



## **Capital Advisory Group, LLC**

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April 10, 2012

This Brochure provides information about the qualifications and business practices of Capital Advisory Group, LLC ("CapGroup"). If you have any questions about the contents of this Brochure, please contact us at (804)648-3500 or at [questions@thecapgroup.com](mailto:questions@thecapgroup.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.

Capital Advisory Group, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. CapGroup's oral and written communications are provided to assist investors in a determination to hire or retain CapGroup.

Additional information about Capital Advisory Group, LLC is also available on the SEC's website at [www.CapGroupinfo.sec.gov](http://www.CapGroupinfo.sec.gov).

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## **Item 2 - Material Changes**

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the requirements for the disclosure document, called our Brochure, which we provide to clients. Pursuant to SEC Rules, we are hereby providing a summary of the material changes in our current Brochure as compared to our original Brochure as filed in March of 2011:

### **Changes to Item 4 – Advisory Business**

#### **Sub-Advisory Services and Turnkey Asset Management Services**

In addition to the Investment Advisory Services CapGroup provides for its own Clients, we may also act as a sub-advisor to other independent registered investment advisers (“RIAs”) and their clients. As a sub-advisor, CapGroup is hired by the independent RIA to provide investment advisory services to the clients of the independent RIA through the engagement of CapGroup’s Investment Advisory Process, as applicable, for each client. The independent RIA will work with the client to determine the range of investment advisory services required, to identify the assets that are appropriate for sub-advisory services, and to monitor the investment advisory services provided by CapGroup.

CapGroup may also provide Turnkey Asset Management Services to assist select independent RIAs in providing investment management services to their investors. CapGroup educates independent RIAs on the use of its Investment Advisory Process as a methodology for structuring investment portfolios and provides participating independent RIA’s with multiple-asset class model investment portfolios for the independent RIAs to adopt for their clients. For selected independent RIAs, CapGroup may provide more customized portfolio management solutions for their use with their clients.

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

While the CapGroup investment philosophy and process has not materially changed, we have reorganized our investment research under the auspices of a formal Investment Committee which formulates investment strategies for use by our Client Advisors in working with our Clients. The Investment Committee is led by Richard Smith, as Chairman, and Nicholas Zizzo, as Director of Investment Advisory Services. Other Investment Committee members include J. Timothy Jester and Clay T. Eubank, Jr.; both of whom are Managing Directors of CapGroup. The Investment Committee meets formally on a bi-weekly basis to discuss market conditions and trends, to evaluate existing client investment strategies and to review analyses of prospective investment approaches and investment management products.

If not provided with our current summary of material changes herewith, our entire current Brochure may be requested free of charge by contacting Richard Smith, Chief Compliance

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Officer at (804) 565-9280 or at [questions@thecapgroup.com](mailto:questions@thecapgroup.com). Our Brochure is also available on our web site at [www.thecapgroup.com](http://www.thecapgroup.com).

**Additional information about Capital Advisory Group, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Capital Advisory Group, LLC who are registered, or are required to be registered, as investment adviser representatives of Capital Advisory Group, LLC.**

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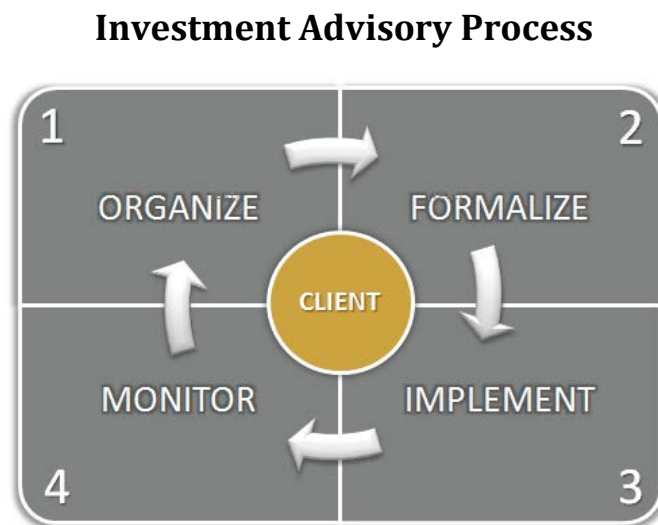
## Item 4 - Advisory Business

Capital Advisory Group, LLC (“CapGroup”) offers to provide Investment Advisory Services that are designed to assist individuals, families and related business entities in meeting their long-term financial goals. These Investment Advisory Services normally combine individualized financial planning with portfolio management services for specific portfolios or investment accounts. In addition, CapGroup offers to provide investment advisory services that support the services of select independent registered investment advisers. CapGroup acknowledges that it is held to a fiduciary standard of care in the performance of its services to clients and other registered investment advisers.

CapGroup also provides Investment Advisory Services for small to mid-sized institutions, including charitable foundations, endowments, associations, corporations and qualified retirement plans. These services are described in a separate Brochure that is available upon request.

### Investment Advisory Process

In providing its Investment Advisory Services, CapGroup follows an interactive four-step process that is modeled after the Fiduciary Quality Management System (“FQMS”) to facilitate conformance with the investment best practices under the Global Fiduciary Standard of Excellence (“GFSE”)<sup>1</sup>:



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<sup>1</sup> The GFSE and the FQMS are described in the handbook, Prudent Practices for Investment Stewards, by Fiduciary360, 2009 ([www.fi360.com](http://www.fi360.com)).

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The steps in CapGroup's Investment Advisory Process are summarized as follows:

- I. Organize** – the gathering of client data and the establishment of the client's investment goals and objectives and the evaluation of current investment programs.
- II. Formalize** – strategic asset planning, as needed, and the documentation of the client's investment strategy in a written Investment Policy Statement.
- III. Implement** – the execution of the client's investment strategy according to the terms of the approved Investment Policy Statement.
- IV. Monitor** - the ongoing supervision of the client's investment strategy, including the monitoring and reporting of performance.

### **Financial Planning Services**

The full execution of the Investment Advisory Process is normally preceded by an engagement for Financial Planning Services which encompass Step I (Organize) and Step II (Formalize) of the process. These Financial Planning Services lead to the development of the client's *Strategic Asset Plan* which summarizes the client's financial resources, projects future income streams and net worth levels and establishes a written investment policy statement(s) and other protocols that guide future investing. This financial planning work may also include other related services, such as estate planning analysis, insurance/risk management reviews, investment tax planning and investment manager evaluations.

For its initial Financial Planning Services, CapGroup charges a flat dollar amount fee that varies according to the level and scope of the services required. This fee typically ranges from \$2,500 to \$10,000 and is described in a Financial Planning Agreement between the client and CapGroup. If the client terminates CapGroup's Financial Planning Services before the services are completed, the balance of CapGroup's unearned fee will be refunded to the Client.

Beyond the initial financial planning engagement, the costs for reviewing and updating the client's strategic asset planning are normally included in CapGroup's annual retainer fee for Investment Advisory Services as described below. Otherwise, the client and CapGroup may agree on another basis for compensating CapGroup for strategic asset planning updates.

### **Investment Advisory Services**

Clients employ CapGroup as an investment advisor for specific portfolios or investment accounts, usually after CapGroup has completed its initial Financial Planning Services as described above. These services encompass CapGroup's execution of the full Investment Advisory Process on an ongoing basis and normally include annual reviews and updates of the client's *Strategic Asset Plan*.

In performing its Investment Advisory Services, CapGroup develops and supervises portfolio strategies in accounts that are comprised of multiple asset classes and implemented with combinations of professional investment managers ("Managers"). See

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**Item 8** below for a more detailed explanation of our investment management process. The client may impose restrictions on the securities or certain types of securities to be managed in the client's account(s).

### **Sub-Advisory Services**

CapGroup may act as a sub-advisor to other independent RIAs and their clients. As a sub-advisor, CapGroup is hired by the independent RIA to provide investment advisory services to the clients of the independent RIA through the engagement of CapGroup's Investment Advisory Process, as applicable, for each client. The independent RIA will work with the client to determine the range of investment advisory services required, to identify the assets that are appropriate for sub-advisory services, to interact with CapGroup as a servicing agent for the client and to monitor the investment advisory services provided by CapGroup.

### **Turnkey Asset Management Program ("TAMP") Services**

#### Standard TAMP Services

CapGroup assists select independent RIAs who provide investment management to investors. CapGroup educates independent RIAs on the use of its Investment Advisory Process as a methodology for structuring investment portfolios with long-term investment goals. CapGroup also provides investment advisors with multiple-asset class model investment portfolios that investment advisors may use to manage investment accounts for their investment clients.

CapGroup maintains a series of ETF (Exchange Traded Funds)-based investment models called the *AlphaDynamic Strategies* that are implemented on the Adhesion Wealth Advisor Solutions Unified Managed Accounts platform. The AlphaDynamic Strategies provide investors with dynamic asset allocation strategies that are designed to consistently outperform their benchmarks with reduced downside risk. Diversification and cost efficiency are provided through the exclusive use of ETFs for strategy execution. Underlying managers are selected based on their demonstrated use of an active asset allocation process consistently to deliver market type returns in rising markets and enhanced stability of portfolio values in declining markets.

#### Expanded TAMP Services

For certain independent RIAs, CapGroup may offer expanded TAMP support services that provide additional customization to the Standard TAMP Services based on the individual requirements of the independent RIA. In its Expanded TAMP Services, CapGroup provides supplementary support services for designing and implementing portfolio solutions which includes, but are not limited to:

1. Administrative assistance with qualified custodians to open and maintain investment advisor master accounts and to assist with investment advisor's client accounts, including supplying investment advisor with all custodial documentation required for clients of the investment advisor to open and maintain accounts.

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2. Access to customized portfolio accounting and reporting services in conjunction with the services of Adhesion Wealth Advisor Solutions.
  3. Access to model Client Questionnaires and Investment Policy Statements Templates, with updates as appropriate.
  4. Samples of investment advisor's client agreement templates (which should be reviewed by local counsel prior to use).
  5. Assistance for the independent RIA with providing its clients with access to investment management products available to investment advisors but not generally available to the public.
  6. To the extent available, access to trading costs and fee structures with authorized broker-dealer/custodian(s) that take advantage of CapGroup's collective arrangements.
  7. Collecting and remitting net fees (gross fees minus fees due CapGroup from investment advisor) to investment advisor on a quarterly basis.

## **Item 5 – Fees and Compensation**

Investment Advisory Services are provided for an ongoing annual fee that is charged as a percentage of assets under management according to the following CUMULATIVE schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
On amounts up to \$500,000	1.25%
On amounts from \$500,000 to \$1,000,000	1.00%
On amounts from \$1,000,000 to \$2,000,000	.75%
On amounts from \$2,000,000 to \$5,000,000	.50%
On amounts from \$5,000,000 to \$10,000,000	.40%
On amounts from \$10,000,000 to \$20,000,000	.30%
On amounts above \$20,000,000	.20%

The fees are billed quarterly, in arrears, at the beginning of each quarterly cycle based upon the value (market value or fair market value in the absence of market value) of the client's account at the end of the previous quarter. CapGroup generally requires a minimum annual fee of \$10,000. Exceptions to the minimum fee and fee schedule may be separately negotiated on a case by case basis. CapGroup may agree to provide supplemental financial planning and investment advisory services on a retainer fee basis that is acceptable to the client. These services may include reporting and recommendations on investment accounts held outside of CapGroup's direct supervision.

### **General Information on Fees and Services**

The specific manner in which fees are charged by CapGroup is established in a client's written agreement with CapGroup. CapGroup will generally bill its fees on a quarterly basis in arrears. Clients normally authorize CapGroup to directly debit fees from client accounts, but clients may also elect to be billed directly for fees. Investment advisory fees



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are not prorated for each capital contribution or withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

CapGroup's fees are in addition to brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by investment managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees and operating costs, which are disclosed in a fund's prospectus or other disclosure document as required by securities regulations. Such charges, fees and commissions are exclusive of and in addition to CapGroup's fee, and CapGroup will not receive any portion of these commissions, fees, and costs.

Item 12 below further describes the factors that CapGroup considers in selecting or recommending broker-dealers for client transactions and for determining the reasonableness of their compensation (*e.g.*, commissions).

### **Special Referral Relationships**

For certain qualifying clients, CapGroup may negotiate fee concessions from unaffiliated private fund managers that specialize in investments in hedge funds, private equity funds and other investments that are offered in the form of limited partnerships. In those cases, the fee concessions are granted in the form of a solicitor's fee paid by the fund manager to CapGroup. In turn, CapGroup has agreed with the client to accept the referral fees in lieu of CapGroup's normal investment advisory fees for the client's funds that are invested with the Manager. This arrangement is designed to reduce the overall fees paid by the client and is fully disclosed to the client by the fund manager and CapGroup prior to the purchase of investment products by the client.

### **Termination of an Advisory Relationship**

A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days prior written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

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

CapGroup does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client) and does not engage in side-by-side investment management practices.

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## Item 7 – Types of Clients

CapGroup provides Investment Advisory Services for individuals, families, associated privately owned businesses and fiduciary accounts, such as trusts and estates.

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

The CapGroup investment approach is based on the fundamental premise that success in managing investments is predicated on effective risk management. Investment risk is manifested in many different forms, but to most investors risk is understood as a *severe and permanent loss of capital* which would work to compromise the achievement of the investor's outcome goals.

CapGroup builds long-term investment strategies for investors that are tailored to the investor's outcome goals. To that end, CapGroup's seeks to control investment risk investment by managing four elemental risk factors:

1. Diversification Risk – inordinate concentrations and exposures to certain asset classes or individual securities.
2. Manager Risk – sometimes called active management risk, the risk that an investment manager or combination of managers will underperform the asset class returns that can be captured with index funds.
3. Liquidity Risk – investing disproportionately in investments that are illiquid and can't be used in a timely manner to satisfy income needs, emerging liabilities, or capital funding mandates.
4. Tax Risk – for taxable accounts, the use of investment vehicles and practices that generate excessive exposure to income taxes.

### CapGroup Investment Philosophy and Process

CapGroup primarily invests for relatively extended time horizons, usually for periods exceeding five years, by employing globally diversified investment strategies implemented with multiple specialist investment managers. Client investment strategies are tailored to client outcome goals and are based on the four fundamental tenets of CapGroup's *Adaptive Risk Management* investment philosophy:

1. Diversify broadly in traditional and non-traditional investments. This means that we expand our asset allocation strategies to include core positions in traditional global stocks and bonds, as well as dedicated allocations to so-called "alternative investment strategies" which include investments that are managed to provide differentiated sources of risk and return (for example, hedging strategies, global

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tactical asset allocators, managed commodities futures and real assets), as compared to traditional investments.

2. Seek excess returns with synergistic manager structures. For each major asset category (domestic equities, foreign equities, fixed income and alternatives), we construct multiple manager modules comprised of investment managers/funds that are expected to have complementary strategies and/or investment processes. Investment managers may be engaged to manage mutual funds, separate accounts or ETF portfolios, including both active and passive investment management approaches. Our analyses of Managers generally include a review for each selected Manager of:
  - The Manager's investment management team;
  - The historical risk and return characteristics;
  - The exposure to sectors and individual issuers;
  - The Manager's expected synergistic effect on the asset class module;
  - The fee structure; and
  - Any other factors considered relevant.
3. Actively manage asset class exposures. Rather than follow a static asset allocation approach, we actively manage the modular asset mix and/or internal manager structures to further mitigate downside risk. Our opinions may be expressed either as shifts in the asset mix among the major asset category modules and/or by changing the types and/or levels of market risk within the different asset class modules by altering the risk exposures of the manager structures.
4. Actively manage for high levels of tax efficiency. For taxable investment accounts, CapGroup may employ tax management overlay programs to periodically harvest capital losses that occur due to market volatility. In addition, taxable investor portfolios seek to limit income tax exposure with tax exempt bond Managers and other Managers employing an investment process that promotes high levels of tax efficiency.

CapGroup's investment advisory services are delivered to the client by one or more of CapGroup's Client Advisors ("Advisors") – see Part 2B of this Brochure for summaries of individual Client Advisor qualifications. These advisory services are supported by the work of CapGroup's Investment Committee, which is led by Richard Smith, Chairman, and Nicholas Zizzo, Director of Investment Advisory Services. Other Investment Committee members include J. Timothy Jester and Clay T. Eubank, Jr., both of whom are Managing Directors of CapGroup. The Investment Committee meets formally on a bi-weekly basis to discuss existing and prospective investments.

The Investment Committee is supported by CapGroup's Research Team which is a unit comprised of investment analysts under the direction of Mr. Zizzo. The Research Team

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provides analyses and recommendations regarding asset class allocations within the portfolios, as well as strategies for staging client funds into and out of portfolio strategies. In addition, the Research Team provides in-depth analyses on investment management products (“Managers”), including separate/private accounts, mutual funds, ETFs and partnerships.

#### Callan Associates, Inc.

In performing the research described above, CapGroup has formed an important strategic relationship with Callan Associates, Inc. (“Callan”), a prominent investment management consulting firm headquartered in San Francisco, CA. As a charter member of the Callan Associates Independent Advisor Group (“IAG”) since 1992, the CapGroup Research Team and Advisors are able to access the services of the research analysts at Callan, as well as Callan’s investment consulting technologies and resources which include:

- Ongoing capital markets and economic research;
- Annually updated Capital Markets Projections relating to Callan’s forward estimates of returns, risks and correlations for a wide range of traditional and non-traditional asset classes;
- Asset allocation modeling and simulation software;
- Investment management product research and due diligence on mutual funds, separate account managers and hedge funds-of-funds;
- Access to select investment management products on a preferred basis;
- Negotiated institutional custody services with multiple custodians;
- Performance measurement analytics and reports; and
- Access to Callan’s fully integrated investment management systems.

### **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 Capital Advisory Group, LLC or the integrity of CapGroup’s management. Capital Advisory Group, LLC has no information applicable to this Item.

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

CapGroup is a subsidiary of Focus Operating Partners, LLC (“Focus”). Focus also owns other registered investment advisers, broker-dealers, pension consultants, insurance firms, and other financial services firms (the “Focus Partner Firms”). The Focus Partner Firms provide wealth management and benefit and investment consulting services, serving individuals, families, employers, and institutions. CapGroup’s management does not feel that this relationship poses a material conflict to clients. The Focus Partner Firms do not

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share client information amongst each other without prior client consent. The Principals of the other Focus Partner Firms are not involved in the management of CapGroup.

CapGroup Management, LLC is a licensed insurance broker which is owned by certain advisor representatives of CapGroup who may be appointed as licensed agents for various insurance companies. As such, these individuals, in their separate capacity as insurance agents, have the ability to assist clients with the purchase of insurance products for which the CapGroup Management, LLC will receive separate, yet customary compensation. Clients, however, are not under any obligation to engage the services of these individuals when considering implementation of insurance or investment transactions. The implementation of any insurance or investment product recommendation is solely at the discretion of the Client.

CapGroup has entered into agreements with Atria Investments, LLC ("Atria"), a registered investment adviser located in Charlotte, NC., to serve as an investment strategist ("Strategist") for the Adhesion Strategist Program ("the Program") as developed by Adhesion Wealth Advisor Solutions, Inc. As a Strategist selected for the Program, CapGroup has agreed to design and support a series of model investment portfolios for use by a nationwide network of independent registered investment advisers in providing investment management services for their clients. Atria, a related party to Adhesion Wealth Advisor Solutions, Inc., provides overlay management services for CapGroup's multiple-manager investment strategies. CapGroup receives a set fee of ten basis points (.10%) for assets in the Program that are being managed pursuant to CapGroup's AlphaDynamic Strategies models; the fee is charged to the end client by Atria as a part of their investment advisory fee. CapGroup does not have direct clients under the Program and does not charge the Strategist fee to its own investment advisory clients.

## **Item 11 – Code of Ethics**

CapGroup has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. CapGroup's Code of Ethics describes the firm's fiduciary duties and responsibilities to clients, and sets forth CapGroup's practice of monitoring the personal securities transactions of supervised persons with access ("access persons") to client information. Individuals associated with CapGroup may buy or sell securities for their personal accounts identical to or different than those recommended to clients. It is the expressed policy of CapGroup that no person employed by CapGroup shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients. To supervise compliance with its Code of Ethics, CapGroup requires that all access persons provide duplicate brokerage statements and report quarterly all personal securities transactions to the firm's Chief Compliance Officer, Richard Smith.

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CapGroup requires that all individuals must act in accordance with all applicable Federal and State regulations governing the practices of registered investment advisers and their employees. CapGroup's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to disciplinary measures.

CapGroup will provide a complete copy of its Code of Ethics to any client or prospective client upon request to the Chief Compliance Officer, Richard Smith, at CapGroup's principal address.

## **Item 12 – Brokerage Practices**

CapGroup does not have the discretionary authority to determine the broker/dealer to be used or commission rates to be paid, so clients must direct CapGroup as to the broker/dealer they wish to use. In directing the use of a particular broker or dealer, it should be understood that CapGroup will not have authority to negotiate commissions among various brokers or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients.

### **Recommended Brokerage Services**

In providing its advisory services, CapGroup has negotiated a suite of services and pricing for its clients with two firms ("recommended custodians") that hold client funds, effect trades, collect investment income and report holdings monthly. In selecting the recommended custodians, CapGroup endeavors to act in its client's best interests and seeks to leverage its clients' assets in the aggregate to obtain benefits for all CapGroup clients. Broker/dealers and licensed trust companies that provide services to the clients of independent registered investment advisers, such as CapGroup, typically provide the advisers with ancillary services intended to assist the adviser in managing and further developing its investment operations platform.

Charles Schwab & Co. CapGroup may recommend that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc., a registered broker/dealer, Member SIPC/NYSE. Schwab Institutional provides CapGroup with access to its institutional trading and operations services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisers at no charge to them, so long as a total of at least \$10 million of the adviser's clients' account assets are maintained at Schwab Institutional.

Schwab Institutional's services include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab Institutional also makes available to CapGroup other products and services that benefit CapGroup but may

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not benefit its clients' accounts directly. Some of these other products and services assist CapGroup in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of CapGroup's fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting. Some of these services generally may be used to service a substantial number of CapGroup's accounts, including accounts not maintained at Schwab Institutional.

Schwab Institutional may also provide CapGroup with other services intended to help CapGroup to manage and further develop its business enterprise. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab Institutional may make available, arrange and/or pay for these types of services to CapGroup by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to CapGroup.

**SEI Investments.** CapGroup may recommend that clients establish custody accounts with SEI Investments and SEI Private Trust Company ("SEI"), a licensed trust company, to maintain custody of clients' assets and to effect trades for their accounts. SEI provides CapGroup with access to its adviser trading and operations services, which are generally not available to retail investors. SEI's services include research, custody, trading and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment.

SEI also makes available to CapGroup other products and services that benefit CapGroup but may not benefit its clients' accounts directly. Some of these other products and services assist CapGroup in managing and administering clients' accounts. These include software and other technology that provide access to client account data, provide research, pricing information and other market data, facilitate payment of CapGroup's fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting. Some of these services generally may be used to service a substantial number of CapGroup's accounts, including accounts not maintained at SEI.

### **Item 13 – Review of Accounts**

Accounts are reviewed monthly as to asset allocation, Manager assignments, cash flows and suitability. Reviews of Managers used in client portfolios are performed by the client's CapGroup Client Advisor(s) on at least a quarterly basis.



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## **Reports of Accounts**

In addition to the monthly statements and confirmations of transactions that clients receive from their designated custodian (Charles Schwab, SEI, etc.), CapGroup makes quarterly reports available to clients showing their portfolio's asset allocation structure and performance data. Clients are urged to schedule a face-to-face meeting with their Advisor to review the details of the reports and to discuss progress in achieving goals and the consideration of resetting goals.

Reports may include the client's original amount invested, cost basis (if needed), current market values, cumulative income, and time weighted rates-of-return for the total portfolio and for individual Managers used in the client's portfolio strategy. Weightings by asset class category and portfolio totals are summarized as well.

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

There may be occasions when CapGroup pays a percentage of the fee we receive from a client account to a person making the referral (a “solicitor”) of the client. The solicitor typically shares from 15% to 25% of fees for a limited period. Specifics of the referral arrangement are disclosed to each client beforehand through a written disclosure statement. Clients introduced to CapGroup in this manner pay the same fees and receive the same services and priorities as all other CapGroup clients.

## **Item 15 – Custody**

CapGroup does not have custody of clients' cash or securities. All clients' cash and securities are held with an independent qualified custodian (see Item 12 above). Clients will receive at least quarterly statements from the broker/dealer, bank or other qualified custodian (Charles Schwab, SEI, etc.) that holds and maintains client's investment assets. CapGroup urges its clients to carefully review their custody statements and compare them to the account statements that CapGroup may provide. CapGroup's statements may vary from custodial statements based on accounting procedures, reporting dates, or the valuation methodologies used for certain securities.

## **Item 16 – Investment Discretion**

CapGroup usually receives authority from the client at the outset of an advisory relationship to select the identity and amount of client investment funds to be allocated to individual Managers, or other securities to be bought or sold, without prior consent (“discretionary authority”). When selecting Managers and/or securities and determining amounts, CapGroup observes the client's investment policies, limitations and restrictions, as set forth in the written Investment Advisory Agreement between the client and CapGroup. Investment instructions, guidelines and restrictions must be provided to CapGroup in writing, either electronically or in hard copy.



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Alternatively, the client and CapGroup may agree to limit CapGroup's discretionary authority. Such limitations are established in the Investment Advisory Agreement between the client and CapGroup. The client should understand that the limiting of CapGroup's discretionary authority may increase the financial risk associated with the timely and efficient execution of CapGroup's recommendations.

As of December 31, 2011, CapGroup managed total assets of \$226,468,580 on a discretionary basis and \$719,957,894 on a nondiscretionary basis.

### **Item 17 – Voting Client Securities**

As a matter of firm practice and policy, CapGroup does not take responsibility for voting proxies for securities owned in client accounts. To the extent that proxy voting responsibilities are not assumed by Managers engaged by CapGroup on behalf of the client, the custodian of the client's account (Schwab, SEI, etc.) is instructed to forward all proxies and shareholder communications directly to the client.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about CapGroup's financial condition. CapGroup has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

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## Brochure Supplement (Part 2B of Form ADV)

Education and Business Standards - Private Wealth Advisory Team

### Professional Credentials

- Clay T. Eubank, Jr.
- Carl A. Loden
- Lisa C. Longest
- Mark G. Smith
- W. Richard Smith, III
- Nicholas P. Zizzo