

NAPLES GLOBAL ADVISORS INC.

SEC Form ADV Part 2A

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## Naples Global Advisors

### SEC Form ADV Part2A

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## Naples Global Advisors Form ADV Part 2A

### **Item 1 - Advisory Business**

Naples Global Advisors, LLC was organized in 2011 as an employee owned investment firm with its principal place of business in Naples, Florida.

Naples Global Advisors (NGA) seeks to provide discretionary investment services to individual and institutional clients. Prior to implementation of an investment strategy, NGA strives to gain a thorough understanding of a client's investment objective, time horizon, and tolerance for risk. The firm also reviews a client's investment history and analyzes the personal circumstances and family dynamics that might impact the execution of the agreed upon investment strategy.

NGA's core equity investment philosophy is best summarized as being global, multi-cap value. Implementation is via an in-house research process that relies initially on quantitative screening methods that seek to identify attractively valued companies based on fundamental characteristics including consistent profitability and a disciplined capital structure. The implementation of the investment strategy is primarily accomplished via ownership of individual securities that represent a wide range of capitalizations (micro to large cap) and an open geographical platform (domestic and foreign).

NGA also provides core fixed income strategies that emphasize a diversified grouping of publicly traded fixed income securities, which are primarily considered investment grade. In practice, a majority of NGA's clients maintain exposures to both key asset classes, equity and fixed income, although there are clients that request dedicated equity and dedicated fixed income mandates.

### **Item 2 - Fees and Compensation**

NGA's revenues are generated exclusively from advisory fees and are transparent to clients. Advisory fees are based on a percentage of assets under management. The custodian separately imposes brokerage commissions and other expenses such as foreign security taxes, ADR fees, and charges for wire transfers, as examples. Additionally, securities traded on foreign exchanges may incur added transactional expenses that will vary by country and exchange.

The fees paid to NGA for advisory services are identified distinctly and are separated from custodial charges. Custodians typically have expenses embedded inside their money market vehicles and reflected as a reduction of net yield. Also, other expenses and fees may be embedded inside ETFs, and mutual funds.

NGA's annualized advisory fees are based on the following schedule:

<u>Annual Fee</u>	
0-\$2,000,000	1.0%
\$2,000,000-\$4,000,000	0.8%
\$4,000,000-\$5,000,000	0.6%
Amounts over \$5 million	0.5%

Fees are generally deducted directly from a client's account on a monthly basis. However, alternative arrangements may be allowed on a case-by-case basis. The advisory fees are extracted using an end-of-month valuation, in arrears, at the indicated level. Individuals with multiple accounts as well as families may be grouped together for relationship pricing, providing for a lower overall tiered rate. In cases where an investment advisory relationship begins after the first day of a billing period, or terminates prior to the last day, fees are prorated for the period.

The client agreement allows for cancellation in writing at any time by either the client or NGA for any reason. There are no termination fees, although management fees earned up to the date of termination will be prorated and charged to the account or billed to the client.

### **Item 3 - Performance-Based Fees and Side-By-Side Management**

NGA does not currently utilize performance-based fees.

### **Item 4 - Types of Clients**

NGA provides discretionary investment management services to the following types of clients:

- High net worth individuals
- Individuals (other than high net worth)
- Retirement Accounts, principally IRAs.
- Corporations
- Trustees
- Charitable Organizations

The targeted relationship minimum valuation is \$1 million. Family accounts may be bundled together to attain the stated relationship minimum. There may be exceptions to this guideline when there is the future opportunity to reach the threshold, or in a situation where the minimum annual advisory fee is met.

### **Item 5 - Methods of Analysis, Investment Strategies and Risk of Loss**

NGA's investment philosophy is built on a foundation of the following three key tenets:

- NCA strives to first understand a client's objectives and capacity for risk  
The firm seeks to then effectively manage the risk/return equation through proper asset allocation.
- NCA strives to build logically diversified portfolios using the global opportunity set of securities that are vetted and assembled using a fundamental valuation discipline.
- NCA discretionary portfolios are administered with a view toward absolute returns, principal stability, and with a healthy respect for the ever changing dynamics of global economies, the capital markets, and a client's personal circumstances.

The analytical process for the equity process is centered on identifying and compiling a well-diversified group of publicly traded global businesses that are undervalued based on fundamental characteristics. The key equity characteristics used in the initial screening process include high and consistent ROE, low levels of debt, low relative valuation, and a history of sharing profitability with equity holders. This is first accomplished with quantitative screens that allow for identification of a more manageable grouping of stocks that can then be analyzed more fundamentally. Once vetted and ultimately identified for inclusion in the portfolios, a diverse (by sector, geography, and capitalization) grouping of publicly traded businesses are then assembled on an account-by-account basis and actively monitored for progress.

Below are the types of publicly traded securities that are typically represented in NCA client portfolios:

#### Equities

- Domestic equities, large, mid, small and micro cap
- Foreign developed and developing (both ADR and direct foreign equities)
- Closed and open ended mutual funds, and exchange traded funds (ETFs)
- REITS
- Preferred stocks
- Exchange traded energy and natural resource partnerships and trusts

#### Fixed Income

- U.S. Treasury and agency debt
- Municipal bonds
- Foreign bonds, sovereign and corporate
- Closed and open ended mutual funds, and exchange traded funds (ETFs)
- Bank certificates of deposit
- Hybrid debt securities

## **Risk of Loss**

Investing in the capital markets involves an inherent level of risk. NGA strives to understand a client's goals, objectives, and tolerance for risk prior to constructing and implementing an investment program. However, given the nature and history of the capital markets there is the possibility of principal loss. While the risk of principal loss has historically been greater with equity-oriented portfolios, fixed income portfolios also bear the risk of principal loss stemming from credit risk, duration risk, and illiquidity risk.

Additionally, no guarantees can be provided that the stated return goals will be attained, and historical performance results are not a guarantee of future returns.

NGA does not invest in hedge funds, illiquid securities, or other private equity type of investments. The firm's focus is on utilizing the array of existing publicly traded securities where marketability and daily valuation are more readily accurate and available. NGA does invest in securities that are, at times, thinly traded in both the domestic and foreign markets, but the firm's advisory personnel strives to be mindful of the added risk that thinly traded securities pose as client portfolios are assembled.

NGA's core investment philosophy is oriented to focusing on a security's valuation: relative to peers, the market, and its historical metrics. NGA's belief is that value oriented investment disciplines have historically placed the odds of success in the client's favor. In summary the firm feels that paying attention to security valuations, maintaining global diversification, insisting on dividends as a check on earnings authenticity, keeping turnover low, and minimizing expenses are all components that reduce volatility and ultimately risk; while these factors do not eliminate market risk, the belief is that they are logical and understandable risk mitigations.

NGA also feels that maintaining the primary research responsibility in-house, at the portfolio manager level, also serves to moderate risk and increase client comfort. There is an efficiency of time gained for the client, company specific conviction is attained, and a proximity to the client's risk tolerance is more readily addressed. Also, NGA's preference for utilizing individual securities, as opposed to outside funds or external managers, provides for greater tax and trading control.

The external custodial platforms allow for favorable trade execution, trade efficiency, and low transactional costs, all part of a value oriented philosophy that places the interest of the client first. Newly funded portfolios are most typically worked into the market over a period of time to take advantage of market dislocations and reduce principal volatility as they are built.

As a global investment manager there are additional risks associated with the portfolio management process. These include, but are not limited to, higher transaction costs for direct foreign trades, challenges regarding the timing of execution, foreign taxation, currency risks, uncertain liquidity and political risk.

## **Item 6 - Disciplinary Information**

Naples Global Advisors, LLC. and its employees have not been subject to any disciplinary action or sanctions with regards to business conduct or practices from clients, the SEC, or other law enforcement bodies.

## **Item 7 - Other Financial Industry Activities and Affiliations**

Naples Global Advisors has no other industry affiliations or activities.

## **Item 8 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

NGA has adopted a Code of Ethics pursuant to Rule 204A-1 of the Advisers Act. The Code of Ethics is for all employees and it outlines the standards of required business conduct that are based on the following tenets:

- NGA's employees have a fiduciary duty that at all times places the clients' interest first.
- NGA's employees should avoid any actual or perceived conflicts that might compromise their fiduciary responsibility.
- NGA employees are prohibited from trading securities, either personally or on behalf of others, while in the possession of material non-public information that is either directly or indirectly obtained.

All employees of NGA are required to sign the Code of Ethics statement annually as an acknowledgement of their fiduciary responsibility to clients. The firm's fiduciary duties include, but are not limited to, the necessity to provide full and fair disclosure of any conflict of interest, a duty of loyalty to the client and to the firm, and always providing suitable recommendations that are based on the client's objective. The Code of Ethics includes provisions that deal with client confidentiality, insider trading prohibition, personal security trading, and gift and entertainment guidelines.

Employees of NGA are allowed to invest in individual securities for their personal portfolios. These securities may include firm recommended securities, however, the Code of Ethics requires that employees may not take advantage of any information that they may have concerning NGA's current or pending strategies. This is inclusive of avoiding transactional front running.

## **Item 9 - Brokerage Practices**

NGA's trading procedures prohibit unfair trading practices and are designed to avoid conflicts of interest with a client's portfolio. NGA customarily selects the broker or dealer for transactions in client portfolios, both for equity and fixed income trading. With the execution of any client trade the typical key objective is obtaining best trade execution, which is defined as a combination of net price and trade impact. Other factors may play into the broker dealer selection including the source of a trade idea, the capacity for providing long-term market liquidity, and a research capacity that benefits all clients. Receipt of soft dollars, products, or services other than trade execution or research are not factors in allocating brokerage.

As a balanced manager of global equity and fixed income securities there are other considerations that become part of the trade execution equation. These may include the level of historical spreads, expected timing of a trade, trade confidentiality, historical settlement experience, along with the financial soundness and reputation of the executing broker. All of these factors surround the trade process, but because NGA does not participate in soft dollar rebates there is a reduced risk of any perceived conflict as it relates to client trades.

NGA will at times group transactions together to efficiently trade a security in larger blocks. Trades are then allocated on a pro-rata basis that seeks to prohibit any account favoritism. Clients will generally receive the same average price in any grouped trade. NGA may allocate any partial execution in a manner determined in good faith to be a fair and equitable allocation.

## **Item 10 - Review of Accounts**

NGA Portfolio Managers and advisors develop specific goals and objectives with each client prior to implementing an investment program. Portfolio Managers are charged with monitoring account holdings and overall valuations on a daily basis. Cash balances are also analyzed on an on-going basis.

The Investment Review Committee consists of the President and Chief Investment Officer and other key employees. The NGA Investment Review Committee serves to review investment guidelines and overall policies for all investment management accounts and formally meets on a monthly basis. Portfolios are formally reviewed when they are first established and rotationally thereafter at least annually in front of the committee to ensure the account is being invested in accordance with the stated objectives. Any exceptions are identified and resolution tactics determined and recorded. Strategic and tactical decisions are also discussed at these monthly meetings but typically occur more frequently as market conditions dictate. More practically portfolios are continuously monitored with ultimate responsibility given to the portfolio manager for strategy implementation and adjustments based on the market environment and each client's individual circumstances.



Clients of NGA are sent statements each month by their custodian and have daily access for account viewing over the internet. In addition, NGA provides separate quarterly reports showing performance and relevant index returns. We also strive to meet with clients quarterly, or more frequently as requested, to review results and update records regarding material changes impacting objectives.

#### **Item 11 - Client Referrals and Other Compensation**

NGA does not currently pay referral fees.

#### **Item 12 - Custody**

NGA does not custody any client securities or portfolios. Clients choose their own qualified and independent custodian. The custodians send statements each month directly to the client that reflect total holdings, total valuation, as well as trading and transactional activity.

#### **Item 13 - Investment Discretion**

NGA usually operates under full discretion for its investment management services. However, for all clients this discretion is exercised within the bounds of a written client investment objective statement. As well, it is not unusual that there are tax or legal constraints, and/or social considerations, which may override a portion of the discretion for individual assets or segments of the portfolios. These considerations are acknowledged in the required investment objective statement that is signed by the client at the beginning of the relationship and updated periodically.

#### **Item 14 - Voting Client Securities**

NGA has adopted written policies and procedures that are intended to comply with Rule 206(4)-6 of the Advisers Act. NGA seeks to always vote proxies in the best interest of shareholders. While often the proxy vote will follow management's recommendations, there are situations that occur that will be in opposition to existing management, either in whole or in part. At its core, NGA's policy is to encourage corporate actions that will enhance shareholder value and this may be with either a short term or long term perspective, depending on the particular circumstance.

As a global investment firm, NGA holds shares of foreign companies as American Depositary Receipts as well as locally registered shares. The voting rules in foreign markets can be restrictive for trading securities around a particular shareholder vote and NGA will at times prefer to maintain liquidity in the shares versus exercising the proxy vote. These situations will be vetted on a case-by-case basis.

At times the client might retain the right to vote proxies. In those instances, the custodian sends the proxies directly to the client or other arrangements can be made.

#### Proxy Voting Records:

NGA is responsible for establishing formal proxy voting policies and procedures, and for maintaining records for proxy voting. Those records will be made available to clients at their request.

#### **Item 15 - Financial Information**

There is nothing applicable to report for this item.

## **Appendix**

### **Naples Global Advisors Privacy Policy**

This policy details the privacy policy and procedures in respect of handling the personal financial information of its clients, prospective clients, and employees.

Our clients' privacy is very important to NGA. The employees of NGA seek to maintain the confidentiality and security of all its client's personal information. Because of the nature of the investment management business, it is customary for NGA to be in possession of certain non-public personal information.

By policy, NGA does not sell or make available to marketers or third party sources any of our client's information. However, as required by judicial mandate or existing law, we may disclose personal information to government agencies or law enforcement officials as requested.