

**Part 2A of Form ADV**

**Item 1. Cover Page**

---

**Compass Capital Management, Inc.**

400 Baker Building  
706 2<sup>nd</sup> Avenue South  
Minneapolis, MN 55402  
Telephone: (612) 338-4051  
[www.compasscap.com](http://www.compasscap.com)

March 6, 2012

**This brochure provides information about the qualifications and business practices of Compass Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at 612-338-4051. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

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

## **Item 2. Material Changes**

---

This brochure contains no material changes since our last annual update, which was dated March 31, 2011.

## **Item 3. Table of Contents**

---

Item 1.	Cover Page .....	1
Item 2.	Material Changes.....	2
Item 3.	Table of Contents .....	2
Item 4.	Advisory Business .....	2
Item 5.	Fees and Compensation.....	3
Item 6.	Performance-Based Fees and Side-By-Side Management .....	4
Item 7.	Types of Clients.....	4
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss .....	4
Item 9.	Disciplinary Information .....	6
Item 10.	Other Financial Industry Activities and Affiliations .....	6
Item 11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	7
Item 12.	Brokerage Practices .....	8
Item 13.	Review of Accounts .....	11
Item 14.	Client Referrals and Other Compensation.....	11
Item 15.	Custody.....	11
Item 16.	Investment Discretion.....	12
Item 17.	Voting Client Securities .....	12
Item 18.	Financial Information .....	12

## **Item 4. Advisory Business**

---

**A. Firm Description.** Compass Capital Management, Inc. (“Compass”) is an SEC-registered investment adviser that has been in business since 1988. Our owners are David Carlson, Charles Kelley and Pilot Butte Company. SEC registration does not imply a certain level of skill or training.

**B. Advisory Services.** Compass provides discretionary and non-discretionary investment management services using the investment strategies described below in Item 8 to institutional investors, including corporations, corporate & public pension plans, investment partnerships, profit sharing plans, savings investment & 401(k) plans, Taft-Hartley plans, private and public foundations and to individual investors.

As a general matter, we will not monitor, advise or act for you in legal proceedings, including, without limitation, class actions and bankruptcies, involving securities purchased or held in the

your account. You should instruct your custodian(s) to promptly forward to you any communications relating to legal proceedings involving such assets.

**C. Tailored Advice.** Investment advisory services are based on your needs and objectives as communicated to Compass by you, taking into consideration the nature and amount of all assets you are willing to disclose. Compass will enter into a separate written advisory agreement with each client. Any restrictions on how we manage your account will be reflected in the agreement or in the investment policy statement for your account. Item 16 contains more information concerning our investment discretion.

**D. Wrap Fee Programs.** We do not participate in any wrap fee programs.

**E. Amount of Client Assets Managed.** As of December 31, 2011, we managed \$532,952,006 in client assets on a discretionary basis and \$7,998,549 on a non-discretionary basis.

## **Item 5. Fees and Compensation**

---

**A. Advisory Fees.** For our services, we charge advisory fees generally in accordance with the following schedules.

<u>Type of Account</u>	<u>Annual Rate</u>	<u>Portfolio Market Value</u>
Balanced and Equity Accounts	1.00% on first	\$5,000,000
	.75% on next	5,000,000
	.50% on next	10,000,000
	Negotiated on balance	

Bond Management Accounts      ½ of regular fee schedule.

Advisory fees are negotiable in our sole discretion, and fixed fees may be charged for clients having special portfolio requirements or circumstances. A minimum advisory fee may be charged on accounts less than \$1,000,000.

**B. Payment of Fees.** Advisory fees will be computed on the basis of the market value of your portfolio at the end of each calendar quarter, for services provided during that quarter. Fees may be prorated for any quarter in which you are not a client of Compass for the entire quarter. Your advisory agreement with us will specify how we collect fees. We will debit our advisory fees directly from your custodial account or, in limited circumstances, bill you directly. If you wish to terminate our services, you must do so in writing at least one calendar month prior to the termination of such services.

**C. Other Fees or Expenses.** We describe below certain other fees and expenses you will pay to third parties, not us, in connection with your investment advisory account.

If we invest your assets in mutual funds, you will pay those customary fees charged directly by such funds to their investors, which typically include investment advisory fees and other fees and expenses. Our management fee is in addition to these fees and as a result, you will pay two

levels of advisory fees with respect to such investments. We do not receive any compensation from any third parties relating to your investments in mutual funds.

Because we do not physically custody your assets, you will use a third-party custodian and may pay fees charged by that custodian. You will also pay brokerage and other transaction costs resulting from our decisions to buy or sell securities for your investment account (except with respect to purchases or sales of no-load mutual funds, unless such funds charge a redemption fee). To the extent your custodian is also a broker-dealer and provides transaction services, any such brokerage and other transaction costs are typically set forth in your agreement with the custodian. Please also see Item 12 below for information concerning our brokerage practices.

**D. Other Compensation.** We do not receive compensation for the sale of securities or other investment products. We receive no other compensation related to our advisory services to you other than our advisory fees.

---

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

---

We do not charge performance-based fees. As a result, we have no conflicts of interest between accounts that pay asset-based fees and accounts that pay performance-based fees (known as “side-by-side management”).

---

**Item 7. Types of Clients**

---

We generally provide investment advice to the following types of clients: corporations, corporate and public pension plans, investment partnerships, profit sharing plans, savings-investment and 401(K) plans, Taft-Hartley plans, private and public foundations and endowments and individual investors. As a general matter, the minimum client account size is \$1,000,000. We may aggregate related accounts for the purpose of determining whether the minimum account size standard has been met and may permit smaller accounts if we reasonably believe they will grow above the minimum size.

---

**Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

---

**A. Methods of Analysis.** Our common stock strategy focuses on identifying attractive growth companies through fundamental research and specific valuation criteria. Computerized screening methodologies, as well as ideas from external research sources, are used to select a universe of purchase candidates. Fundamental factors are weighed and valuation disciplines applied to identify new purchases and sales and to reaffirm current holdings. Identifying and positioning for longer term social and economic trends in investments is of importance. Cyclical factors play some role in timing of selections. Technical analysis plays only a minor role. Fixed income securities are purchased based on credit research from internal and external sources. Portfolios using individual bonds are structured using a “laddered” approach, allocating approximately equal numbers of dollars to each year of a maturity schedule. External mutual fund managers are screened and identified using third party information sources. When possible, annual face-to-face meetings are held with the external mutual fund managers or a firm representative.

## **B. Investment Strategies.**

**Equity.** Our core stock portfolio consists of 25 high-quality, mid-to-large capitalization growth companies purchased when they represent good value according to our disciplines. These companies tend to have similar characteristics such as growing faster than the overall market, being well-diversified in terms of product mix and geographical distribution, being established industry leaders, and having proven management teams and strong balance sheets. Our minimum market capitalization at purchase is \$2 billion.

**Fixed Income.** We purchase high-quality, intermediate-term taxable and non-taxable bonds (1-10 years), “A” or higher credit quality for principal preservation, liquidity and income.

**Balanced Portfolios.** We blend stocks, bonds and cash in a single account to meet your unique needs for income, growth and liquidity.

**External Mutual Fund Managers.** We use a select group of external mutual fund managers (e.g., international) to provide supplemental investment options, if needed.

**Asset Allocation.** You will sign a separate Investment Policy Statement (IPS) based on your particular needs and objectives. We will assist in determining the appropriate asset allocation, taking into consideration the nature and amount of assets, the purpose of the portfolio and other information you are willing to disclose.

**C. Primarily Recommended Securities.** We recommend primarily the following types of securities:

- Individual common stocks;
- Taxable and non-taxable intermediate term bonds (U.S. Treasury, Agency, Corporate, Taxable and Tax-Exempt municipals, for example); and
- No-load mutual funds

**D. Material Risks.** Investing in securities involves risk of loss that you should be prepared to bear. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes. The material risks presented by the strategies and the securities we invest in are set forth below.

*Stock market risk:* the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

*Large-cap stock risk:* the chance that returns from large-capitalization stocks will occasionally trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better—or worse—than the stock market in general.

*Mid-cap stock risk:* the chance that returns from mid-capitalization stocks will occasionally trail returns from the overall stock market. Mid-cap stocks may have greater volatility than large-cap stocks because, among other things, medium-size companies may be more sensitive to changing economic conditions.

*Fixed income risks:* including: *interest rate risk*, which is the chance that bond prices overall will decline because of rising interest rates; *income risk*, which is the chance that a strategy's income will decline because of falling interest rates; *credit risk*, which is the chance that a bond issuer will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

*Foreign investment risk:* If consistent with your IPS, we may invest in mutual funds that invest in foreign securities. Investing in foreign securities involve considerations and risks not typically associated with investments in securities of domestic companies. These include, for example, unfavorable changes in currency exchange rates, substantial changes in governmental policies, political and economic instability and changes in relations between nations. Foreign markets are not subject to the same regulation as domestic markets. In addition, there is often less publicly available information about foreign markets and issuers than about domestic markets and issuers.

*Concentrated portfolio risk:* to the extent a strategy invests in a limited number of stocks, it may have more risk because changes in the value of a single security may have a more significant effect, either negative or positive, on the strategy's performance.

Because all strategies are actively managed, they are all subject to *management risk*, which is the chance that we will not successfully execute the strategies described above. There can be no guarantee that our decisions will produce the intended result, and there can be no assurance that an investment strategy will succeed.

---

**Item 9. Disciplinary Information**

---

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no such legal or disciplinary events to disclose.

---

**Item 10. Other Financial Industry Activities and Affiliations**

---

None. Further, we do not recommend or select other investment advisers for our clients.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

---

Compass does not engage in securities transactions for its own account. However, officers and employees or members of their families will, at times, purchase and sell for their own accounts securities which we purchase and sell for you. We have established and will maintain and enforce a Code of Ethics to set forth the standards of conduct expected of employees, to require compliance with the federal securities laws, and to uphold our fiduciary duties.

The Code requires we conduct our business consistent with the status as a fiduciary to our clients and have affirmative duties of care, loyalty, honesty and good faith in connection with all of its activities. This includes putting your interests first at all times.

With respect to all employees, the Code contains a number of policies and procedures to address conflicts of interest based on the fundamental principle that employees owe their chief duty and loyalty to you. Under the policies and procedures, employees, among other things, are: required to provide the Chief Compliance Officer with information concerning personal securities transactions such as initial and annual holdings reports, and quarterly transaction reports; and are prohibited from investing in initial public offerings and private placements.

Under the Code, we prohibit employees from purchasing or selling any security in a personal account, if such security has been initially added to or completely removed from our investment program within the past seven calendar days. Violations of this policy will result, at a minimum, in disgorgement of any profits related to correcting the violation.

Because we do not prohibit employees from investing in the same securities in which client accounts invest (other than as described above), we review the periodic personal securities transactions and holdings reports in an effort to ensure that employees do not personally benefit from, or try to take advantage of, their knowledge of upcoming buys and sells within client accounts. As a general matter, given the nature of our clients' investments and the limited personal securities activities of our employees, we do not believe as a practical matter that employees will be able to benefit personally from such knowledge.

Compass and its employees have a duty to ensure the confidentiality of your information, including holdings, transactions and securities recommendations. To ensure this duty is fulfilled, we have adopted the Code and certain related policies and procedures. We are specifically prohibited from divulging your holdings, any recommendation made to you, or any contemplated or completed securities transactions or trading strategies, except as required in the performance of our duties and only to the extent such other person has a need to know such information to perform their duties.

We are also required to ensure that any material non-public information (as defined in the Code) remains secure. To the extent we become aware of material non-public information concerning the securities of an issuer, the Code prohibits trading on such information or disclosing such information to others except the Chief Compliance Officer. Upon a determination that we

possess material non-public information, you or our employees are not allowed to trade in the securities of the issuer.

A copy of our Code of Ethics is available to clients or prospective clients upon request. If you wish to receive a copy of the Code, please contact us at the address or telephone number provided in Item 1.

## **Item 12. Brokerage Practices**

---

**A. Selecting Broker-Dealers.** It is our policy to seek the best execution for securities transactions. Unless we receive written direction from you, we may select the broker-dealer through which transactions are executed and determine the amount of commission paid. In selecting broker-dealers to execute securities purchases and sales, we consider financial safety, execution capabilities, and research services provided to us. All of these factors are taken into consideration, and thus lowest commission rate is not necessarily the determining factor.

When appropriate under our discretionary authority and consistent with our duty to seek best execution, we may direct brokerage transactions for your account(s) to broker-dealers who provide us with research. Federal securities law provides a “safe harbor” which allows us to pay more than the lowest available commission for research if the research provides lawful and appropriate assistance to us in the investment decision-making process and we determine in good faith that the commission was reasonable in relation to the research provided. These client commissions are known as “soft dollars”. Our use of soft dollars benefits us because we do not have to pay for or produce the research ourselves. Our use of soft dollars benefits you by allowing us to supplement our own research and analysis activities, to receive the views and information of individuals and research staffs of other securities firms, and to gain access to persons having special expertise on certain companies, industries, areas of the economy and market factors. We received the following types of research during our last fiscal year: proprietary research concerning the economy, markets and individual companies or issuers, access to issuer management and access to industry or company analysts. We do not have any specific procedures to direct transactions to a particular broker-dealer in return for soft dollar benefits we receive.

It is our policy not to receive non-research “services” or other similar soft dollar benefits in connection with the selection of broker-dealers to execute client trades.

We believe that the research we obtain generally benefits several or all of the accounts which we manage as opposed to solely benefiting one specific client, although not all such research may be used by us in connection with the accounts which paid commissions to the broker-dealer providing the research. To the extent that certain groups of our clients are not available to pay for soft dollar benefits (e.g., clients that direct brokerage commissions or who invest only in securities that do not generate soft dollars), clients who give us brokerage discretion will support a disproportionate share of our soft dollar benefits.

Our use of soft dollars presents the conflict of interest discussed above (we do not have to pay for or produce the research) and may give us an incentive to select or recommend a broker-dealer based on our interest in receiving research from that broker-dealer, rather than on your interest in receiving best execution. We address these matters by continuing to seek best execution from all broker-dealers that provide us with research and reviewing both the execution provided and the



research obtained on a periodic basis. The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based primarily on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors.

We will recommend broker-dealer custodian firms with whom we have existing relationships to prospective clients who do not have pre-existing broker-dealer custodian relationships. In such cases, we typically recommend Charles Schwab & Co., both because of its execution capabilities, and because it makes competitive commission rates available to our clients. Many clients also come to us having pre-existing relationships with a broker-dealer custodian. In these situations, brokerage commissions and other charges for transactions not executed through the broker-dealer custodian are typically charged to the client. For this reason, and subject to our obligation to seek best execution, it is likely that most, if not all, transactions for such clients will be executed through the broker-dealer custodian. Transactions in municipal securities may not be executed through the broker-dealer custodian if we conclude we cannot obtain best execution using such custodian.

If you use Schwab to serve as your custodial broker-dealer, then you benefit from the commission rates Schwab makes available to our clients. However, if you use a different broker-dealer, it is your responsibility to negotiate commission rates with the custodial broker-dealer.

Certain clients may choose to direct a broker-dealer through which their transactions are executed and may also direct the amount of commission paid. Any such directions must be given to us in writing. Directing brokerage may cost you more money. To the extent that you direct brokerage, such direction may result in higher commissions, greater spreads or less favorable net prices and you may forego certain benefits such as the negotiation of volume discounts or the execution of “bunched” trades. Accordingly, before directing brokerage, you should consider the possible costs or disadvantages of such a direction.

**B. Aggregated Orders.** As a general rule, securities transactions for client accounts are effected simultaneously for multiple accounts using the same broker-dealer. When this occurs, trades in the same security for clients using the same broker-dealer will be “bunched” in a single order in an effort to obtain the best execution at the best price available. If a bunched order is filled at several prices (which may occur in more than one transaction), each client participating in the order will receive the average price, which could be higher or lower than the actual price that would otherwise be paid by the client in the absence of bunching. The transaction costs incurred in the transaction will either be shared pro rata based on each client’s participation in the transaction or will be determined by a client’s agreement with its broker-dealer custodian if the transaction is executed by that broker-dealer custodian.

When placing an aggregated or “bunched” order, we will prepare a written statement regarding the allocation of the order among our various clients, and the executed order will then be allocated according to the written statement. If the aggregated order is not filled in its entirety, the partially filled order will be allocated pro rata based on the written statement. If, after placing

the order, the initial allocation must be changed for certain reasons (e.g., a client withdraws cash from an account scheduled to participate in the order), such change in initial allocation will be recorded in writing and approved by our Chief Compliance Officer.

**C. Non-Aggregated Orders.** To help ensure fairness among client accounts, when aggregating client orders for a security (initial position or completely removed), we separate them into three groups: Schwab-custodied clients, bank-custodied clients, and other broker-custodied clients. Actual order placement for each aggregation is then rotated on a transaction-by-transaction basis. For example, if the Schwab orders are placed first, bank orders second and other broker orders third, then for the next transaction bank orders will be placed first, other broker orders second and Schwab orders last. Compass maintains written records of this rotation.

Given this rotation, trades in a group of accounts that are executed after another group's trades may be subject to price movements, particularly if they are trading after large block trades, involve thinly-traded or illiquid securities or occur in volatile markets. This may result in such accounts obtaining a price that is different and in some cases less favorable than those account trades that are executed first. We expect, however, that such rotation shall ensure that all clients are treated fairly and equitably over time and that no clients will be systematically disadvantaged. We monitor the execution prices of the broker-dealers used.

**D. Cross Trades.** We may engage in "cross transactions," which involve selling a security in one client's portfolio and buying the same security in another client's portfolio. This could occur if a security, which normally meets our criteria for purchase or retention in a clients' portfolio is sold to meet the financial needs or objectives of that client. We receive no financial remuneration in cross transactions. By executing an Investment Advisory Agreement, you authorize us to engage in cross transactions. Such consent can be revoked at any time by written notice to Compass.

**E. Trade Error Policy.** If we cause a trading error to occur in your account, *e.g.*, the wrong security is bought or sold, we will contact the broker-dealer to provide notice of the error and to seek to correct it. If feasible, the trade will be canceled. If we are responsible for the trade error, we will bear any net loss. If it is not feasible to cancel the trade, *e.g.*, because the trade has settled, we will instruct the broker-dealer to reverse the trade error. If this results in a net loss to you, we will reimburse you. You will retain any net gain that results from reversing the trade error. As a general matter, to the extent related trade errors result in both gains and losses in your account, they will be netted for the purpose of determining the amount of overall loss or gain.

With respect to clients custodied at Schwab that choose not to retain a gain resulting from correcting a trade error, Schwab will donate the amount of any gain \$100 or over to charity and keeps gains under \$100. If the correction results in a loss of less than \$100, Schwab will absorb the loss to avoid its own additional expense and burden of processing small errors. Compass reimburses losses of \$100 or greater. Schwab's policy therefore relieves us of the financial obligation to reimburse losses of less than \$100.

### **Item 13. Review of Accounts**

---

**A. Timing of Review.** Accounts managed by Compass are monitored on a continuing basis and are reviewed on a quarterly basis in connection with the mailing of account statements. This review includes ensuring the portfolios are structured and managed in accordance with your investment objectives and our declared policies, guidelines, investment strategies and investment disciplines. Returns for each account managed by us are monitored monthly. The reviews are conducted by Compass's investment managers, David M. Carlson, Leigh E. Niebuhr, Charles M. Kelley, Mark S. Halverson, Jay M. Jackley and Mark A. Vitelli. Periodic meetings are held to interpret investment results and to ensure that written guidelines provided by you are still appropriate and are being followed.

**B. Reports to Clients.** You will generally receive monthly statements or monthly notifications of statement availability from your custodian. We expect you will review or access and review all such statements. We send written statements on a quarterly basis indicating the market value, performance and other information pertaining to your account(s). A personal meeting is encouraged at least annually or more frequently as desired by you.

### **Item 14. Client Referrals and Other Compensation**

---

**A. Receipt of Economic Benefit from Non-Client.** As discussed above, we receive certain soft dollar benefits in connection with your use of commissions. Please refer to Item 12, Brokerage Practices. Because such benefits relieve us of the obligation to source the benefits internally or pay cash for them, we may be deemed to be receiving an economic benefit. We do not receive any other economic benefits (*e.g.* sales awards or other prizes) from non-clients for providing investment advice or advisory services to you.

**B. Payment for Client Referrals.** We do not currently directly or indirectly compensate any person for client referrals. In the past, we had an arrangement with Charles Schwab & Co., Inc. ("Schwab") and participated in the Schwab Adviser Network<sup>TM</sup>. That arrangement is no longer in effect but we continue to pay Schwab for historical client referrals.

### **Item 15. Custody**

---

We are deemed by the applicable SEC rules to have custody of your assets for those accounts where we have the power to deduct our advisory fee directly from the account. All such accounts are physically custodied by an independent third-party custodian. Such custodians provide monthly or quarterly account statements to you. You should carefully review those statements and compare them with the account statements you receive from us. You are encouraged to bring any discrepancies to our attention at their earliest convenience and should contact us if your custodian stops sending statements or notice of such statements.

We also encourage those that have not granted us the power to debit advisory fees from their custodial accounts to review their custodial account statements and compare them with any statements received from us.

Our appraisals and reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please contact us at the address or telephone number on page 1 of this brochure if you have a question about your statement.

#### **Item 16. Investment Discretion**

---

Compass typically manages accounts on a discretionary basis. This means that we, without obtaining your approval in advance, can:

- 1) buy and sell securities,
- 2) determine the amount of securities to be bought and sold,
- 3) determine which broker or dealer to use, and
- 4) negotiate commission rates.

You authorize this discretion in the investment management agreements with us. You also generally limit this discretion by providing us with investment guidelines or policies, which are typically also contained in the investment management agreement with us. Such guidelines or policies generally describe permitted and prohibited investments, strategies and techniques and may contain limitations or restrictions regarding the nature or amount of certain investments.

Certain clients may require prior approval of transactions (non-discretionary advisory services), request to be advised before transactions are effected or otherwise impose restrictions on our authority with respect to designated assets. Any such requirements or restrictions must be stated in writing in your investment advisory agreement and/or Investment Policy Statement.

As a convenience, we may provide consolidated account reporting including account assets for which we provides no investment advisory services. All such assets are specifically identified by you and we are not responsible for the management of such assets.

#### **Item 17. Voting Client Securities**

---

Compass does not exercise proxy voting responsibilities related to securities held in your account(s) and we do not monitor or otherwise provide advice regarding such proxies. You will retain all proxy voting rights, obligations and you will receive proxies or other solicitation materials directly from the custodian.

#### **Item 18. Financial Information**

---

**A. Prepayment of Fees.** We do not require or solicit prepayment of your fees.

**B. Financial Condition.** We do not foresee any financial condition that would impair our ability to meet contractual commitments to you.

**C. Bankruptcy Petitions.** We have never been the subject of a bankruptcy petition.