



## CRESTPOINT CAPITAL MANAGEMENT, LLC

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Form ADV Part 2A (Brochure)

June 30, 2013

This brochure provides information about the qualifications and business practices of CrestPoint Capital Management, LLC. If you have any questions about the contents of this brochure, please contact William M. Uhlemeyer at (817) 873-5106 and/or [bill@crestpointcm.com](mailto:bill@crestpointcm.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about CrestPoint Capital Management, LLC also is available on the Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration with the Securities and Exchange Commission does not imply a certain level of skill or training.



## **ITEM 2 – MATERIAL CHANGES**

At least once a year registered firms must update the information contained in their brochure. This section summarizes the material changes that have occurred to the firm since its previous update.

In the future, *Item 2 – Material Changes* will reference the date of the firm's previous brochure and summarize the material changes that have occurred since that date. For existing clients, we may deliver either an updated brochure in its entirety or a copy of *Item 2 – Material Changes* annually within 120 days after the end of the firm's fiscal year. Any client may request the complete copy of the brochure by contacting William Uhlemeyer at (817) 555-5555 or by email at [bill@crestpointcm.com](mailto:bill@crestpointcm.com).

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#### **ITEM 4 – ADVISORY BUSINESS**

CrestPoint Capital Management, LLC (“CPCM,” “we,” “us”) began operations in 2013. William M. Uhlemeyer is its owner and managing member. The firm was formed in the state of Texas and has its principal place of business at 1452 Hughes Road, Vineyard Center II, Suite 200, Grapevine, Texas 76051.

We offer investment advisory services, specializing in the management of equity, bond, and balanced portfolios for taxable and non-taxable clients. Equity portfolios of fully diversifiable size are managed with a structured, disciplined process. Our process is comprised of four steps.

1. Screen a database to create an investable universe.
2. Rank stocks in the investable universe by a quantitative measure of attractiveness, an “alpha” factor.
3. Construct the portfolio using an optimization program to have a high “alpha” score while controlling risk to the benchmark using the firm’s proprietary risk model.
4. Rebalance the portfolio approximately twice a year to maintain a high “alpha” score and control portfolio risk through time. At the same time, we control turnover and are tax-efficient for taxable investors.

Bond portfolios are constructed with maturities in the short to intermediate categories. Bonds are used primarily as volatility dampeners in balanced portfolios and managed to be benchmark sensitive in portfolios comprised entirely of bonds.

In assisting clients, we take into consideration a client’s investment objective, goals, tax status, risk appetite, and any restrictions a client may have regarding investing in certain securities or types of securities.

#### **ITEM 5 – FEES AND COMPENSATION**

The following fee schedule applies to both taxable and non-taxable clients:

<u>Annual Fee Percentage</u>	<u>Portfolio Value</u>
0.75%	on the first \$2,000,000
0.50%	on the next \$73,000,000
0.35%	amounts over \$75,000,000

An annual minimum fee of \$15,000 is usually imposed.

As an example of the fee schedule, a \$1,500,000 portfolio will pay an annualized fee of \$15,000, or 1% of value. A \$5,000,000 portfolio would pay a fee of \$30,000, or 0.60% of portfolio value.

Accounts may be consolidated for purposes of calculating management fees. At our discretion, we may waive or reduce the minimum annual fee and adjust or negotiate our management fees.

For purposes of this fee schedule, “Portfolio Value” means the sum of the market value of the assets in the portfolio as of the last day of the previous quarter. Assets are valued using their closing price on the principal

exchanges on which the securities are traded or, if no sale price is reported, at the last bid price. Any other securities, for which market quotations are not readily available, will be valued at fair market value. We use pricing supplied by an independent service for purposes of calculating management fees and performance. These prices may be higher or lower than the valuations used by a client's custodian.

In accordance with our investment management agreement, fees will be paid at the end of each calendar quarter, after the service has been provided. Quarterly fees will be prorated based on the value of the Portfolio at time of inception or for the time the service was rendered before termination should either of these events occur between quarterly evaluations. Our investment management agreements may be terminated by either party upon thirty (30) days written notice to the other party.

Our investment management agreement provides us to directly invoice each client's custodian for our fees. A copy of such invoice, stating the quarterly management fee and its calculation, is sent to each client for information purposes. Each client will be responsible for verifying the accuracy of the fees, as the custodian will not determine whether the fees are calculated properly.

In addition to the management fees paid to us, each client is responsible for other fees that may be incurred. These fees include custody charges, wire transfer fees, transaction fees, and any other fees that may be charged by your custodian, as well as commissions, fees, expenses, and other transaction charges charged by brokers used to execute securities transactions for a client's account. Fees and expenses embodied in mutual funds or exchange traded funds may also be incurred when held in a portfolio. For additional information regarding our brokerage practices, commissions and fees, please see *Item 12 – Brokerage Practices*.

#### **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The firm does not accept performance-based fees. Thus, any potential conflict of interest that may arise because of some clients being favored over others because of fee structure is not present.

#### **ITEM 7 – TYPES OF CLIENTS**

We offer investment advisory services to individuals and families, trusts, estates, charitable organizations, including foundations and endowments, corporations and other business entities, as well as pension and profit sharing plans.

For best implementation of our equity strategy, clients with portfolio values of at least \$2,000,000 are preferred. This amount is economical to the client, based on our fee schedule, and permits adequate diversification of securities in client portfolios to lower portfolio risk.

#### **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

##### **Equity Strategy**

For clients with a portfolio size where full diversification is economical, the firm believes its disciplined equity portfolio strategy, which employs a repetitive, quantitative process to manage portfolios, can add value. The objective of the strategy is to achieve excess returns above the Standard & Poor's 500 Stock Index, while incurring similar volatility.

The strategy's process is comprised of four main steps.

**1. Screen a database to create an investable universe.**

A database of approximately 4000 names is screened to create an investable universe. Examples of the screening variables are a quality measure, capitalization size, dollar price, average daily trading volume, extraordinarily high dividend yields, foreign securities, completeness of data, and several proprietary variables. An investable universe of approximately 700 – 800 names is created from this screening.

**2. Rank stocks in the investable universe by a quantitative measure of attractiveness, an “alpha” factor.**

Stocks are ranked according to a composite “alpha” factor. This factor is a composite of valuation, earnings momentum, and price momentum and has historically been strongly associated with future rates of returns.

**3. Construct the portfolio using an optimization program to have a high “alpha” score while controlling risk to the benchmark using the firm’s proprietary risk model.**

The firm has created a proprietary risk model to identify the non-company specific risk factors that are related to subsequent returns. The model uses 20 fundamental risk factors and 20+ industry groups. Examples of the fundamental factors employed are various value factors (price/earnings ratio, price/book ratio, and dividend yield), historical earnings growth, capitalization size, quality, and earnings surprise.

The portfolio is constructed with an optimization program to have a high “alpha” factor score and simultaneously have risk factor measures and industry weights similar to the strategy’s benchmark.

Portfolios generally have an average of about 100 stocks. Portfolios are as fully invested as practical. No market timing is employed. Because of the optimization program, portfolios do not have equal weighted positions. Portfolios using this strategy can be regarded as following a large cap core or blend strategy although each portfolio’s value/growth characteristics, industry weightings, and average capitalization size are dynamic and respond to changes in the S&P 500.

**4. Rebalance the portfolio approximately twice a year to maintain a high “alpha” score and control portfolio risk through time, while being tax-efficient for taxable investors and controlling turnover.**

While individual holdings are monitored continually to ensure investable standards are maintained, each portfolio is rebalanced approximately twice a year. During rebalance, each portfolio's holdings are identified and, together with fresh data for the stocks in the investable universe, are incorporated into the optimization program. The purpose of rebalance is to maintain a high "alpha" score for the portfolio and preserve the portfolio's risk characteristics versus the benchmark through time.

Buy and sells occurring during a rebalance are designed to be as simultaneous as possible. Turnover is constrained to control trading costs. Because the strategy is a large capitalization strategy, liquidity with transactions is seldom an issue.

During rebalance existing holdings in the portfolio are identified by lot. The optimization program is designed to promote the realization of losses while allowing gains to remain in the portfolio. Position sizes of holdings with gains that have risen above the maximum position size are trimmed.

### **Alternative Equity Strategy**

Equity portfolios of a size where implementation of this process may prove un-economic to a client, or, where client objectives and goals may not be best served with this approach, may be managed with mutual funds, exchange traded funds, or with individual securities more specific to those objectives and goals.

### **Fixed Income Strategy**

The firm's fixed income strategy focuses on managing a portfolio's average maturity to control interest rate risk. A modified laddered portfolio is usually constructed with short- to intermediate-term maturity securities. Only investment grade securities are purchased, thereby seeking to minimize credit risk. The management of bond portfolios within a balanced portfolio (using both stocks and bonds) is designed to mitigate overall portfolio volatility. Dedicated bond portfolios are managed to be benchmark-sensitive according to specific client objectives.

### **Description of Material Risks**

Investing in securities always involves the risk of loss which each client should be prepared to bear. Despite the strategy's objectives there is no assurance the objectives will be realized. Risks associated with the firm's risk model may be ineffective or incomplete in specifying total portfolio risk for all periods. Market and economic factors may change affecting the value of securities held in the strategy. In addition, while diversification is designed to reduce security specific risk, there is still the risk associated with developments occurring to individual securities. Such risks can be management-related, political factors, an increase in costs or decline in revenues affecting profitability, litigation, or a change in competitive position.

### **ITEM 9 – DISCIPLINARY INFORMATION**

There have been no disciplinary actions against CPCM.

### **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

CPCM has no other financial industry activities or affiliations.

### **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

#### **Code of Ethics**

CPCM has adopted a code of ethics in accordance with rules adopted by the SEC as specified in the Investment Advisers Act of 1940. The principle guiding CPCM employee actions is that we owe a fiduciary duty of care, loyalty, and good faith to our clients. Our code of ethics also provides that employees must comply with all

federal and state securities laws and not participate in any course of conduct, scheme, or behavior that would operate to create a fraud or deceit upon our clients.

### **Personal Trading**

Employees may purchase or sell securities for their own account that the firm purchases or sells for client accounts. This activity poses a potential conflict of interest as employees may have a motivation to favor trades in their own account as opposed to client accounts. We believe, through our policies, we have reasonably addressed and mitigated the potential for conflict. Policies and procedures have been put in place for employees to report personal transactions and provide copies of trade confirmations and account statements quarterly. Employee transactions are not permitted on the same date, in the same security, as transactions for any client.

Annual certification by employees of their compliance with the code of ethics is embodied in our policies and procedures.

A copy of our code of ethics is available to any client or prospective client by contacting the firm's managing member, William Uhlemeyer.

### **ITEM 12 – BROKERAGE PRACTICES**

Unless directed otherwise, our investment management agreement authorizes us to select the brokers through which transactions are placed and the commission rate paid to such brokers. While we use our best efforts to obtain transaction prices that are favorable for our clients regardless of the broker selected, we may consider several other factors when selecting brokers to execute client trades. Those factors include the size and type of securities transactions we are placing, the financial health of the broker-dealer we use, its back office capabilities, the accuracy of transaction reporting, trading desk capabilities, the custodian used, whether the broker-dealer is client directed, and the services the broker-dealer may offer.

### **Research and Other Soft Dollar Benefits**

We may execute trades for a client's account with brokers that provide us with research and market information services. We may either compensate such brokers for services with funds that CPCM directly pays to the broker, with client commissions, or with some combination of the two. The use of commission dollars to pay for research and brokerage services is generally referred to as paying with "soft dollars". By using soft dollars, we incur no out-of-pocket cost to receive the research or brokerage services that help us provide our investment advice and implement our investment process which we believe benefits all of our clients. Commissions paid to brokers for some clients' transactions may be higher than those charged by another broker for the same transactions. We do not seek to allocate soft-dollar benefits among client accounts proportionately to the soft-dollar credits the accounts generate.

Examples of services we may acquire with soft dollars are:

- analyses, reports, financial publications, and other information regarding the economy, markets, industries, securities, companies and portfolio strategy;
- access to various databases;
- quotation machines for current market information.

The research services we receive through soft-dollars must be eligible under Section 28(e) of the Securities Exchange Act of 1934. The use of such services must be lawful and assist us in the application of our investment process and



investment decision making. Finally, we must determine in good faith that the amount of commissions paid to a soft dollar broker is reasonable in light of the value of the products and services provided by the broker.

### **Client-Directed Brokerage Arrangements and Step-outs**

Each client may provide us with written instructions to direct securities transactions to a broker of its choice for execution. If so, we may not be able to obtain best execution and may not have the flexibility to negotiate commissions, which may result in higher commissions for that client.

We generally have authority to use step-out procedures when executing securities transactions for a client's account. In these circumstances, we may direct one or more executing brokers to allocate portions of a client's trades and commissions to other brokers for clearance or settlement to accommodate commission recapture arrangements, if any, or to obtain soft dollar benefits.

### **Aggregation of Trades**

With our equity investment process, each portfolio is rebalanced on its own schedule. While our process is the same for each portfolio, individual portfolio holdings and weights will differ for each client's portfolio both before and after the rebalance. Buys and sells of securities for each portfolio are designed to be as simultaneous as possible. Because of this process, we have limited opportunities to aggregate trades among multiple portfolios. Nonetheless, we may, at times, aggregate trades. In such cases, each portfolio will receive the average price of the aggregated trades.

### **Trade Errors**

Should a trade error occur in a client account that results in a loss to the client, we will correct the trade error and we, or the broker responsible for the trade error, will bear the full amount of the loss. Should a trade error occur that results in a gain for a client account, we will correct the trade error and the gain will be credited to the client account.

## **ITEM 13 – REVIEW OF ACCOUNTS**

Individual security positions of client portfolios are monitored daily by the responsible manager to ensure investable standards continue to be met. Portfolios are regularly monitored for performance versus the relevant benchmark, actual asset allocation versus the client's target allocation, and liquidity needs. In addition, client communication regarding any changes to objectives, goals, income needs, restrictions, or risk tolerances precipitate portfolio review and possible changes.

On a quarterly basis, CPCM provides a written portfolio letter, an appraisal, detailing positions in the portfolio, including their cost and market value, as well as annualized income produced by the portfolio. Reporting for a formal portfolio review for a client can be more extensive. Requests for specific reports by a client can also be provided. Yearly, a realized capital gain/loss statement and an amortization/accretion schedule for bond holdings, if applicable, will be provided.

## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

CPCM does not pay outside individuals or entities for referring clients.

## **ITEM 15 – CUSTODY**

CPCM does not take physical custody of any client assets and does not provide custody services. For clients to utilize our investment management service, a qualified custodian (whether bank, brokerage, or trust company) must be engaged. That custodian will supply statements to a client at least quarterly detailing a list of assets, transactions, income received, and investment fees paid. We also provide a quarterly report. Clients should review both statements. The information supplied by the custodian and us may differ based on accounting procedures, reporting dates, or valuation. The custodial statement is the official record, for tax purposes, of a client's account. If the client finds significant discrepancies, the custodian and CPCM should be notified. Should any client not receive timely custodial reports, that client is encouraged to contact us.

While we do not have physical custody of client assets, under federal securities laws we are deemed to have custody because our investment management agreement permits us to directly bill a client's custodian and deduct management fees from that account. We submit an invoice to the custodian for management fees and send the client a copy of such invoice detailing the management fee and its calculation.

## **ITEM 16 – INVESTMENT DISCRETION**

We provide investment management services on a fully discretionary basis. This means that we may make investment decisions for client portfolios without prior consent. Such decisions could encompass which securities are bought or sold, which brokers are used for such transactions, and the commission rates paid to brokers for transactions. Execution of our Investment Management Agreement provides us the authority, under a limited power of attorney, to manage each client's portfolio on a discretionary basis.

Any client may limit our discretionary authority by providing, in writing, any specific actions or directions that client may want us to adhere. Such instructions could be in designating a specific broker to transact portfolio transactions or in restricting our purchase of selected securities.

## **ITEM 17 – VOTING CLIENT SECURITIES AND LEGAL PROCEEDINGS**

The success of the firm's equity strategy is not dependent on voting proxies. The cost of researching proxy issues far outweighs the benefits for our clients. Therefore, CPCM does not vote proxies solicited by, or on behalf of, issuers of securities held in a client's portfolio. Each client retains the authority and responsibility for voting such proxy statements.

CPCM does not normally advise or take any action on behalf of a client involving any legal proceedings, whether bankruptcy or class action suits of issuers of securities held in, or formerly held in a client's portfolio.

## **ITEM 18 – FINANCIAL INFORMATION**

There is no financial condition that is reasonably likely to impair CPCM's ability to meet its contractual commitments to its clients.