capital Management and its employees are prohibited from engaging in fraudulent, deceptive or manipulative conduct. Compliance with this section involves more than acting with honesty and good faith alone. It means that Donaldson Capital Management has an affirmative duty of utmost good faith to act solely in the best interest of its clients.

Clients may request a complete copy of the Firm's Code of Ethics by contacting Donaldson Capital Management directly.

### **Affiliate and Employee Personal Securities Transactions Disclosure**

Donaldson Capital Management or its associated persons may buy or sell for their personal accounts, investment products identical to those recommended to clients. This creates a potential conflict of interest. To control for this conflict of interest, it is the express policy of Donaldson Capital Management that all persons associated in any manner with the Firm must place the interests of our clients ahead of their own when implementing personal investments. Donaldson Capital Management and its associated persons shall not buy or sell securities for their personal account(s) where their decision is derived, in whole or in part, by information obtained as a result of his/her employment unless the information is also available to the investing public upon reasonable inquiry. Generally speaking, securities recommended by Donaldson Capital Management are widely held and publicly traded. As stated above, we have developed policies and procedures to review and monitor the personal trading of our personnel. Procedures are designed to ensure our personnel are not taking advantage of client positions. The Firm's policy is explained in detail below:

#### **PERSONAL SECURITIES TRANSACTIONS POLICY**

DCM and its employees will always put the best interest of its clients ahead of their own. As a Registered Investment Adviser, DCM and its staff are subject to certain regulations that normal investors do not need to consider. DCM employees are permitted to participate in block-trades for the Firm's clients. When the Firm purchases or sells securities in block trade activity for its clients, DCM employees are prohibited from purchasing or selling the same securities 48 hours before or after the blocks are executed.

##### **A. PREVENTION**

Employees of Donaldson Capital Management are prohibited from executing transactions in their personal investment accounts or the investment accounts of their family members. Any transactions for employees' personal investment accounts or the investment accounts for their family members must be reviewed and approved by the Chief Compliance Officer or designee prior to execution, unless those trades are part of a block trade for DCM clients. Each employee will complete a *DCM Employee/Personal Transaction Approval Form* (attached) and submit it to the CCO or designee for approval/denial. The Firm's President or designee will approve/deny any personal transactions of the CCO. The CCO or his/her designee will execute all such transactions.

##### **B. DETECTION**

DCM tracks all trading activity of its employees' personal investment accounts and their family members' investment accounts through Advent/AXYS software. To detect possible infractions, at the end of each calendar quarter, a transaction summary of all trades executed in the employees' investment accounts and the investment accounts of their family members will be cross-referenced against any block trades executed on behalf of the Firm's clients.

##### **C. CORRECTION**

Any violations will be corrected immediately upon discovery by reversing the transaction(s) causing the violations. The affected employee is responsible for reimbursing DCM for any associated costs incurred with correcting the violations. DCM will record any such violations and corrective actions taken.



### **Account Reviews**

Investment management accounts are reviewed at least monthly by Donaldson Capital Management, but may be reviewed more frequently based on changes to the client's situation and requests made by clients. Each Donaldson Capital Management Investment Advisor Representative (Portfolio Manager) is assigned a maximum of 150 households. The underlying portfolios held in client accounts and recommended by the Firm are reviewed on an on-going basis by the Firm's investment personnel: Senior Portfolio Managers Greg Donaldson, Michael Hull, Richard Roop, Randy Alsman and Joe Zabratanski, and Portfolio Managers Kyle Markle and Brandon Roop. Accounts are managed by Donaldson Capital Management in accordance with parameters set forth and determined by the Firm's investment personnel.

### **Account Reports**

Donaldson Capital Management will provide to its investment management clients a quarterly macro-economic newsletter in which major economic forces and trends in the economy will be discussed. It will include analyses of how these forces and trends will affect stocks, bonds, and interest rates. Special reports will be included as economic and market changes warrant. Presently, no subscription fee is charged for this service; however, Donaldson Capital Management may begin charging a fee for its newsletter in the future.

Donaldson Capital Management may also provide performance or position reports to clients on a periodic or on-demand basis. Clients are **urged** to compare all reports provided by the Firm against the account statements received from the qualified custodian which are provided to clients directly from the qualified custodian. The qualified custodian is required to provide statements to clients at a minimum on a quarterly basis.

### **Client Referrals**

Donaldson Capital Management enters into arrangements with unaffiliated investment advisory firms ("Solicitors") that refer clients that may be candidates for investment advisory services to the Firm. In return, Donaldson Capital Management will agree to compensate the Solicitor for the referral. Compensation to the Solicitor is dependent on the client entering into an advisory agreement with the Firm. Compensation to the Solicitor will be an agreed upon percentage of the Firm's investment advisory fee or a flat fee depending on the type of advisory services the Firm provides to clients. Donaldson Capital Management's referral program will be in compliance with federal or state regulations (as applicable). The solicitation/referral fee is paid pursuant to a written agreement retained by both the Firm and the Solicitor. The Solicitor will be required to provide the client with a copy of DCM's Form ADV Part 2 Disclosure Brochure and a Solicitor Disclosure Document prior to or at the time of entering into any investment advisory contract with Donaldson Capital Management.

### **Other Compensation**

- ✓ The only form of compensation received from advisory services is the fees charged for providing such investment services as described in Item 4 of this brochure.
- ✓ We receive no other forms of compensation in connection with providing investment advice.
- ✓ However, please refer to Item 4 to read information regarding the benefits received from our brokerage arrangements.

### **Financial Information**

We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year with this Brochure Appendix. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, we have not been the subject of a bankruptcy petition at any time.

## **PRIVACY POLICY NOTICE**

Federal laws require Donaldson Capital Management, like all providers of personal financial services, to inform its clients of how it protects the privacy of clients' personal information. The Firm's standards of confidentiality continue to be more stringent than those required by law. In compliance with government regulations, the Firm sends this notice annually to each client.

### **Protection of Personal Information**

Donaldson Capital Management has safeguards in place to protect the confidentiality, security, and integrity of each client's non-public personal information. The Firm restricts access to non-public personal information to those who need to know that information in order to service accounts. The Firm associates are required to maintain and protect the confidentiality of client personal information and must follow established procedures to do so including annually signing an agreement to strictly maintain the confidentiality of every client's personal information.

Donaldson Capital Management maintains physical, electronic, and procedural safeguards that comply with government requirements to guard non-public personal information. As a further safeguard, the Firm has designed its offices to physically protect all client information from being observed casually or mistakenly by persons other than the Firm's staff.

### **Types of Personal Information Collected**

When clients apply for or maintain an account with Donaldson Capital Management, personal information about clients is collected for business purposes such as evaluating financial needs, processing client requests, and executing transactions. This personal information may include

- Information client's provide the Firm on applications, contracts, forms, or other correspondence – including names, addresses, phone numbers, e-mail addresses, dates of birth, social security numbers, occupation, and personal financial information.
- Information about accounts managed by the Firm – client account holdings and transaction history.
- Information provided to verify client's identity – copies of passports or driver's licenses.

### **Disclosure of Personal Information**

Donaldson Capital Management does not disclose any non-public information about its clients or former clients, except as required by law or to cooperate with regulators or law enforcement authorities or to resolve issues on behalf of clients. Permitted disclosures include providing information to the Firm's employees and, in some instances, unrelated third parties such as financial service providers that assist us in servicing client accounts (broker-dealers and custodians), joint account holders, and those with whom clients have consented to sharing of their information.

In all such situations, Donaldson Capital Management stresses the confidential nature of information being shared.

Donaldson Capital Management appreciates the opportunity to serve the needs of our client's investment management needs. We pledge to follow the policies, safeguards, and guidelines as described in this notice and to protect the confidentiality of all client information. Please call if you have any questions.