

# Catawba Capital Management, Inc.

## Part 2A of Form ADV

### The Brochure

10 South Jefferson St., Suite 1210  
Roanoke, VA 24011  
540-342-1212  
[www.catawbacapital.com](http://www.catawbacapital.com)

Updated: March 2014

This brochure provides information about the qualifications and business practices of Catawba Capital Management, Inc. (“Catawba”). If you have any questions about the contents of this brochure, please contact us at 540-342-1212. 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 Catawba is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

This section includes information on all material changes made to Catawba's brochure since the last annual update dated March 2013. Such material changes consist of enhanced disclosure relating to Catawba's trade allocation practices. Catawba's business activities have not otherwise changed materially since the time of that update.

## Table of Contents

Material Changes.....	2
Table of Contents .....	2
Advisory Business .....	2
Fees and Compensation.....	3
Performance Based Fees and Side-by-Side Management .....	4
Types of Clients.....	4
Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Disciplinary Information .....	5
Other Financial Industry Activities and Affiliations .....	6
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	6
Brokerage Practices .....	6
Review of Accounts .....	9
Client Referrals and Other Compensation.....	9
Custody .....	9
Investment Discretion.....	9
Voting Client Securities .....	10
Financial Information .....	10

## Advisory Business

Catawba was founded in June of 1992 and is owned by Terence H. Crowgey, Raymond J. Irons and the Hubert N. Hoffman Jr. Family Trust.

As of December 31, 2013 Catawba managed \$997 million on a discretionary basis on behalf of approximately 290 clients.

Catawba provides fully discretionary investment management for financial portfolios. The services provided include:

1. Initial meeting with client to outline an investment objective and portfolio strategy to meet client's goal.
2. Once investment objective and portfolio strategy are established, securities meeting client's goals are purchased to construct client's portfolio. Key considerations in this process include: risk tolerances; income and capital gains; tax criteria; and other elements unique to each client.

3. Portfolio structure and individual securities are monitored to assure consistency with client objective.
4. Portfolio structure and security changes are implemented as market conditions, asset developments or client requirements dictate.
5. Portfolio accountings are reported on a quarterly basis to client. Periodically individual meetings are held with clients with current accountings. Annual reports on realized capital gains and losses are also provided upon request.

#### Portfolio Management:

Catawba currently advises numerous client accounts, which may have identical or substantially similar investment objectives. However, our services are tailored to the individual needs of clients by taking into account each client's specific situation and investment preferences. In addition, clients may impose restrictions on investing in certain securities or types of securities. For example, such clients may require that Catawba purchase and hold certain securities, or sell certain securities that Catawba might not necessarily purchase or sell for other accounts at the same time.

Client accounts, even those with identical or substantially similar investment objectives, will not necessarily have identical or substantially similar investment portfolios, and as a result, may have different performance results. Differences in such investment portfolios result from clients having different investment preferences and/or restrictions, thereby requiring Catawba to take different actions with respect to such accounts. A client's need to quickly liquidate a portion of its account could also result in accounts having different investment portfolios. In addition, each account is assigned to a primary portfolio manager. The primary portfolio manager is authorized to invest the assets of accounts for which he/she has investment responsibility in a wide range of underlying investments. Each portfolio manager has discretion regarding the timing of trades and selection of investments subject to the supervision of Catawba and its Management Committee. Other factors affecting the portfolios include: regulatory constraints that apply only to certain accounts; the amount of cash available for investment at certain times; and any limitation on the availability of specific securities.

## Fees and Compensation

#### SCHEDULE OF ANNUAL FEES:

Catawba's fee schedule is as follows:

First \$1 million of account assets	.95%
Between \$1-\$5 million of account assets	.65%
Over \$5 million of account assets	.40%

(Based on the Quarter End Market Value of Account's Assets)

Catawba requires a minimum annual fee of \$4,000.00 per client even if the normal fee schedule portfolio market value would be below this amount. On rare occasions, fees may be negotiable, depending upon client circumstances.

#### Timing of Fee Payments:

The fee schedule listed above is based on an annual fee, which is payable on a quarterly basis, based on the market value of the portfolio on the last business day of each calendar quarter. For fee calculation purposes, the market value of the portfolio is provided by third-party service providers rather than the client's custodian. Fees for the previous calendar quarter are billed in the month following the end of such calendar quarter. Clients obtained at times other than the beginning of a new calendar quarter are charged a pro-rated fee for their initial quarter, and follow a quarterly calendar billing schedule thereafter.

Upon the direction of the client, fees may be deducted directly from the client's account with a qualified custodian. Such qualified custodian sends a quarterly account statement to each client for which it maintains funds or securities. This statement identifies the amount of funds and of each security in the account at the end of the quarter, and sets forth all transactions in the account during that quarter. In cases where the client has not directed Catawba to deduct its fees directly from its account with a qualified custodian, fees are billed to the client.

#### Cancellation Policy:

The investment management agreement between Catawba and the client may be cancelled at any time by either party, for any reason, by written notice. Notice given by the client will be effective immediately upon receipt by Catawba; notice given by Catawba will be effective 30 days after receipt by the client. Fees due will be pro-rated up to the effective date of termination.

If an account holds mutual funds, Catawba's fees are in addition to any fees and operating expenses which are deducted directly by the individual mutual funds. These fees are fully described in the mutual fund's prospectus. Clients will also bear trading costs and custodial fees. Please refer to the section below entitled, "Brokerage Practices" for additional information.

### **Performance Based Fees and Side-by-Side Management**

Catawba does not charge any performance fees. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to Catawba.

### **Types of Clients**

Catawba primarily provides customized investment management services to high-net-worth individuals and associated trusts, estates, as well as, endowments and foundations, pension and profit sharing plans, and other legal entities.

As stated above, Catawba requires a minimum annual fee of \$4,000.00 per client, even if the normal fee schedule would be below this amount.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

Catawba strives to manage client assets to achieve superior investment returns over time and through full market cycles, consistent with each client's individual investment objectives and risk levels. Catawba offers both equity and fixed income management.

In analyzing equities for investment, Catawba uses the relative value style of investing, a bottom up approach that seeks to take advantage of the temporary mispricing of securities which are out of favor or overlooked in the market place. All investments must pass the financial strength test to be included in the portfolios.

Catawba utilizes a proprietary system, Sentry, for the statistical ranking of a firm's financial strength. We use the Sentry model to provide a straightforward calculation of seven indicators of profitability, liquidity, and financial leverage for all non-financial companies in our investable universe. Relative rankings are weighted and combined into an overall annual and quarterly score.

For fixed income accounts, we strive to invest in high quality securities that produce returns with low volatility. This is accomplished using an intermediate structure, with broadly diversified holdings and executing moderate maturity adjustments.

All investing involves a risk of loss and the investment strategy offered by Catawba could lose money over short or even long periods; thus, clients should be prepared to bear such risk of loss. Performance could be hurt by a number of different market risks including but not limited to:

- Stock market risk, which is the chance that stock prices overall will decline. Equity markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- Sector risk, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.
- Nondiversification risk, which is the chance that the performance may be hurt disproportionately by the poor performance of relatively few stocks or even a single stock.

Clients investing in fixed income securities may face additional risks, such as but not limited to:

- Interest Rate risk, which is the chance that a change in prevailing interest rates will cause the securities in the account to fluctuate in value.
- Credit or Default risk, which is the chance that the issuer of a security will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that security to decline. To the extent that the account is invested primarily in securities that are considered to be of high quality, credit risk should be very low.

- Reinvestment risk, which is the chance that falling interest rates preclude the ability to reinvest proceeds at the same rate of return as the original investment.
- Inflation risk, which is the chance that the purchasing power of the cash flows from an investment will be less in the future because of changes in general price levels in the economy.
- Income risk, which is the chance that the account's income will decline because of falling interest rates. When investing in cash equivalents, the account's income is based on short-term interest rates—which can fluctuate significantly over short periods—income risk from cash equivalents is expected to be high.

In addition, the identification of securities and other assets believed to be undervalued is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired.

## **Disciplinary Information**

Not applicable.

## **Other Financial Industry Activities and Affiliations**

Catawba and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

On occasion, Catawba, its principals and/or their family members, may buy or sell securities or options on securities that Catawba purchases, sells, and/or recommends to its clients. This practice can potentially raise conflicts of interest, for example, if an employee recommends the purchase for client accounts of securities they own personally or if the employee buys a security before our clients or sells a security that clients continue to hold. However, purchases or sales by Catawba, its principals and/or family members will only be made with respect to widely-held, publicly-traded securities. In addition, Catawba has adopted a Code of Ethics, pursuant to Rule 204A-1 of the Advisers Act, which prohibits certain acts to avoid potential conflicts of interest. In particular, the Code provides that no advisory representative may engage in personal securities transactions of any securities which are the subject of a “buy” or “sell” recommendation from Catawba, until such time has passed to permit the orderly execution of trades on behalf of clients. In addition, a prohibition on trading by advisory representatives also applies with respect to securities actively contemplated for transactions on behalf of clients, even though no “buy” or “sell” order has been placed. Certain de minimis exceptions apply. A copy of the Code of Ethics is available upon request by calling the number on the cover of this brochure.

## **Brokerage Practices**

Catawba has discretionary authority over its clients' accounts. As a result, Catawba has discretion with respect to the selection of securities, the amount of each asset bought and sold, the

broker/dealer through which transactions will be processed, and the commission rate to be paid to broker/dealers. Clients may, however, choose to specify a broker/dealer to be used and/or a commission rate for their account. In such circumstances, the client is responsible for negotiating the terms and arrangements for the account with such broker-dealer. A client who designates the use of a particular broker/dealer should understand that it will lose possible advantages that fully discretionary clients derive from the aggregation of orders for several clients as a single transaction for the purchase or sale of a particular security. The ability of Catawba to effectively negotiate commission rates could also be affected by a client designating the use of a specific broker/dealer, and as a result, Catawba may not obtain best execution on behalf of the client, who may pay materially disparate commissions, greater spreads or transaction costs, or receive less favorable net prices on transactions for the account than would otherwise be the case. It should be noted that if a client is referred by a brokerage firm and trades for that client are placed through the referring broker, Catawba has a potential conflict of interest between the client receiving best execution and Catawba receiving future referrals from the brokerage firm.

In selecting broker/dealers to effect securities trades for its clients, Catawba seeks to obtain the best overall results for its clients, taking into account such relevant factors as price, the brokers' facilities, reliability, financial responsibility, ability of the broker to effect securities transactions, custodian capabilities, client support services, the willingness to negotiate a discounted rate for the client, and research services provided. Commission rates, being a component of price, are considered together with such other factors. Accordingly, Catawba does not always seek the lowest overall commission cost to its clients.

It is possible that Catawba may pay commission rates higher than it could have otherwise paid in order to be assured of continuing to receive research that it considers useful with respect to its discretionary accounts. Such higher commissions are paid in compliance with the "safe harbor" contained in Section 28(e) of the Securities Exchange Act of 1934. Such safe harbor requires Catawba to determine in good faith that the commission rate paid is reasonable in relation to the value of the research provided. This determination may be based either in terms of the particular transaction involved or the overall responsibilities of Catawba with respect to all discretionary accounts. Accordingly, the research that is obtained generally benefits many accounts rather than just the account(s) for which the order is executed. In addition, not all research provided by brokers may be used by Catawba in connection with the account(s) which paid the commission.

Research and services provided pursuant to the Section 28(e) safe harbor may include the following: information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretation, political developments affecting portfolio securities, technical market analysis, pricing and appraisal services, credit analysis, risk measurement, performance analysis and analysis of corporate responsibility issues. Research services may be provided in the form of access to various computer-generated data and computer software. In some cases, research services are generated by third parties but are provided to Catawba by or through broker/dealers. Catawba receives a benefit because we do not have to produce or pay for the research products or services.

In the fiscal year ended December 31, 2013, Catawba received economic research from International Strategy & Investment.

The selection of broker/dealers and the amount of commissions paid to a particular broker/dealer are not made pursuant to any agreement or commitment with any broker/dealers in return for research services provided. However, Catawba may have an incentive to select a broker/dealer based on our interest in receiving research or other products and services, rather than on clients' interest in receiving most favorable execution. Catawba identifies those broker/dealers who have provided it with valuable research services, and endeavors to direct sufficient commissions to such broker/dealers to ensure the continued receipt of research services that Catawba believes are useful.

In all circumstances where Catawba receives research services in return for soft dollars and such research services are also used by Catawba for administrative purposes (such as preparation of client account valuations), a reasonable allocation is made by Catawba such that the value of the research services are borne by accounts and the value attributable to administrative functions is borne by Catawba (and paid in cash by Catawba).

“Cross” transactions are occasionally utilized to address funding issues and when each participant has a practical advantage. Cross trades are transacted at the current market and when participants are using the same custodian. Brokerage costs are split evenly between accounts. Catawba never receives any direct or indirect compensation in connection with those trades.

As a matter of policy, Catawba will allocate all investment opportunities among its clients in a manner that it considers fair and equitable to all clients, considering all factors potentially applicable to each client. Catawba allocates equity transactions on a random basis to ensure fair treatment. This process eliminates the favoring or discriminating against any client or group of clients. The allocation of fixed income transactions will depend on the client's investment policies, guidelines or restrictions applicable to each specific client; cash availability; risk tolerances; portfolios' actual sector weightings vs targets; and diversification of holdings. If Catawba believes that the purchase or sale of an equity security is in the best interest of more than one of its clients, Catawba will attempt to aggregate the securities to be purchased or sold to obtain favorable execution and/or lower brokerage commissions. However, Catawba can only do this with certain client custodians. Clients should recognize that the advice given and the actions taken with respect to their accounts may differ from advice given or the timing and nature of action taken with respect to other advisory accounts. Clients should further recognize that transactions in a specific security may not be accomplished for all advisory accounts at the same time or at the same price. Clients may not always receive a pro-rata allocation of the aggregated order in instances where the aggregated order is partially filled or executed. In such instances, clients may not receive any allocation, including if the pro-rata allocation is less than a de minimus amount or because Catawba has used another equitable method for allocation of the aggregated order. In certain instances, individuals participating in aggregated orders may be charged minimum transaction fees from the executing broker/dealers.

More detailed information about the use of client brokerage is available upon request of any client.



## **Review of Accounts**

The principals of Catawba are all portfolio managers and members of the Management Committee. All client portfolios are reviewed at least quarterly by the Management Committee or a member thereof. Portfolios can be reviewed more frequently upon client request. Reviews include an analysis of portfolio structure and progress; income expected vs. required, realized gains and losses, unrealized gains and losses; suitability of securities, fundamental change in assets, and funds available for investment.

Catawba routinely provides the following written reports to clients:

- Quarterly: portfolio listing of assets with summary of account's transaction; and
- Annual: Realized capital gains and losses summary and performance review upon client request.

Catawba may provide additional reports to clients by meeting, phone call, or letter discussion of significant events that are occurring in the financial markets in their account

## **Client Referrals and Other Compensation**

Catawba does not receive any economic benefit from someone who is not a client. Catawba does not compensate any person for client referrals nor does it offer or receive sales awards or prizes for providing investment advice to client.

## **Custody**

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but Catawba can access many clients' accounts through its ability to debit advisory fees. For this reason Catawba is considered to have custody of client assets.

Account custodians send statements directly to the account owners on at least a quarterly basis. Quarterly statements include a report summarizing account activity, portfolio securities, and market values. On an annual basis, custodian reports may include a summary of realized capital gains and losses. Clients should carefully review these statements, and should compare these statements to the account information provided by Catawba.

## **Investment Discretion**

Catawba typically manages client accounts on a discretionary basis, subject to the restrictions (if any) that have been provided by clients. Catawba has discretionary authority over its clients' accounts. Discretionary authority is determined through the execution of an investment advisory agreement.

Clients may request that Catawba not purchase certain securities or groups of securities for their accounts and we will strive to comply with such requests. For example, a client may request that we not purchase tobacco stocks for their account. However, clients should realize that such requests may result in lower investment returns than would otherwise be the case and Catawba therefore discourages clients from limiting our investment discretion.

## **Voting Client Securities**

It is policy of Catawba to vote all proxies received. It has the authority to vote in the best economic interest of Catawba's clients. In some instances a client may opt to retain this authority by notifying Catawba in writing of its desire to do so.

Catawba generally votes with management. If we invest in a company, we generally believe a company management team seeks to serve shareholders' interest. Because Catawba has confidence in management decisions, the recommendations on issues such as proxy voting are likely to be in the shareholders' best interest. However, that is not to say that exceptions don't exist. An example is "poison pill" policies, which we generally vote against.

If Catawba believes corporate management is no longer seeking to maximize shareholder value then we generally sell these company shares.

Catawba will identify any potential or actual conflicts of interest that may arise between us and the corporation. A conflict is one of the exceptions that would cause Catawba to not vote the proxy. In instances where that might exist, those proxies would be mailed directly to the client for voting action.

A copy of our entire Proxy Voting Procedures is available upon request. In addition, our complete proxy voting record is available to our clients. This information may be obtained by contacting Catawba at the telephone number on the cover of this brochure.

## **Class Actions**

We currently receive class action lawsuit documents on behalf of clients. We gather any requisite information and Catawba will forward that information on to clients. This will enable the client to make the decision regarding whether to participate in the recovery or opt out. That decision is a legal one and we do not feel that we are qualified to make this decision on behalf of our clients.

## **Financial Information**

Catawba has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.