



Private Capital Management LLC  
Form ADV Part 2A: Firm Brochure

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This Brochure provides information about the qualifications and business practices of Private Capital Management LLC ("PCM" or the "Investment Adviser"). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at (303) 293-5500 or email ([nancy.taylor@guarantybankco.com](mailto:nancy.taylor@guarantybankco.com)). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

PCM is an investment adviser registered with the SEC. That an investment adviser is registered does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information about which you determine to hire or retain an investment adviser.

Additional information about PCM also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **Item 2 – Material Changes**

On February 8, 2013, PCM, a wholly-owned subsidiary of Guaranty Bank and Trust Company (“GBTC”), filed its initial application to register as an investment adviser with the SEC. Accordingly, pursuant to disclosure rules under the Investment Advisers Act of 1940, this is the first Brochure compiled by the Investment Adviser to provide new and prospective clients (as defined below) with disclosure of its business practices, conflicts of interest and background of its advisory personnel and therefore there are no material changes to report. We encourage all recipients of this Brochure to read it carefully in its entirety.

In the future, this Item will identify and discuss the material changes since the last annual update to assist clients to make them aware of certain information that has changed since the prior year’s Brochure and that may be important to them.

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## **Item 4 – Advisory Business**

- a. We are a wholly-owned subsidiary of GBTC. GBTC is wholly-owned by Guaranty Bancorp.
- b. Our clients include individuals, small businesses, institutions, endowments and foundations. We provide investment management of diversified portfolios composed of no-load mutual funds, exchange-traded funds and other publically traded investments. We are not affiliated with any of the securities or products recommended to you or our other clients. Unless you specify otherwise, we will manage your account on a discretionary basis. Our discretionary authority is limited as follows: (i) we will not withdraw funds or securities from your account other than the funds to pay the investment adviser fees you authorize us to withdraw in your contract with us; and (ii) we may place purchase and sale orders only with respect to mutual funds, stocks, bonds, government securities, exchange traded funds and options. You may elect to implement specific investment restrictions consistent with your personal preferences.

In addition to investment advisory services, we offer financial planning consultations on a non-discretionary basis under a separate agreement. This agreement sets forth the terms and conditions of the engagement and describes the scope of the services to be provided, which may include but not limited to, financial and retirement planning.

- c. Relying on our proprietary fund selection system and the investment philosophy we have developed in the more than 50 years of our combined investment experience, our investment team strives to:
  - Place client assets in funds that excel within their asset classes;
  - Adjust the allocation of assets within broad investment categories based on perceived market opportunities; and
  - Outperform benchmark indexes over the long run.

Each month, we screen a large universe of mutual funds in an effort to find the best investment managers. Potential candidates are then rated according to a proprietary quantitative ranking system we developed and implemented January 1, 2003. Ranking criteria include both technical and fundamental indicators, such as cumulative returns over varying time periods, volatility, bear market performance, and rankings by leading investment analysis services such as Thompson Reuters.

We also use qualitative data gained from our meetings with selected fund managers at various locations across the country. This provides more in-depth insight into the funds' processes and ability to achieve returns consistent with your goals and objectives.

- d. New client relationships start with our assessment of your individual situation. This includes going over topics such as your financial position, current assets, investing experience and

risk tolerance. Any concerns or constraints you have should be discussed as well as your need for liquidity and life events, including your time horizon. Armed with an understanding of your situation, we will help develop a proposed asset allocation based on your unique needs, goals and risk tolerance. While asset allocation decisions are made with long-term objectives in mind, you have the flexibility to change your allocations at any time. Once an asset allocation plan has been adopted, we use our proprietary quantitative mutual fund ranking model and in-depth fundamental research to select best-in-class managers within each asset class.

- e. We do not offer wrap fee programs.
- f. As of December 31, 2012, we managed \$179.18 million of client assets on a discretionary basis, and we managed \$0.00 million in client assets on a non-discretionary basis.

## Item 5 – Fees and Compensation

Our fees for our investment advisory services are negotiable based on the size and complexity of your account. The specific manner in which we charge our fees is established in your written agreement with us. Typically, our fees are based on a percentage of your total assets under our management. Our basic annual percentage fee varies from 0.5% to 1.25% of assets under management. Our minimum annual fee is \$1,250. However, the minimum annual fee or the annual fee percentage may be lowered or waived at our discretion.

In addition, we may charge an hourly fee of \$250 for portfolio review and analysis if the below fee schedule is not applied to your account.

Our basic annual management fee percentage is as follows:

<u>Market Value of Account</u>	<u>Annual Fee Percentage</u>
Cash Balances	0.00%
Fixed Income Assets	0.50%
<b><u>Graduated Fee Schedule<sup>1</sup></u></b>	
The First \$250,000 of Assets in Account	1.25%
The Next \$750,000 of Assets in Account	1.00%
The Next \$2,000,000 of Assets in Account	0.90%
The Next \$2,000,000 of Assets in Account	0.80%
All Remaining Assets	0.70%

**Footnote 1** – The Graduated Fee Schedule applies to all assets in the Account other than Cash Balances and Fixed Income Assets.

- a. Unless otherwise negotiated in your contract, you pay our management fee quarterly in advance. Our management fees are deducted directly from your account unless you request

to be invoiced directly. Our relationship may be terminated at any time by either of us, by providing written notice of termination to the other party. If you terminate our services prior to the end of a quarter, any fees you prepaid that we have not yet earned will be refunded to you on a *pro rata* basis, *i.e.*, based on the number of days that have elapsed in the quarter in which termination occurs.

- b. In addition to our management fee, you may incur certain charges imposed by broker-dealers and custodians, such as brokerage commissions and/or transaction fees, transfer fees, wire transfer and electronic fund transfer fees, and other fees and taxes on your brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees and other fees and expenses. These fees and expenses are described in the prospectuses of those funds, and are paid for by the funds, but are ultimately borne by you.

Charles Schwab (“Schwab”) and Fidelity Investments (“Fidelity”) enable us to obtain many no-load mutual funds without transaction charges and other no-load and load-waived funds at nominal transaction charges. The transactions charges and/or commission rates charged by Schwab or Fidelity are generally considered discounted from customary retail transaction charges and commissions. However, the commission and/or transaction fees charged by Schwab and Fidelity may be higher or lower than those charged by other broker-dealers. We use accounting, reporting and billing systems and pricing information provided by Schwab and in certain instances, prices provided from alternative custodians for your accounts. This information is used to calculate performance returns for our client accounts and assess management fees. If you custody assets outside of Schwab, you may receive custodian statements that reflect slightly different prices for certain securities such as bonds or difficult to price securities. We encourage you to compare your account statements sent directly to you from your custodian with your PCM performance reports.

- c. No one at our firm receives compensation for selling securities or other investment products.
- d. As discussed in Item 5(a) above, we ask that you pay your quarterly management fees in advance. If you terminate your agreement with us prior to the end of the first quarter, any fees you prepaid that we have not yet earned will be refunded to you on a *pro rata* basis, *i.e.*, based on the number of days that have elapsed in the quarter in which termination occurs.

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

We do not charge any performance-based fees (*i.e.*, fees based on a share of capital gains on, or capital appreciation of, your assets under our management). We manage accounts for numerous clients that invest in the same or similar securities. Although the overwhelming majority of securities used in our investment strategy are highly liquid and readily available, certain fixed income securities may occasionally have capacity constraints. We attempt to

allocate investment opportunities among clients in a fair and equitable manner. Performance is never a factor in our decision to allocate securities to a client's account.

## **Item 7 – Types of Clients**

We provide portfolio management services to individuals, small businesses, corporate pension and profit-sharing plans, charitable institutions, trusts, estates and foundations. We generally require a \$250,000 minimum in manageable assets to start or maintain an account. At our discretion, we may approve any exceptions to the minimum requirements. We may terminate accounts for falling below this minimum by providing a written notice to the client.

Accounts that do not meet the minimum requirement of \$250,000 may not receive the full benefits of our typical investment strategy due to certain limitations on diversification and other considerations such as transaction costs.

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

- a. We provide investment management of diversified portfolios composed of primarily no-load mutual funds, exchange traded funds, or similar investments. We find that no-load mutual funds offer straightforward diversification across asset classes, geographies and investment styles.

Each month, we screen a large universe of mutual funds in an effort to find the best investment managers. We then rate potential investment candidates according to our proprietary quantitative ranking system and the investment philosophy we developed over more than 50 years of combined investment experience. Ranking criteria include both technical and fundamental indicators, such as cumulative returns over varying time periods, volatility, bear market performance, and rankings by third-party investment analysis service providers. We may also use qualitative data by meeting with investment managers. This provides us more in-depth insight into the funds' processes with the goal to achieve returns consistent with your goals and objectives.

Through our proprietary fund selection system, our investment team strives to:

- Place client assets in investments that we perceive to have attractive opportunity;
- Adjust the allocation of assets within broad investment categories based on perceived market opportunities; and
- Attempt to deliverable reasonable results based on your goals and objectives.

Investing in securities involves risk of loss that you should be prepared to bear.

- b. Our investment approach is an actively managed investment process. As such, our portfolios may have an above-average turnover rate in volatile markets. This could have a negative

impact on the net after-tax gain in your taxable account. You should not assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies we recommend), will be profitable or equal to past performance levels. Economic factors, market conditions and investment strategies will affect the performance of any portfolio and we can make no assurances that our performance will match or outperform any particular benchmark for measuring the performance of a portfolio.

Investing in mutual funds involves risk, including possible loss of principal. Investing in the commodities markets through commodity-linked funds will subject the portfolios to potentially greater volatility than traditional securities. International investments could subject our portfolios to greater risks including currency fluctuation, economic conditions and different governmental and accounting standards. Emerging markets investments involve heightened risks related to these same factors as well as increased volatility and lower trading volume. Investments in underlying funds that own small- and mid-capitalization companies may be more vulnerable than larger, more established organizations. In general, the bond market is volatile, bond prices rise when interest rates fall and *vice versa*, an effect that is usually pronounced for longer-term securities. The cost of investing in a PCM-managed portfolio will be higher than the cost of investing directly in the underlying funds, and may be higher than other mutual funds that invest directly in stocks and bonds.

## **Item 9 – Disciplinary Information**

None of the Investment Adviser or its employees have been involved in any investment-related legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the Investment Adviser or its personnel.

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

- a. No individual associated with us is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- b. No individual associated with us is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator or a commodity trading advisor.
- c. PCM is a wholly owned subsidiary of GBTC. PCM serves as the investment management arm of GBTC. GBTC is a Colorado-based community bank and wholly-owned subsidiary of Guaranty Bancorp (NASD: GBNK). Guaranty Bancorp is a bank holding company with \$1.8 billion in assets as of September 30, 2012, with one wholly owned bank subsidiary, GBTC. Pursuant to a solicitation agreement, we receive client referrals from GBTC employees, who in turn are compensated based on a set percentage of the Investment Adviser's management fee. GBTC employees provide you a solicitation disclosure at the time of solicitation that describes the nature of the GBTC/PMC relationship and affiliation, including



a description of the compensation paid to the solicitor.

- d. PCM only receives compensation directly from our advisory clients. We do not receive compensation from any outside source.

## **Item 11 – Code of Ethics**

- a. We have adopted a written Code of Ethics (the “Code”). The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, and employees (the “Employees”) and each Employee’s spouse, minor children and other family members living in the same household, as well as other individuals designated in writing by the Chief Compliance Officer as being subject to all or a portion of the Code (collectively, “Supervised Persons”). We require all Supervised Persons to act in our clients’ best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper. You can obtain a copy of the Code by contacting the Chief Compliance Officer at [nancy.taylor@guarantybankco.com](mailto:nancy.taylor@guarantybankco.com).

The Code incorporates the following general principles that all Supervised Persons are expected to uphold:

- Employees must at all times place the interests of the clients first;
- All personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an Employee’s position of trust and responsibility must be avoided;
- Employees must not take any inappropriate advantage of their positions;
- Information concerning the identity of securities and financial circumstances of the clients must be kept confidential; and
- Independence in the investment decision-making process must be maintained at all times.

Supervised Persons must report all transactions in Reportable Securities (as defined in the Code) and pre-clear all transactions concerning initial public offerings and private offerings. Supervised Persons are required to provide quarterly and annual transaction and holding reports. In addition, Supervised Persons must report all personal accounts (as defined in the code) initially upon commencement of employment or otherwise upon being designated a Supervised Person, and annually thereafter.

- b. Subject to satisfying this policy and applicable laws, Employees are allowed to trade for their own accounts in securities that we also recommend to and/or purchase for you or other clients. On occasion, employees may also be on the opposite side of customer orders. Since we primarily recommend open-end mutual funds, Employee transactions in the same mutual funds are executed at the same closing net asset value for all participants and no price impact is anticipated from either Employee or client transactions. Consequently, clients are not adversely affected by these transactions.

- c. We generally do not affect any principal or agency cross securities transactions for our client accounts.

## **Item 12 – Brokerage Practices**

Unless you direct otherwise, we generally recommend that all investment management accounts be maintained at Schwab or Fidelity. When recommending these custodians (or any other broker-dealer/custodian) to clients, we consider their financial strength, reputation, execution, pricing, research, and services.

We will arrange for the execution of securities transactions through broker-dealers that we reasonably believe will provide “best execution.” In seeking best execution, the determinative factor is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer’s services including the value of research provided, execution capability, commission rates and responsiveness of the broker. Although, we will seek competitive commission rates, it may not necessarily obtain the lowest possible commission rates for account transactions.

We receive benefits from certain broker-dealers, including Schwab and Fidelity, that we would not receive if we did not maintain a relationship at each broker-dealer. Some of these products and services are received free of charge or at a discount to assist us in managing and administering clients’ accounts. These include software, such as PortfolioCenter, and other technology that provide access to client account data such as trade confirmations and account settlements. These services also include software that facilitates trade execution and allocation of aggregated orders, research, pricing information and other market data, software that facilitates payment of our management fees from client accounts, and services that assist with back-office support, recordkeeping and client reporting. On occasion, we may be invited to attend certain industry seminars or meetings organized by broker-dealers or custodians. A portion of the entire cost of attending these events, including travel, accommodations, and entertainment may be offset by these entities.

We do not believe that our clients pay higher commissions or other fees than those charged by other broker-dealers in return for these services benefiting our clients.

Brokerage for Client Referrals - We do not take into consideration referrals of clients made to us by broker-dealers when selecting which broker-dealer we will send our brokerage transactions. We use the broker-dealers that provide us and you the best execution.

Directed Brokerage - We do not enter into agreements to direct brokerage transactions to any broker-dealer. We use the broker-dealers that we believe provide us and you the best execution.

### **Item 13 – Review of Accounts**

- a. At a minimum, we review your account each calendar quarter, which includes reviewing, but is not limited to, analysis of asset allocations, significant cash flows, and fixed income maturities. When deemed appropriate, portfolio actions are taken. Account level reviews are generally performed on a quarterly basis. Investment portfolios are reviewed also periodically with you, or as circumstances may dictate. Such circumstances include changes in capital market conditions, economic changes, tax changes, and/or a change in your financial objectives or risk tolerance. We attempt to ensure conformity with your stated goals, financial profile and investment objectives. The Client agrees to inform the Investment Adviser promptly of changes in the Client's investment objectives of which the Investment Adviser would not otherwise have knowledge, to maintain in strict confidence and for use only with respect to the client's account all investment advice and recommendations provided by the Investment Adviser to the Client, and to give the account custodian standing instructions to forward to the Investment Adviser, simultaneously with the transmittal thereof to the Client, confirmations of all transactions relating to the client's account, together with the monthly statements of said account.
- b. You will be sent statements by your broker-dealer no less frequently than on a quarterly basis. In addition, we prepare supplementary written reports for you on the status of your account, usually on a quarterly basis. The content and frequency of such reports often depends on the requirements set up in your advisory agreement.

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

As previously stated in Item 10, pursuant to a solicitation agreement, we receive client referrals from GBTC employees, who in turn are compensated based on a set percentage of the Investment Adviser's management fee. GBTC employees provide you a solicitation disclosure at the time of solicitation that describes the nature of the GBTC/PMC relationship and affiliation, including a description of the compensation paid to the solicitor. In the future, we may engage unaffiliated persons to solicit our advisory services. In that event, a similar solicitation disclosure would be provided to the prospective client at the time of solicitation.

### **Item 15 – Custody**

Pursuant to our Investment Advisory Contract with you, we have authority to debit fees directly from your brokerage account. Account statements are produced and sent to you by the account custodian or trustee on a monthly or quarterly basis. We urge you to carefully review and compare custodial account statements with our quarterly performance reports. Each statement will include the amount we charged and how much was deducted. Our statements may vary from the broker-dealer's custodial statements based on their accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

To undertake our new relationship with you, we start by assessing your individual situation. This includes going over topics such as your financial position, current assets, investing experience and risk tolerance. Any concerns or constraints you have should be discussed as well as your need for liquidity and life events including your time horizon. Prior to entering into the Investment Advisory Contract, we also provide to you our current Form ADV Part 2A and Part 2B. In addition, you must sign your account agreements as required by your chosen custodian. Both the Investment Advisory Contract and account agreements may authorize the custodian to debit your account for PCM's investment management fee, as applicable. In entering into the Investment Advisory Contract, you have expressly given us the limited discretionary investment authority over the assets held in the account we manage for you to invest your assets and deduct fees from your account.

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

As a matter of firm policy and practice, we do not take responsibility for and do not vote proxies on your behalf. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. You will receive proxies or other solicitations directly from your custodian and may contact the custodian directly should you have any questions about a particular solicitation.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about our financial condition. We are the subject of no financial commitment that impairs our ability to meet the contractual and fiduciary commitments to you and our other clients. We do not require prepayment of fees more than three months in advance, and have not been the subject of a bankruptcy proceeding.