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### **Form ADV Part 2 - Brochure**

This brochure provides information about the qualifications and business practices of Lewis Capital Management, LLC. If you have any questions about the contents of this brochure, please contact Scott Lewis at (310) 276-1262 or at [scott@lewiscm.com](mailto:scott@lewiscm.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 Lewis Capital Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Lewis Capital Management, LLC is a Registered Investment Advisor. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

This brochure is an interim amendment to an annual update, and it replaces the brochure dated March 23, 2011. This section lists the material changes to the information that has occurred since last March 23<sup>rd</sup>. All other information that has not materially changed since such date is found in the other sections of this document.

- Linda Jankovic was hired in the spring of 2011 to be the chief administrative officer of Lewis Capital Management, LLC.

### **Item 3 – Table of Contents**

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## **Item 4 - Advisory Business**

Lewis Capital Management, LLC (LCM) was licensed as an investment adviser firm on July 20, 2000. Scott Craig Lewis, JD, CFA is the sole owner and chief compliance officer. The firm is not publicly owned or traded and there are no indirect owners of the firm or intermediaries with any ownership interests.

LCM's provides continuous and personal investment advice and manages client's portfolios on a discretionary basis. Investment advice is tailored to each client based on the individual client's financial objectives, risk tolerances, and personal circumstances. Such investment advisory services are the only services offered by LCM.

The advisory relationship is initiated with a series of consultation meetings or phone calls between Scott Lewis and the client wherein they discuss the client's overall financial situation. Topics include a specific client's investment objectives, risk tolerance, planning horizon, asset-class preferences, and LCM investment strategies. LCM then tailors an investment policy relying on client-supplied data. Once these initial sessions are completed, LCM presents verbally and/or in writing the investment plan designed specifically for the client's managed portfolio. Clients are provided assistance in obtaining and completing the required paperwork to establish the necessary investment accounts.

LCM manages a client's portfolio primarily using individually researched and selected common stocks and fixed income securities, along with other publicly traded investments such as exchange traded funds. Asset-allocation decisions are based predominately on the client's financial situation and risk tolerance, as well as on the current asset class attractiveness. In addition, LCM evaluates and manages for tax implications specific to the client. Cash may also be held in the portfolio for client liquidity needs or while awaiting investment opportunities.

For the fixed-income portion of the portfolio, LCM may hold corporate, government, agency, bank certificates and/or municipal securities, as appropriate to the client's circumstances.

LCM generally applies a "value" focus in selecting equities, and does not generally engage in market timing. Stock investments are typically held for longer periods, and bonds are typically held to maturity. Portfolio turnover is low. Following is a summary of key investment philosophies and practices of LCM.

- LCM is value driven, investing in companies that we believe are trading significantly below their underlying value (undervalued), and over time will appreciate to reflect their legitimate worth. LCM uses quantitative computer screens, proprietary financial models, and qualitative judgments to located undervalued stocks that it believes have potential for long-term appreciation.

- LCM believes that diligent research is fundamental to prudent investment decisions. We look at each stock as if we are buying the company, not just a tradable security.
- LCM believes that by concentrating on our best 10 to 25 stock ideas, investment results can be improved compared to spreading our research efforts over too wide a base.
- Asset allocation is an ongoing process based on open and consistent dialogue between the client and LCM. Proper asset allocation should reflect the client's investment time horizon, risk tolerance, return expectations and income requirements.
- Fee-only service eliminates conflicts and aligns our interests.
- Patient trading and low commissions help investment returns.
- LCM does not generally attempt to predict short and intermediate term moves of the market.

### **Other Services and Limitations**

LCM does not provide tax or legal advice. It is the client's responsibility to consult with tax advisors as needed.

LCM relies on clients to convey any important changes in their financial situation in a prompt manner.

LCM manages each client's portfolio individually and individual clients may impose restrictions on the type or issues of securities as they deem necessary.

### **Assets Under Management**

As of December 31, 2011, LCM managed assets on a discretionary basis in the amount of \$93,587,700.

## **Item 5 - Fees and Compensation**

Fees for our services are computed quarterly on the aggregate value of each portfolio, and payable quarterly during the last month of the quarter. The annual fee schedule is as follows:

1 1/2% on amounts under \$500,000;  
1% on the amount between \$500,000 and \$2 million, and  
3/4 of 1% on all amounts above \$2 million.

Under certain circumstances, LCM will negotiate fees which are lower than those set forth above.

Either party may terminate the advisory agreement at any time. If terminated between quarters, LCM will refund a pro rata portion of the fee paid for the entire quarter. There will be no assignment of the advisory agreement without the client's consent.

Most clients instruct their custodian bank or broker to remit payment directly to LCM upon receipt of the quarterly fee statement, which is sent in duplicate to the client. Some clients elect to pay LCM directly by check. LCM promptly refunds any unearned prepaid fees upon resignation or death of any client. To reduce tax impact, fees may be paid directly from IRA accounts

Some individuals and institutions may wish to consult with LCM on an hourly basis. Fees for such services will generally be \$250 per hour. Under certain circumstances, the per hour fee may be more or less than this amount.

No initial fee is charged for consultative meetings at the onset of client account management.

The client incurs trading commissions and trade-away fees charged by the account custodian. See *Item 12 – Brokerage Practices* below.

LCM does not receive any compensation for the sale of securities or other investment products.

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

LCM does not charge performance-based fees or employ side-by-side management practices.

## **Item 7 – Types of Clients**

LCM provides services for individuals, trusts, estates, retirement plan accounts, corporations, foundations and estates.

The minimum portfolio size for ongoing management is \$500,000, negotiable at Scott Lewis' discretion. Clients are selected based on their fit, risk-tolerances, and their alignment with the LCM investment philosophy.

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

LCM manages equity investments primarily using individually selected common stocks, and occasionally stock exchange traded funds (ETFs). Analysis and selection of the individual stocks is based on the cumulative investment experience and research of Scott Lewis, and is described in more detail below.

LCM manages bond investments using corporate, government, agency, bank certificates and/or municipal securities, depending on what is most suitable to a client's financial situation and what issues are most attractively priced. Evaluation of individual bonds that are rated "BBB+" or higher by a recognized ratings agency are generally selected based on such ratings, and on Scott Lewis' general investment knowledge. For bonds rated lower than BBB+, a review of the issuing corporation's financial statements is undertaken.

LCM may also use hybrid securities which have attributes of both stocks and bonds. Such securities include convertible bonds and preferred stocks.

For cash, we usually invest in the money market funds offered by the account custodian.

LCM recommends an initial allocation of assets (among stocks, bonds, cash, and other assets) based on client objectives, investment planning horizon, risk tolerance and client preferences. If there are significant changes in the client's circumstances, or in the economic environment, appropriate changes are made.

While LCM is concerned with timing and adjusting policies as the investment outlook changes, LCM does not generally attempt to predict short and intermediate term moves of the market or individual stocks.

### **Investment Strategies**

LCM utilizes a value strategy, investing in companies that we believe are trading significantly below their underlying value, and over time will appreciate to reflect their legitimate worth.

Our primary strategy for finding such undervalued companies is to develop and run computer screens which search a financial database of substantially all publicly traded

domestic companies. These screens identify stocks which have a combination of financial characteristics we believe can indicate undervaluation of the shares.

LCM then gathers and evaluates information on the companies identified by the screening software. This information primarily comes from the following sources:

- Company published information - annual & quarterly reports, 10K reports, prospectuses, proxy statements, news releases and investor presentations;
- Zacks Investment Services Database and Reports – database compiled and maintained by Zacks which includes current and historical data on over 8,000 publicly traded companies, their business segments, geographical reach, competitors and financial attributes.
- Research provided by brokerage firms - economic, industry, and company analysis;
- General information on business and finance as provided by: (a) daily newspapers, (b) weekly newspapers, (c) periodicals, (d) professional journals, (e) industry journals, and (f) investment websites;
- Presentation by company management before financial analysts and on earnings release conference calls;
- Industry trade shows and professional conferences; and
- Network of other investment managers.

Based on this information gathered about a company's finances and business prospects, and applying Scott Lewis' investment judgment, LCM determines whether a stock appears to be trading significantly below its underlying value and should be included in clients' portfolios.

### **Asset Allocation – Stocks, Bonds and Cash**

Asset allocation represents the balance between risk and potential return.

LCM uses asset allocation to create portfolios in alignment with a client's individual objectives and circumstances. There are generally two kinds of assets in a portfolio: higher-risk assets, mainly comprising stocks, and lower-risk assets, mainly bonds and cash. Individual risky assets can sustain losses, under extraordinary circumstances, of more than 50% (up to 100%), whereas lower-risk assets should be expected to retain most of their *nominal* (i.e. unadjusted for inflation) value. Even lower-risk bond assets can sustain significant losses.

LCM considers only the volatility of the overall portfolio in constructing its design; this is determined primarily by the mix of higher-risk and lower-risk assets. Clients should carefully consider how much of their portfolio they desire to allocate to equity securities, as investing in equity securities entails significant risk of loss.



## **Equity Portfolio Characteristics**

Portfolios are diversified among companies and industries, but no attempt is made to track any stock indices. Typically LCM portfolios hold between 10 and 25 individual stocks. As the total number of stocks held is relatively small compared to the broad market, stock selection can have a significant positive or negative impact on the portfolio's performance.

LCM has no market capitalization floor or ceiling for the companies purchased for client portfolios. A client's portfolio may hold only small (including micro) capitalization companies, or a mix of small and large capitalization companies, or only large capitalization companies, depending upon what companies LCM finds attractive for investment.

Smaller market capitalization companies are often less well capitalized than larger companies, and their shares tend to be more volatile and less liquid than larger companies' shares. Due to the foregoing small cap equity risk factors, many investment managers will only invest a relatively small portion of a client's equity assets in smaller capitalization securities. At LCM, we believe that the primary way to reduce a client's risk is through asset allocation between stock (higher risk) and bond (lower risk) investments. Accordingly, we address a client's risk tolerance by setting an appropriate overall equity to bond allocation, and do not attempt to limit the amount of smaller capitalization equities within the stock portion of a portfolio.

In addition, client equity portfolios may be quite concentrated during times when Lewis can find only a limited number of attractive investments, which can increase volatility and risk of loss.

## **Bond Portfolio Characteristics**

LCM primarily invests in "investment grade" bonds, which are bonds rated BBB or higher by one or more recognized investment ratings agencies. LCM will also occasionally invest in bonds rated lower than BBB or that are unrated. We only invest in non-investment grade bonds if Scott Lewis, upon a review of the issuer's financial statements and other information, believes that the additional yield offered by such securities adequately compensates for the additional risk.

## **Item 9 - Disciplinary Information**

None.

## **Item 10 - Other Financial Industry Activities and Affiliations**

LCM is completely independent, and has no affiliations with any other firm. While substantially all of our client accounts are currently held at Charles Schwab & Co., we can use any other custodian as we are not affiliated with Schwab (see *Item 12 – Brokerage Practices* below).

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

### **Summary of LCM Code of Ethics**

LCM has adopted a Code of Ethics (the “Code”), a copy of which is available to any client or perspective client by written or verbal request to Scott Lewis at the contact information on the front page of this brochure. A summary of the Code follows.

#### **Section I. Compliance with Laws and Regulations.**

All personnel must comply with applicable federal and state securities laws, which prohibit any person from engaging in any fraudulent, misleading, or manipulate actions with respect to clients or securities.

#### **Section II. Conflicts of Interest.**

As a fiduciary, LCM has an affirmative duty of care, loyalty, honesty, and good faith to act in the best interests of its clients, and equally towards all clients. We can comply with this duty by diligently striving to avoid conflicts of interest and by fully disclosing all material facts concerning any conflict that does arise with respect to any client.

#### **Section III. Insider Trading.**

LCM forbids any employee from trading, either personally or on behalf of others, including client accounts, on material non-public information or communicating material non-public information to others in violation of law. This conduct is frequently referred to as "insider trading."

LCM's prohibition extends to any employee's activities within and outside his duties at LCM.

#### **Section IV. Personal Securities Transactions.**

No securities transactions may be entered into by LCM or its employees if such transactions would cause economic harm to a client. To effect the foregoing, no trades shall be made by LCM or its employees in the same security on the same day as in any

client account, unless such trade is part of a block trade where all of the client accounts and the LCM-related account(s) receive the same price.

#### Section V. Gifts and Entertainment.

A conflict of interest occurs when the personal interests of employees interfere or could potentially interfere with their responsibilities to LCM and its clients. Supervised persons should not accept large gifts, favors, entertainment, special accommodations, or other things of material value that could influence their decision-making or make them feel beholden to a person or firm. Supervised persons should not offer gifts, favors, entertainment or other things of value that could be viewed as overly generous or aimed at influencing decision-making or making a client feel beholden to the firm or the supervised person.

#### Section VI. Confidentiality.

LCM shall keep all information about clients (including former clients) in strict confidence, including the client's identity (unless the client consents), the client's financial circumstances, the client's security holdings, and advice furnished to the client by the firm.

#### Section VII. Marketing and Promotional Activities.

All oral and written statements, including those made to clients, prospective clients, their representatives, or the media, must be professional, accurate, balanced, and not misleading in any way.

### **Personal Trading**

All employees of LCM are required to obtain prior consent of LCM's president for any trades done in their own account. Such trades may take place in securities which are the same as securities being purchased and sold on behalf of clients. However, no such transactions will be entered into if in the opinion of LCM's president, such transactions would cause economic harm to the client. Furthermore, LCM has a policy which prohibits employee purchases or sales of a security on the same day as a purchase or sale of such security for a client, unless such trade is part of a single block trade where all accounts (clients and LCM employees) receive the same price. It is possible that employees may purchase or sell the same security as a client a day or more in advance of or after a client and receive a more favorable price than the client receives a day or more later or earlier.

LCM may manage accounts for relatives of Scott Lewis (but not living in his household) without charge but otherwise on the same basis as other clients.

## **Item 12 — Brokerage Practices**

### **The Custodian and Brokers We Use**

LCM does not maintain custody of your assets that we manage, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (see *Item 15 - Custody*, below). Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. We request that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Currently, substantially all of our client accounts are held by Schwab.

Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we request that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see "*Your Brokerage and Custody Costs*").

### **How We Select Brokers/Custodians**

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds, etc.)
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.)

- Reputation, financial strength, and stability
- Availability of other products and services that benefit us, as discussed below (see *"Products and Services Available to Us From Schwab"*)

### **Your Brokerage and Custody Costs**

For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. In addition to commissions, Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek "best execution" of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see *"How We Select Brokers/Custodians"*).

### **Products and Services Available to Us From Schwab**

Schwab Advisor Services is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab's support services:

**Services That Benefit You.** Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services That May Not Directly Benefit You.** Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties.

We may use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

**Services That Generally Benefit Only Us.** Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

LCM has used all of the above-mentioned Schwab provided services from time to time.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to request that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our

business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see *"How We Select Brokers/Custodians"*) and not Schwab's services that benefit only us.

### **Trade Away or Prime Brokerage Trades**

- Best Execution

LCM can sometimes receive better trade execution through a broker/dealer that is not the custodian of the account. This type of trade typically happens where LCM is looking to buy or sell a large block of stock, and a broker/dealer other than Schwab may be able to facilitate the transaction at a more favorable total cost (i.e. price plus commissions) to the client, even though the per share commission rate may be higher at the non-custodial broker/dealer. For bond trades, when looking to buy or sell a particular bond, such bond may only be available (or available at a better price) through a broker/dealer that is not the custodian of the account. Schwab charges the account approximately \$29 to settle a trade that is executed by a non-custodial broker/dealer.

These non-custodial broker/dealers may also have provided LCM with written investment research reports from time to time. We may use this research to service all or a substantial number of our clients' accounts, but not all accounts may benefit. This could lead to a conflict of interest when determining whether to use a non-custodian broker/dealer (see *"Research and Soft Dollar Practices"* below).

- Research and Soft Dollar Practices

Our firm may use a broker/dealer who provides useful research services even though a lower commission may be charged by the custodial broker/dealer or a broker/dealer who offers no research service. Research services may be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected

The primary criteria in selecting a broker/dealer for a non-custodial trade are the quality of research and execution services. In this regard, our firm will consider the quality and accessibility of the broker's analysis, the scope of industry coverage and the quality and frequency of written research reports, dealing with macroeconomic issues, specific industries and individual companies. LCM reviews, on a periodic basis, the firms utilized and the quality of services received.

Consistent with obtaining best execution for clients, LCM may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to us and, indirectly, to our advisory clients. These services are of the type described in Section 28 (e) of the Securities Exchange Act of 1934 and are designed to augment our

firm's own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our firm's discretion). Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker.

Our firm does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research our firm receives will help fulfill its overall duty to its clients. We may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker/dealers selected by Adviser may be paid commissions for effecting transactions for our clients that exceed the amounts other broker/dealers would have charged for effecting these transactions if our firm determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker/dealers, viewed either in terms of a particular transaction or LCM's overall duty to its discretionary client accounts.

The research services provided may be used for the benefit of all accounts, including those of LCM and employees. Also, not all of the research or services received are utilized by or benefit the account(s) which may have paid the commissions.

Our general practice is to try to direct research commissions to specific brokerage firms in exchange for their research services. When our clients provide us with discretionary authority for brokerage, we may use the brokerage commissions to obtain such research. However, our firm does not make or have any formal or informal commitments to any broker or dealer to compensate any firm for research obtained. A potential conflict of interest arises between the client's interest in obtaining best execution and our interest in continuing to receive research from any firm.

Within our last fiscal year, we have obtained economic, fixed income and equity research on soft-dollar basis.

When our firm uses client brokerage commissions to obtain research or brokerage services, it receives a benefit to the extent that Adviser does not have to produce such products internally or compensate third-parties with its own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, whereby our firm has an incentive to direct client brokerage to those brokers who provide research and services utilized by our firm, even if these brokers do not offer the best price or commission rates for our clients.

LCM conducts periodic brokerage reviews, analyzing price, commissions, research and services offered by the various brokers used and volume of client commissions directed to each broker



### **Trade Aggregation and Block Trades**

Under certain circumstances, trades done for clients may be aggregated with trades done for other clients. Such aggregation will only be done for trades on the same day and in the same security. Positions resulting from such trades are apportioned to the various accounts on an average cost basis, and the clients benefit from any savings which may result from such aggregation.

LCM will also sometimes purchase or sell securities for several clients with one trade (a “block trade”). This is usually done when making multiple trades of a security would negatively impact the price versus a single large trade. All accounts participating in a block trade receive the same price.

### **Bond Cross Transactions**

LCM may cross bonds between client accounts when in our judgment it is in the best interests of participating clients and no conflicts of interest are identified. Further, cross transactions will be executed at “arms length,” meaning that the purchase and sales prices are set by an independent broker-dealer.

## **Item 13 – Review of Accounts**

The accounts are under continuous supervision. Investment recommendations are made on an ongoing basis. LCM recommends meeting with clients at least semi-annually, and, in some cases, quarterly, to review the investment outlook, investment goals and objectives, investment policies and strategies, procedures, and the portfolio. Between meetings there is email and telephone communication. LCM relies on client's to inform us of any material changes to their personal circumstances.

Scott Lewis supervises all of the accounts.

## **Reports**

Quarterly written reports are mailed to clients detailing investment holdings and valuations as of the last business day of the quarter. Performance information is also included if requested by the client.

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

LCM does not provide compensation for referrals.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us. These products and services, how they benefit us, and the related conflicts of interest are described above (see *Item 12 - Brokerage Practices*). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

## **Item 15 - Custody**

Under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct Schwab to deduct our advisory fees directly from your account or if you grant us authority to move your money to another person's account. Schwab maintains actual custody of your assets.

You will receive account statements directly from Schwab at least quarterly. They will be sent to the email or postal mailing address you provided to Schwab. You should carefully review those statements promptly when you receive them. We also urge you to compare Schwab's account statements to the periodic portfolio reports you will receive from us.

## **Item 16 - Investment Discretion**

LCM has limited authorization for each client account, allowing LCM to enter transactions directly for client portfolios. Typically, these are done without discussing them with the client first. However, the client may restrict the advisor from buying certain types of investments or place other limitations for their portfolio management. This investment discretion is granted to LCM in the new client agreement signed by the client at the outset of investment management services.

Additionally, when the client opens an account with the custodian, the client signs certain parts of the new account documents to grant discretionary authorization known as “trading authorization” to LCM. This is the authorization for LCM to enter trades directly with the custodian.

In addition, clients may sign other parts of the new account document to authorize discretionary power to LCM known as “disbursement authorization” and “fee payment authorization”. Disbursement authorization allows LCM to initiate cash disbursements from the client’s account to identically registered accounts at other financial institutions, and by check made payable to the name of the account and mailed to the accounts address of record. Fee payment authorization allows LCM to instruct the custodian to deduct our management fees from the account and remit them to LCM.

## **Item 17 - Voting Client Securities**

LCM generally votes proxies for securities that are held in client accounts, unless the client has directed us to the contrary in writing. We have adopted written policies and procedures designed to ensure we vote client securities in the best interests of clients. You may obtain information from us about how we voted proxies for securities in your account, or generally about our proxy voting policy, on request by telephone or email. You may also obtain a copy of our proxy voting policies and procedures upon request.

Due to labor-intensive nature of evaluating the various management and shareholder proposals outlined in the proxy, LCM typically does not vote the proxies of companies when the firm has an insignificant share position, or when the position is not one that selected through LCM’s research process (i.e., the client selected the stock on their own, or owned it prior to becoming a client of LCM). We have established an ownership threshold of  $1/10^{\text{th}}$  of 1% (.001) of the shares outstanding in order to vote the proxy. When LCM owns more than  $1/10^{\text{th}}$  of 1% of the shares outstanding, or when the position is established by us, then we will vote the proxy. In this way, we are best able to devote our time to researching proxy proposals that will have the greatest potential impact on the financial interests of our clients.

### **How we vote proxies:**

We generally vote proxies with a view to enhancing shareholder value. The financial interest of our clients is paramount in our determining how to vote. In the case of social

or political responsibility issues that in our view do not materially involve financial considerations, it is not possible to represent fairly the diverse views of our clients. Unless a client has instructed us otherwise, Lewis Capital generally votes in accordance with management recommendations on these issues.

When making proxy voting decisions, LCM generally adheres to proxy voting guidelines included in the Proxy Voting Policy which set forth LCM's position on recurring issues.

**Client Proxy Voting Policies:**

If a client has a proxy-voting policy of its own that he or she wishes to be implemented, we shall instruct the custodian to send proxy voting materials to such client and the client shall be responsible for voting such shares.

**Conflicts:**

Given the small size of LCM, it is unlikely that we would encounter a material conflict in voting client proxies. However, we still have a duty to recognize a material conflict and to resolve the conflict before voting the proxy. If we do encounter a proposal that involves a material conflict of interest on our part, unless otherwise instructed by the client, we will take one of the following actions to ensure the proxy voting decision is based on the client's best interests and is not a result of the conflict:

- Engage an independent party to determine how to vote the proxy;
- Vote in proportion to other shareholders;
- Refer the proxy to a client or to a representative of the client for voting purposes;  
or
- Disclose the conflict to the affected clients and seek their consent to vote the proxy prior to casting the vote.

## **Supplemental Information about Scott Craig Lewis**

### **Educational and Work Experience**

Scott C. Lewis was born on June 10, 1965, and is a native of Los Angeles. He received a B.A in Economics, with honors, from U.C. Berkeley in 1987, and a J.D., with honors, from the University of Michigan Law School in 1991. From 1997 until 2000 he was an associate portfolio manager at Joel R. Mogy Investment Counsel, Inc. (“JRM”), an investment advisory firm with approximately 130 clients and over one billion dollars under management (as of April 2000). At JRM, Scott was involved in all areas of investment counseling, and worked closely with Mr. Mogy in managing the firm’s portfolios. In addition to portfolio management, his responsibilities at JRM included equity and fixed income analysis, trading, and client relationship matters.

In June of 2000, Mr. Lewis left JRM to initiate and organize his own investment advisory firm. He is solely responsible for the formulation of investment philosophy, policies, strategies, portfolio management, and security selection at LCM.

Prior to his employment at JRM, Mr. Lewis practiced corporate securities law at the international law firm of Latham & Watkins from 1992 until 1997. His clients during this period included major Wall Street firms such as Morgan Stanley, Merrill Lynch, Smith Barney and Salomon Brothers, as well as major corporations such as The Walt Disney Company and Chemical Bank.

Mr. Lewis is a member of the CFA Society of Los Angeles, the CFA Institute and the State Bar of California. He is a Chartered Financial Analyst.

### **Other Business Activities**

Scott Lewis is the principal of LCM. There are no other business interests that provide compensation or conflicts of interest.

### **Additional Compensation**

Scott Lewis receives no compensation for rendering investment advice or services except from client of LCM.

### **Supervision**

Scott Lewis supervises the activities of LCM, including all full or part-time employees.