

## Item 1: Cover Page

### **Part 2A of Form ADV Firm Brochure**

March 13, 2012

#### **Promus Capital, LLC**

SEC File No. 801-69649

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This brochure provides information about the qualifications and business practices of Promus Capital, LLC. If you have any questions about the contents of this brochure, please contact Jeremy Boynton at [jboynton@promuscapital.com](mailto:jboynton@promuscapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State securities authority.

Additional information about Promus Capital, LLC, is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), using the CRD number 147597.

## Item 2: Material Changes

Initial publication date is March 31, 2011.

The SEC adopted "Amendments to Form ADV" in July 2010. This Firm Brochure is Promus Capital's new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.



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## **Item 4: Advisory Business**

### **A. Description of Your Advisory Firm**

Promus Capital, LLC ("Promus Capital " or "the firm"), an Illinois limited liability company, is an investment advisor that offers personalized investment advisory services to individuals, trusts, estates, charitable organizations, pension and profit sharing plans, corporations and other business entities. For its portfolio management services, Promus Capital recommends, or implements in the case of discretionary asset management services described below, securities transactions that include securities and strategies as itemized in Item 8 of this Brochure. Promus Capital is principally owned by Brian B. Musso, J. Zachary Musso, Terrence J. Toth, and Andrew W. Code.

### **B. Description of Advisory Services Offered**

Promus Capital is an independent investment advisory and financial planning firm offering a variety of financial services to individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Advisory services may include investment strategy, portfolio management, financial and estate planning.

For its discretionary asset management services, Promus Capital receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies as described in Item 8 of this Brochure. In addition, pursuant to the terms of its investment advisory agreement with clients, Promus Capital will remind clients of their obligation to inform the firm of any changes to their personal financial circumstances, investment objectives or risk tolerance, and modifications or restrictions that should be imposed on the management of their accounts. Promus Capital will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

#### **B.1. Portfolio Management Services**

##### **B.1.a. Model Portfolio Strategies**

Promus offers five different model portfolio strategies as further discussed below:

- Promus Large Cap Dividend - The Promus Capital Large Cap Dividend Strategy ("LCD") is designed to invest in equities that have current yield and risk/reward characteristics that we believe to be attractive. We seek to invest in high quality companies that have consistent dividends or current yield. We are mindful of sector exposure and prefer the benefits of broad diversification across styles and industries, but ultimately we allocate to the equities we believe best meet our investment criteria (quality, consistent dividend, good risk/reward characteristics). An investment team will meet at least quarterly to discuss current positions as well as possible additions. In a world where 10 year

treasuries are yielding below 2.5% we believe that we can add yield to a client's portfolio while retaining the upside potential of a diversified equity portfolio.

- **Promus Opportunities** - We seek to build a relatively concentrated portfolio in the 10-20 best marketable ideas we have identified. This portfolio may invest in single name equity companies, closed end funds, ETFs or other marketable securities. While we believe that this model could benefit a client's overall portfolio, it should not be considered as a client's sole equity exposure. An investment team will meet at least quarterly to discuss current ideas and new investment opportunities. Investors should understand the risk inherent in a more concentrated strategy; however, overtime we believe that our investors will benefit from harvesting these ideas.
- **Promus Global Equity** - The Promus Capital Global Equity Portfolio ("GEP") is designed to give clients efficient exposure to the global equity markets. By utilizing ETFs the GEP is afforded the ability to freely tilt the equity allocation to segments of the market that Promus Capital believes are relatively undervalued and away from segments that we believe are relatively overvalued. Through regular meetings (no less than monthly) and analysis of market and equity fundamentals the investment committee will seek to tilt the portfolio to achieve the optimal equity market exposure. Likewise, if the investment committee believes the equity market is overvalued as a whole, it may raise cash to deploy at more attractive prices. It is our belief that by identifying relative pricing inefficiencies in the market we will better position our clients to achieve more efficient returns for their risk in the equity markets.
- **Promus Capital Tactical Portfolio** - The Promus Capital Tactical Portfolio is designed to give unconstrained access to the best ideas and managers Promus Capital can source in the public markets. This portfolio has a dual mandate to limit correlation to the equity and fixed income markets and also to be opportunistic. Therefore, the tactical portfolio will be comprised of uniquely talented managers with differing mandates and strategies as well as opportunistic allocations to mutual funds, closed end funds, stocks, ETFs, or other liquid investment vehicles the Promus Capital Investment Committee believes will best express its views on a particular opportunity. While these managers and ideas are hard to come by we believe that through rigorous searching and utilizing our network in the investment community we will be able to create an attractive portfolio that will benefit our clients by adding talent, disparate strategies, opportunity, and the benefits of further diversification.
- **Promus Global Fixed Income Portfolio** - The Promus Capital Global Fixed Income Portfolio ("GFIP") is designed to give clients efficient exposure to the global fixed income markets. There are two iterations of the global fixed income portfolio, one for taxable accounts and one for tax-exempt accounts. These two portfolios will reflect the same convictions, but for our tax exempt

clients we are more likely to utilize municipal bonds. Through regular meetings (no less than monthly) the investment committee will seek to tilt the portfolio to various fixed income indices as well as managing durations to achieve the optimal mix of fixed income exposure. Promus Capital will actively analyze data that has historically led to better performance for certain market segments including spreads, market fundamentals, as well as other market indicators in our pursuit of a timely fixed income portfolio. It is our belief that by identifying relative pricing inefficiencies in the market we will better position our clients to achieve more efficient returns for their risk in the fixed income markets.

#### **B.1.b. Custom Asset Allocation**

In addition, through its strategic allocation process, Promus Capital selects and weighs the asset classes for each client based upon appropriate levels of risk and return. Promus participates in the selection, purchase and sale of specific securities and/or selects third-party separate account managers to manage client accounts as part of an overall asset allocation methodology. Accounts may include, without limitation, equity securities, fixed income, limited partnerships, managed accounts, mutual funds, exchange traded funds, hedge funds, fund-of-funds, commodity futures, options, private equity, venture capital investments and other alternative investments consistent with a client's suitability, overall investment strategy and risk tolerance. Depending on a client's needs and objectives, Promus Capital may recommend and utilize unaffiliated money managers to manage a portion of the client's portfolio. Money managers will manage client assets in a discretionary capacity that will allow the money manager to determine the type and amount of securities to be purchased or sold for the client in respect to the client's assets managed by that particular money manager.

Promus Capital's asset management services are predicated on the strategic allocation of client assets among different asset classes with different levels of risk and return. Promus Capital will analyze each client's current investments, investment objectives, goals, financial circumstances, investment restrictions and limitations, and risk tolerance and implement a portfolio consistent with such investment objectives, goals, risk tolerance and related financial circumstances. Recommendations are tailored to meet the specific needs, goals and objectives of the client. Due to varying degrees of personal and financial circumstances among clients who otherwise share a common level of risk tolerance, clients may have materially different composition of portfolio assets.

Promus Capital employs a third-party service provider that screens, evaluates and provides recommendations on an appropriate mix of portfolio assets for a given level of risk tolerance. In addition, Promus Capital may utilize third-party software to analyze individual security holdings and separate account managers utilized within the client's portfolio.



Promus Capital may prepare an investment policy statement based on the client's investment objectives, goals, tolerance for risk and such other factors unique to the client, and provide appropriate recommendations and implementation decisions. Generally, investment policy statements are created for clients who have multiple accounts, including trusts and corporate entities, with different investment objectives and goals and varying degrees of risk tolerance and tax sensitivity.

On a quarterly basis, Promus Capital, in connection with a third-party service provider, may provide clients with reports regarding the performance of their portfolios. In addition, Promus Capital will monitor such portfolios and make additional recommendations and implementation decisions from time to time to rebalance and/or reallocate each client's investments in accordance with such client's investment objectives, goals, risk tolerance and relevant financial circumstances.

Promus Capital's investment advisory services take into account a client's personal financial circumstances, investment objectives and tolerance for risk (e.g., cash flow, tax and estate). Promus Capital's engagement with a client will include, as appropriate, the following:

- Providing assistance in reviewing the client's current investment portfolio against the client's personal and financial circumstances as disclosed to Promus Capital in response to a questionnaire and/or in discussions with the client and reviewed in meetings with the firm.
- Analyzing the client's financial circumstances, investment holdings and strategy, and goals.
- Providing assistance in identifying a targeted asset allocation and portfolio design.
- Implementing and/or recommending mutual funds, exchange traded funds, separate account managers and, for appropriately qualified clients, privately placed pooled investment vehicles.
- Reporting to the client on a quarterly basis or at some other interval agreed to with the client, information on contributions and withdrawals in the client's investment portfolio and the performance of the client's portfolio measured against appropriate benchmarks (including benchmarks selected by the client).
- Proposing changes in the client's investment policy statement and/or investment portfolio in consideration of changes in the client's personal circumstances, investment objectives and tolerance for risk, the performance record of any of the client's investments, and/or the performance of any fund retained by the client.

In addition to providing Promus Capital with information regarding their personal financial circumstances, investment objectives and tolerance for risk, clients are required to provide the firm with any reasonable investment restrictions that should be imposed on the management of their portfolio and to promptly notify the firm of any

changes in such restrictions or in their personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, Promus Capital's reports to clients will remind them of their obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of their accounts. Promus Capital will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives and tolerance for risk.

Subject to any written guidelines that a client may impose, Promus Capital may be granted discretion and authority to manage the client's account. Accordingly, Promus Capital is authorized to perform various functions, at the client's expense, without further approval from the client. Such functions include the authority to manage client portfolios in accordance with securities and strategies as itemized in Items 8 of this Brochure. This authority would include the determination of the price of securities to be purchased/sold and the amount of securities to be purchased/sold.

Once the portfolio is constructed, Promus Capital provides ongoing supervision and rebalancing of the portfolio as changes in market conditions and client circumstances may require. Promus Capital will obtain client approval prior to executing any transaction for non-discretionary accounts.

Promus Capital may also recommend unaffiliated separate account managers ("SAMs") to manage a portion of a client's account. Clients will receive full disclosure of the SAM's services, fees and other relevant information at the inception of the relationship by way of the SAMs' Form ADV Part 2 or equivalent disclosure document.

## **B.2. Family Office Services**

Promus Capital provides Family Office Services designed to help clients organize their financial situation and plan for the successful transfer of wealth to the next generation in a tax advantaged manner. The services provided will vary on a client-by-client basis and may include but are not limited to the following:

- Charitable foundation/family philanthropy management
- Financial planning and investment consulting
- Risk management
- Investment monitoring and/or reporting

## **B.3. Investment Advisory Services to Retirement Plans and Plan Participants**

Promus Capital may also provide investment advisory services to retirement plans ("Plan") or retirement plan participants ("Participants"). Promus Capital may prepare personal asset allocation targets after obtaining and evaluating information concerning their individual client circumstances provided by each Participant in response to a risk profiling questionnaire. Promus Capital may provide recommendations as to an appropriate asset class structure and/or securities from a list of securities approved by the plan sponsor ("Sponsor").

The asset allocation and mutual fund recommendations made to such clients may differ from those made by Promus Capital to high-net-worth and affluent individuals and institutions for one or more of the following reasons:

- A Participant's asset allocation target typically consists of a smaller number of asset categories to reflect the relatively smaller size of the Participant's investment assets.
- The Sponsor has constrained the investment alternatives from which Promus Capital may make recommendations. In such cases, Promus Capital may be required to observe quantitative criteria established by the Sponsor in preparing Participant-oriented lists of mutual funds, or to confine the advice given to choices among a relatively narrow set of investment alternatives established by the Sponsor. Participants are informed when the Sponsor of the group imposes constraints on Promus Capital's ability to recommend mutual funds or other securities.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

Clients' accounts will be managed on the basis of their financial situation and investment objectives, and in accordance with any reasonable restrictions they have imposed on the management of their accounts—for example, restricting the type or amount of security to be purchased in the portfolio.

### **D. Wrap Fee Programs**

Promus Capital does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

### **E. Client Assets Under Management**

Promus Capital currently has \$106,979,408 of discretionary assets and \$339,830,677 of non-discretionary assets.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset-Based Fee Schedule

For clients who also retain the firm to provide portfolio management services, Promus Capital's fee schedule is itemized below and is computed on the basis of the market value of the client's portfolio assets, payable in advance, and computed on the last business day of the preceding quarter. The quarterly fee is charged at one-fourth the annual rate specified below. The initial quarterly fee is payable on the date the account is accepted and is computed on the market value of such portfolio assets on the date of such account acceptance. A pro rata refund will be made for clients who terminate services otherwise than at quarter end. The client may terminate an individually managed account by giving 30 days' written notice. Fees are negotiable. Promus Capital charges a negotiable annual fee of 1.00% on all assets.

For investment advisory services, Promus Capital generally imposes a minimum account size of \$1,000,000; however, the account minimum may be waived by the firm, in its sole discretion. The current 1.00% fee for a \$1,000,000 minimum account implies a minimum fee of \$10,000. As such, clients should be aware that for accounts less than \$1,000,000, they may be able to find comparable services at more favorable pricing elsewhere.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. Promus Capital may modify the fee at any time upon thirty (30) days written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

Generally, fees will be charged quarterly in advance. The clients and the client's custodian or broker-dealer will be invoiced at the beginning of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of the prior quarter, as mutually agreed upon by the client and Promus Capital.

Advisory fees are always subject to the investment advisory agreement between the client and Promus Capital. Asset-based fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar month or quarter. There will be no fee adjustments for contributions to and distributions from a client's portfolio.

A client investment advisory agreement may be canceled at any time by the client, or by Promus Capital with thirty (30) days prior written notice to the client. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned,

unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

### **A.2. Fixed Fee Alternative**

In lieu of charging an asset-based fee, Promus Capital may charge the client a negotiable annual fixed fee charged quarterly in advance. Fixed fees charged will be based on several factors, including the complexity of the client's holdings, the client's financial situation and objectives, and the nature and extent of services provided. Promus Capital may charge comprehensive fixed fees, which include both portfolio management services as well as family office services. Such fees will be negotiated in advance of entering into a contractual relationship. Such fees will take into consideration Promus Capital's current asset-based advisory fee, the client's current investment assets, the extent and nature of family office services, and the degree of complexity inherent with respect to the client's personal and financial situation. There is no minimum net worth size or minimum portfolio size that a client must retain in order for Promus Capital to provide such services.

## **B. Client Payment of Fees**

### **B.1. Payment of Asset-Based Fees**

Promus Capital will not take custody or possession of client funds or securities at any time except to the extent that the firm may deduct fees directly from the client's account. Promus Capital will deduct advisory and custodial fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **B.2. Payment of Fixed Fees**

In lieu of charging an asset-based fee, Promus Capital may charge the client a negotiable annual fixed fee charged quarterly in advance. Fixed fees charged will be based on several factors, including the complexity of the client's holdings, the client's financial situation and objectives, and the nature and extent of services provided. Promus Capital may charge comprehensive fixed fees, which include both portfolio management services as well as family office services. Such fees will be negotiated in advance of entering into a contractual relationship.

## **C. Additional Client Fees Charged**

The fees charged by Promus Capital do not include fees charged by any exchange traded fund, mutual fund, pooled investment vehicle, separate account manager, or any broker-

dealer or custodian selected by the client. The investment management fees charged by separate account managers are disclosed in each manager's disclosure Brochure and Brochure Supplement, and such fees are separate and distinct from the fees charged by Promus Capital. The management fees for pooled investment vehicles are disclosed in their confidential offering memoranda and applicable subscription documents. In the case of an exchange traded fund or mutual fund, fees and charges are disclosed in the respective fund's prospectus. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, the client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using Promus Capital may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Generally, fees will be charged in advance; clients will be invoiced at the end of each calendar quarter based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of such quarter.

Fees charged by mutual funds, exchange traded funds and privately pooled investment vehicles are separate and apart from the advisory fees charged by Promus Capital. Similarly, the fees charged by Promus Capital do not include any fees charged by a broker-dealer or custodian retained by a client to implement Promus Capital's advice or to otherwise hold the client's portfolio securities.

#### **D. Prepayment of Client Fees**

Promus Capital requires the pre-payment of fees for all of its investment advisory services, including those services where the client elects the fixed fee alternative. Promus Capital's fees will either be paid directly by the client or disbursed to Promus Capital by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client, or by Promus Capital with thirty (30) days prior written notice to the client. Upon termination of any account, any unearned, prepaid fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement.

#### **E. External Compensation for the Sale of Securities to Clients**

Other than as disclosed in Item 10 of this Brochure, Promus Capital's financial advisors are compensated solely through salary and bonus. Although Promus Capital is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products, its affiliates may be paid management fees, and performance based fees for certain privately pooled investment vehicles sponsored, managed or, in which such affiliates have an ownership interest.



## **Item 6: Performance-Based Fees and Side-by-Side Management**

Promus Capital does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

Certain of Promus Capital's affiliates may charge performance based fees in the context of its pooled investment vehicle offerings. Please refer to the pooled investment vehicles confidential offering memoranda for important information concerning services, fees, conflicts of interest and other business matters pertaining to the pooled investment vehicle.



## **Item 7: Types of Clients**

Promus Capital offers its investment services to various types of clients, including high-net-worth individuals, trusts, corporations, partnerships, retirement plans, tax exempt and other legal entities. Although Promus Capital provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by the firm for each of the investment programs it offers.

For investment advisory services, Promus Capital generally imposes a minimum account size of \$1,000,000; however, the account minimum may be waived by Promus Capital, in its sole discretion. The current 1.00% fee for a \$1,000,000 minimum account implies a minimum fee of \$10,000. As such, clients should be aware that for accounts less than \$1,000,000, they may be able to find comparable services at more favorable pricing elsewhere.

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

### **A. Methods of Analysis and Investment Strategies**

Promus Capital's methods of analysis may include fundamental and technical analysis, quantitative methods for optimizing client portfolios, computer-based risk/return analysis, and statistical and/or computer models utilizing long-term economic criteria. Promus Capital may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.1. Mutual Funds, Exchange Traded Funds, Independent Investment Managers and Pooled Investment Vehicles, Individual Equity and Fixed Income Securities**

Promus Capital may recommend (i) separate account managers to manage client assets, and (ii) no-load and load-waived funds, pooled investment vehicles, and individual securities (including fixed income instruments). Such management styles will include, among others, large-, mid- and small-cap value, growth and core; emerging markets; and alternative investments. Promus Capital may also assist the client in selecting one or more appropriate manager(s) for some or all of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that Promus Capital will take into account when recommending managers to clients. A description of the criteria to be used in formulating an investment recommendation for funds, exchange traded funds, individual securities (including fixed income securities) and managers is set forth below.

Promus Capital has or may form relationships with third party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of funds and managers
- perform billing and certain other administrative tasks

Promus Capital may utilize additional independent third parties to assist in recommending and monitoring funds and managers to clients as appropriate under the circumstances.

Promus Capital reviews certain quantitative and qualitative criteria related to individual securities, funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis

- the fund or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in recommending funds or managers include the investment objectives and/or management style and philosophy of a fund or manager, a fund or manager's consistency of investment style, and employee turnover and efficiency and capacity. Promus Capital will discuss relevant quantitative and qualitative factors pertaining to its managed portfolios with clients, as required by such clients.

Quantitative and qualitative criteria related to funds and managers are reviewed by Promus Capital on a quarterly basis or such other interval as mutually agreed upon by the client and Promus Capital. In addition, funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the fund or manager by Promus Capital (both of which are negative factors in implementing an asset allocation structure). Based on its review, Promus Capital will make decisions regarding the retention or discharge of a fund or manager.

Promus Capital may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. Promus Capital will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment. Promus Capital will regularly review the activities of funds and managers it has selected.

## **A.2. Material Risks of Investment Instruments**

Promus Capital typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange traded funds
- Corporate debt securities, commercial paper and certificates of deposit
- Municipal securities
- U.S. government securities
- Private placements
- Option contracts on securities

- Pooled investment vehicles
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations
- Option contracts on indices
- Option contracts on futures
- Option contracts on commodities
- Futures contracts and index contracts

#### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.2.b. Warrants and Rights**

Promus Capital may invest in warrants and rights. Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends, and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.2.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific

industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.2.d. Exchange Traded Funds ("ETFs")**

Promus Capital may invest in ETFs (which may, in turn, invest in equities, bonds and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.2.e. Corporate Debt, Commercial Paper and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.2.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax-free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.g. U.S. Government Securities**

Promus Capital may invest in U.S. government securities. U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.2.h. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

#### **A.2.i. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.2.j. Pooled Investment Vehicles**

A pooled investment vehicle, such as a commodity pool or investment company, is generally offered only to investors who meet specified suitability, net worth and annual income criteria. Pooled investment vehicles sell securities through private placements and thus are illiquid and subject to a variety of risks that are disclosed in each pooled investment vehicle's confidential private placement memorandum or disclosure document. Investors should read these documents carefully and consult with their professional advisors prior to committing investment dollars. Because many of the securities involved in pooled investment vehicles do not have transparent trading markets from which accurate and current pricing information can be derived, or in the case of private equity investments where portfolio security companies are privately held with no publicly traded market, Promus Capital will be unable to monitor or verify the accuracy of such performance information.

#### **A.2.k. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

#### **A.2.l. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home

Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.2.m. Corporate Debt Obligations**

Promus Capital may invest in corporate debt obligations. Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. Promus Capital may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.2.n. Mortgage-Backed Securities**

Promus Capital may invest in mortgage-backed securities, including pass-through securities and collateralized obligations. Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, Promus Capital may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.



Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts, with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.2.o. Collateralized Obligations**

Promus Capital may invest in collateralized mortgage obligations ("CMOs") that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Promus Capital may also invest in collateralized debt obligations ("CDOs"), which include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

#### **A.2.p. Option Contracts on Indices**

An index assigns relative values to the securities included in the index, and the index fluctuates with changes in the market values of the securities included in the index. Index cash options operate in the same way as the more traditional options on securities, except that index options are settled exclusively in cash and do not involve

delivery of securities. Thus, upon exercise of index options, the purchaser will realize and the writer will pay an amount based on the differences between the exercise price and the closing price of the index.

#### **A.2.q. Option Contracts on Futures**

Options on futures contracts are similar to options on securities, except that an option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract rather than to purchase or sell a security at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position to the holder of the option will be accompanied by transfer to the holder of an accumulated balance representing the amount by which the market price of the futures contract exceeds in the case of a call, or is less than in the case of a put, the exercise price of the option on the future.

#### **A.2.r. Option Contracts on Commodities**

Physical commodities include soft assets such as crops and coffee that are generally extracted from the ground, as well as hard assets such as minerals and metals that are mined. Investing in commodities carries significant risks, including price, credit and market risk. Many physical commodities, as well as intangible commodities (such as security or fixed income indices), serve as the underlier to commodity futures contracts.

#### **A.2.s. Futures Contracts and Index Contracts**

A futures contract is a bilateral agreement where one party agrees to accept and the other party agrees to make delivery of cash for an underlying debt security, as called for in the contract, at a specified date and at an agreed-upon price. An index futures contract involves the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the close of trading of the contract and the price at which the futures contract is originally struck. No physical delivery of the securities comprising the index is made. Generally, these futures contracts are closed out prior to the expiration date of the contracts.

## **B. Investment Strategy and Method of Analysis Material Risks**

### **B.1. Model Portfolio Strategies**

Promus offers five different model portfolio strategies as further discussed below:

- Promus Large Cap Dividend - The Promus Capital Large Cap Dividend Strategy ("LCD") is designed to invest in equities that have current yield and risk/reward characteristics that we believe to be attractive. We seek to invest in high quality companies that have consistent dividends or current yield. We are mindful of sector exposure and prefer the benefits of broad diversification across styles and industries, but ultimately we allocate to the equities we believe best meet our investment criteria (quality, consistent dividend, good risk/reward)

characteristics). An investment team will meet at least quarterly to discuss current positions as well as possible additions. In a world where 10 year treasuries are yielding below 2.5% we believe that we can add yield to a client's portfolio while retaining the upside potential of a diversified equity portfolio.

- Promus Opportunities - We seek to build a relatively concentrated portfolio in the 10-20 best marketable ideas we have identified. This portfolio may invest in single name equity companies, closed end funds, ETFs or other marketable securities. While we believe that this model could benefit a client's overall portfolio, it should not be considered as a client's sole equity exposure. An investment team will meet at least quarterly to discuss current ideas and new investment opportunities. Investors should understand the risk inherent in a more concentrated strategy; however, overtime we believe that our investors will benefit from harvesting these ideas.
- Promus Global Equity - The Promus Capital Global Equity Portfolio ("GEP") is designed to give clients efficient exposure to the global equity markets. By utilizing ETFs the GEP is afforded the ability to freely tilt the equity allocation to segments of the market that Promus Capital believes are relatively undervalued and away from segments that we believe are relatively overvalued. Through regular meetings (no less than monthly) and analysis of market and equity fundamentals the investment committee will seek to tilt the portfolio to achieve the optimal equity market exposure. Likewise, if the investment committee believes the equity market is overvalued as a whole, it may raise cash to deploy at more attractive prices. It is our belief that by identifying relative pricing inefficiencies in the market we will better position our clients to achieve more efficient returns for their risk in the equity markets.
- Promus Capital Tactical Portfolio - The Promus Capital Tactical Portfolio is designed to give unconstrained access to the best ideas and managers Promus Capital can source in the public markets. This portfolio has a dual mandate to limit correlation to the equity and fixed income markets and also to be opportunistic. Therefore, the tactical portfolio will be comprised of uniquely talented managers with differing mandates and strategies as well as opportunistic allocations to mutual funds, closed end funds, stocks, ETFs, or other liquid investment vehicles the Promus Capital Investment Committee believes will best express its views on a particular opportunity. While these managers and ideas are hard to come by we believe that through rigorous searching and utilizing our network in the investment community we will be able to create an attractive portfolio that will benefit our clients by adding talent, disparate strategies, opportunity, and the benefits of further diversification.
- Promus Global Fixed Income Portfolio - The Promus Capital Global Fixed Income Portfolio ("GFIP") is designed to give clients efficient exposure to the global fixed income markets. There are two iterations of the global fixed

income portfolio, one for taxable accounts and one for tax-exempt accounts. These two portfolios will reflect the same convictions, but for our tax exempt clients we are more likely to utilize municipal bonds. Through regular meetings (no less than monthly) the investment committee will seek to tilt the portfolio to various fixed income indices as well as managing durations to achieve the optimal mix of fixed income exposure. Promus Capital will actively analyze data that has historically led to better performance for certain market segments including spreads, market fundamentals, as well as other market indicators in our pursuit of a timely fixed income portfolio. It is our belief that by identifying relative pricing inefficiencies in the market we will better position our clients to achieve more efficient returns for their risk in the fixed income markets.

## **B.2. Leverage**

Although Promus Capital, as a general business practice, does not utilize leverage, there may be instances in which exchange traded funds, other separate account managers and, in very limited circumstances, Promus Capital will utilize leverage. In this regard, please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor. In addition, the use of leverage enhances the price volatility of the collateral securities which can result in significant loss.

Broker-dealers that carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to satisfy a required margin deposit or withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.3. Short-Term Trading**

Although Promus Capital, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-velocity trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.4. Short Selling**

Promus Capital generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the borrowed security.

### **B.5. Option Strategies**

Holders of long call options give the holder the right to acquire underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Promus Capital as part of its investment strategy may employ:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles

#### **B.5.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price

movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.5.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.5.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, then the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.5.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder “locks in” a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; clients may contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.5.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

**B.5.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

**B.5.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

**B.5.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

**C. Concentration Risks**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

Promus Capital has nothing to disclose for this item.

### **B. Administrative Enforcement Proceedings**

Promus Capital has nothing to disclose for this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

#### **C.1. David Edstrom Disclosure**

Mr. Edstrom is an investment advisor representative with Promus Capital. On or about March of 1998, Mr. Edstrom executed sale transactions in a particular security for certain clients without their prior consent. Mr. Edstrom was trying to protect the clients' value after a sell recommendation was communicated by his then-current employer. After attempts to contact the affected clients failed, he entered liquidating transactions. Mr. Edstrom notified his current employer of his actions. Subsequently, the New York Stock Exchange Enforcement Division initiated an enforcement action in September of 2000 alleging that Mr. Edstrom violated its rules by entering orders without the clients' prior consent. Mr. Edstrom consented to the findings and subsequently settled with the New York Stock Exchange and accepted a three-month suspension. As a result of the aforementioned, the State of Illinois initiated an enforcement action in March of 2001 regarding the same issue. Mr. Edstrom consented to the findings and accepted a forty-five-day suspension. No clients complained or sought damages against Mr. Edstrom.



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

### **A. Broker-Dealer or Representative Registration**

Promus Capital is not registered as broker-dealer and does not have an application to register pending.

### **B. Futures or Commodity Registration**

Promus Capital is not registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading advisor and does not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Promus Capital Affiliate Entities and Conflicts of Interest**

Terence J. Toth, J. Zachary Musso and Brian B. Musso are affiliated with Musso Capital Management, LLC. Musso Capital Management, LLC, is the general partner of MCM Fund, LP, a fund of hedge funds, and also has a 50% interest in Triad Partners, LLC, the general partner of Triad Balanced, LP, a partnership that invests in equity-related securities traded in public markets. (MCM Fund, LP, and Triad Balanced, LP, are herein collectively referred to as "the Funds.")

Clients and prospective clients may be solicited to invest in the Funds. The Funds are offered by private placement memorandum to certain sophisticated investors. Clients should refer to the offering documents of the Funds for detailed disclosure of the investment, objectives, risk and other relevant information. The associated fees charged with investments in the Funds are separate and apart from the advisory fees charged by Promus Capital, and Promus Capital may have an incentive to recommend the Funds over other investments given the affiliated relationship between the firm, its associated persons and the Funds.

Mr. Zachary Musso spends approximately 50% of his time managing these affiliated businesses. Mr. Brian Musso spends approximately 25% of his time managing these affiliated businesses. Terence J. Toth is also a member of the board of directors of Nuveen Mutual Funds and spends approximately 15% of his amount of time in connection with this activity.

#### **C.2. Affiliate-Sponsored Pooled Investment Vehicles and Conflicts of Interest**

Associated persons of Promus Capital may also have made an investment in pooled investment vehicles described in C.1. above and therefore may have a further incentive to recommend the Funds and/or pooled investment vehicles to clients over other investments.

Promus Capital may also recommend that clients invest in Nuveen investment products. Promus Capital may have an incentive to recommend Nuveen investments over other investment products given that Mr. Toth is a member of Nuveen's Board of Directors.

Investment advisory clients of Promus Capital may be solicited to invest in one or more pooled investment vehicles, some of which are sponsored, managed or advised by Promus Capital and/or one of its affiliates. A potential conflict of interest arises in that there is an economic incentive for Promus Capital to solicit clients to invest directly in certain pooled investment vehicles. Promus Capital, its members, managers and employees, in their capacity as general partner, may receive a performance fee, carried interest or otherwise earn a management fee. Promus Capital or one of its affiliates' ability to earn performance-based fees, carried interest and management fees may create an incentive for the Promus Capital investment professional to recommend to clients an investment in such pooled investment vehicles. In addition, performance-based fees, to the extent applicable, may create an incentive for the investment manager to incur acquisition and strategy risks to earn potentially higher fees. Higher risk also entails a higher probability of loss, which may conflict with an investor's risk tolerance and investment objectives.

#### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Other than as described in Item 10.C. above, Promus Capital does not recommend separate account managers or other investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, Promus Capital has adopted policies and procedures designed to detect and prevent insider trading. In addition, Promus Capital has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of the firm's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of the firm. Promus Capital will send clients a copy of its Code of Ethics upon written request.

Promus Capital has policies and procedures in place to ensure that the interests of its clients are given preference over those of the firm, its affiliates and its employees. For example, there are policies in place to prevent the misappropriation of material nonpublic information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

Promus Capital does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). Promus Capital may recommend securities to advisory clients in which it, or one of its affiliates, has some proprietary or ownership interest. See Disclosure in Item 10 of this Brochure.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

Promus Capital, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures.

### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

Promus Capital, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other of the firm's clients. Promus Capital will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or

employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of Promus Capital to place the clients' interests above those of the firm and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

Promus Capital may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc., a FINRA-registered broker-dealer, member SIPC, and Fidelity Institutional Wealth Services, (herein collectively referred to as "Custodian") a FINRA-registered broker-dealer, member SIPC to maintain custody of clients' assets and to effect trades for their accounts. Although Promus Capital may recommend/require that clients establish brokerage accounts with Custodian, Promus Capital is independently owned and operated and not affiliated with Custodian.

Custodian does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into Custodian accounts.

In certain instances and subject to approval by the firm, Promus Capital will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client and taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by Promus Capital will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

#### A.1. Institutional Trading and Custody Services

Custodian provides Promus Capital with access to its institutional trading and custody services, which are typically not available to Custodian retail investors. These services are generally available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Custodian. These services are not contingent upon Promus Capital committing to Custodian any specific amount of business (assets in custody or trading commissions). Custodian's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

#### A.2. Other Products and Services

Custodian also makes available to Promus Capital other products and services that benefit Promus Capital but may not directly benefit its clients' accounts. Many of these

products and services may be used to service all or some substantial number of Promus Capital's accounts, including accounts not maintained at Custodian. Custodian also makes available to Promus Capital its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- provide research, pricing and other market data
- facilitate payment of Promus Capital's fees from its clients' accounts
- assist with back-office functions, recordkeeping and client reporting

Custodian also offers other services intended to help Promus Capital manage and further develop its business enterprise. These services may include

- compliance, legal and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants and insurance providers

Custodian may make available, arrange and/or pay third-party vendors for the types of services rendered to Promus Capital. Custodian 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 Promus Capital. Custodian may also provide other benefits, such as educational events or occasional business entertainment of Promus Capital personnel. In evaluating whether to recommend or require that clients custody their assets at Custodian, Promus Capital may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely on the nature, cost or quality of custody and brokerage services provided by Custodian, which may create a potential conflict of interest.

### **A.3. Independent Third Parties**

Custodian may make available, arrange and/or pay third-party vendors for the types of services rendered to Promus Capital. Custodian may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to Promus Capital.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

Promus Capital, pursuant to the terms of its investment advisory agreement with clients, may have discretionary authority to determine which securities are to be bought and

sold, the price of such securities, the executing broker and the commission rates to be paid to effect such transactions. Promus Capital recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. Promus Capital will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, Promus Capital seeks to ensure that clients receive best execution with respect to their transactions by blocking client trades to reduce transactions costs. To the best of Promus Capital's knowledge, these custodians provide high-quality trade execution, and Promus Capital's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, Promus Capital believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Directed Brokerage**

### **B.2.a. Promus Capital Recommendations**

Promus Capital typically recommends Custodian as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

**B.2.b. Client-Directed Brokerage**

Occasionally, clients may direct Promus Capital to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage Promus Capital derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. Promus Capital loses the ability to aggregate trades with other Promus Capital advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

**B.3. Security Allocation**

Since Promus Capital may be managing accounts with similar investment objectives, the firm may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by Promus Capital in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

Promus Capital's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. Promus Capital will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

Promus Capital's advice to certain clients and entities and the action of Promus Capital for those and other clients are frequently premised not only on the merits of a particular investment but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of Promus Capital with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of Promus Capital to or on behalf of other clients.

**B.4. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and



the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if Promus Capital believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.5. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

Promus Capital acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interest of its clients.

#### **B.6. Soft Dollar Arrangements**

Promus Capital does not utilize soft dollar arrangements. Promus Capital does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **B.7. Brokerage for Client Referrals**

Promus Capital does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **Item 13: Review of Accounts**

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

The review of accounts of high-net-worth and affluent clients, including corporations, partnerships and trusts, is conducted in the first instance by the Promus Capital professional servicing the client relationship. Such professionals are subject to the general authority of Promus Capital's Managing Member and Chief Compliance Officer. The President or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The President or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client. Such reviews are performed no less frequently than annually.

### **B. Review of Client Accounts on Non-Periodic Basis**

Promus Capital may perform *ad hoc* reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how Promus Capital formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

In addition to monthly statements (or no less frequently than quarterly) provided by the client's custodian that detail transaction activity, holdings and portfolio value, Promus Capital, to the extent it agrees to provide performance reports, engages a third party to produce quarterly client reports that detail account performance and risk metrics including standard deviation, investment style drift metrics, comparison of account performance against appropriate benchmarks, and other such measures designed to identify the risk and performance of the client's investment portfolio.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

In addition to benefits described in Items 10 and 12 of this Brochure, Promus Capital or its affiliates may receive payment for referring certain of its customers to unaffiliated third-party investment managers. Such referrals and payments will comply with Rule 206(4)-3 under the Investment Advisers Act of 1940. Such rules require additional disclosure to the client as well as a written agreement between Promus Capital and the unaffiliated investment manager who receives the referral. Although Promus Capital strives to put its clients' interests first, clients are advised that as a result of such referral there is a conflict of interest in that one could view Promus Capital's referral as being economically motivated rather than in the clients' best interests.

### **B. Advisory Firm Payments for Client Referrals**

Promus Capital may enter into agreements with solicitors who will refer prospective advisory clients to Promus Capital in return for a portion of the ongoing investment advisory fee. Such arrangements will comply with the cash solicitation requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940. Generally, these requirements require the solicitor to have a written agreement with Promus Capital. The solicitor must provide the client with a disclosure document describing the fees it receives from Promus Capital, whether those fees represent an increase in fees that Promus Capital would otherwise charge the client, and whether an affiliation exists between Promus Capital and the solicitor.

## Item 15: Custody

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances and portfolio holdings in their accounts. Promus Capital urges its clients to compare the account balance(s) shown on their Promus Capital performance review to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

In certain instances with respect to its affiliates' role as general partner or manager for certain funds and investment partnerships, Promus Capital, by virtue of its affiliation and role as investment advisor to such funds and investment partnerships, could be deemed to have custody. To avoid being deemed to have custody, Promus Capital's affiliates engage an outside PACOB auditing firm to audit each of the funds and investment partnerships it sponsors or manages on an annual basis.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to Promus Capital with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In such cases, Promus Capital will exercise full discretion as to the nature and type of securities to be purchased and sold and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.

## **Item 17: Voting Client Securities**

Promus Capital does not take discretion with respect to voting proxies on behalf of its clients. Promus Capital will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by or with respect to issuers of securities beneficially held as part of Promus Capital supervised and/or managed assets.

## **Item 18: Financial Information**

### **A. Balance Sheet**

Promus Capital does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

Promus Capital does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There are no bankruptcy petitions to report.