

# Stewart & Patten

Company LLC

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*Investment Advisers since 1942*

## 1. Cover Page

**SEC FORM ADV**  
**PART 2A: FIRM BROCHURE**  
and  
**PART 2B: BROCHURE SUPPLEMENT**

**MARCH 2014**

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San Francisco, CA 94104  
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[www.stewartandpatten.com](http://www.stewartandpatten.com)

This Brochure provides information about the qualifications and business practices of Stewart and Patten Co., LLC. If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer, Lori E. Sherman, using the information above. The information in this Brochure has not been approved by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Although all of our Principals and key employees have

advanced degrees and/or professional designations, Stewart and Patten’s registration as an investment adviser does not imply any specific level of skill or training.

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### 3. Material Changes

There have been no material changes affecting our business since the last filing of a firm brochure with the SEC dated as of April 30, 2013.

### 4. Overview of Our Advisory Business

Key attributes of our Company include:

- Independent and unbiased investment management. Acting as a Fiduciary on your behalf, your interests *always* come first.
- A primary focus on capital preservation and protection from inflation.
- Independent Research that seeks investments that represent value as well as potential for growth.
- Diligently preserving a legacy of trust stretching back over 65 years. We routinely serve the second and third generation of our clients' families.
- Providing consistency of philosophy, people and results – over decades.

The late John K. (Jack) Stewart entered the investment management business in 1942 as one of the very first registrants following the passage of the Investment Advisers Act of 1941. In 1962, Ronald S. Patten joined Mr. Stewart, and in 1965 they formed Stewart and Patten Company. In 1998, Stewart and Patten Company became a Limited Liability Company (LLC) within the State of California. We are not registered as a broker nor are we affiliated with any broker, dealer, investment company or other investment adviser. We do not buy or sell securities as principal nor do we share in any compensation with respect to security trades. Stewart and Patten is owned and operated by the active Principals listed at the end of this document. The Firm managed \$808,111,000 in fully discretionary accounts, \$6,849,000 in non-discretionary assets and total assets under management of \$814,960,000 as of December 31, 2013.

Our business consists of managing security accounts, each of which uses as custodian, a bank, or broker selected by the client. We hold a limited power of attorney that authorizes us to buy or sell securities. Although we do not consult with clients prior to individual security purchases and sales, occasional consultations are held to discuss general matters such as how the account managed by Stewart and Patten relates to the client's other assets and requirements. Some clients impose restrictions on investment in certain securities or types of securities. Client portfolios are invested in stocks, taxable and tax-exempt bonds, and short-term instruments such as Treasury bills and money market funds. A separate account is maintained for each client.

To the extent any client is a retirement plan or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and depending upon the investment management services provided by us, the Firm may be considered a "fiduciary" under ERISA.

Stewart & Patten operates under an Investment Management Agreement with each client. For new clients, following the initial execution of this agreement, it may be terminated at any time by either party on five calendar days' written notice delivered to the other without payment of penalty and without liability of either party to the other. For existing clients, this agreement can be terminated on 10 calendar days' written notice. The Firm does not assess any fees related to termination but will be entitled to all management fees earned up to the date of termination. On termination of this Agreement, fees will be prorated. A client account or Agreement may not be assigned to a third party without specific approval from the client. Clients are notified of any change in the structure of Stewart & Patten Co., LLC as soon as practicable after such change.

## **5. Fees and Compensation**

Investment management is the only business and exclusive source of income for Stewart and Patten. We do not offer or sell any other type of service. Annual fees are based on the account valuation as follows:

- .75 of 1% on the first \$5,000,000 of valuation
- .60 of 1% on next \$5,000,000 of valuation
- .40 of 1% on valuations over \$10,000,000

The above schedule pertains to a balanced investment account where a substantial portion of the account is invested in both equities and fixed income assets. The rate schedule would be increased by .25% of 1% at each level for an all equity account. Occasionally, fees are negotiated lower than the schedule shown above.

Semi-annual fees are computed in arrears based on the five-month average account balances for the periods ending April 30 and October 31. Bills are mailed to clients in early June and December. On rare occasions, we purchase mutual funds on behalf of clients or hold mutual funds from legacy managers in clients' accounts. In this circumstance, the client will be charged management and other fees by the mutual fund company in addition to Stewart and Patten fees.

In recent years, Stewart and Patten has had non-affiliated investment advisers join the firm, or refer their clients to Stewart and Patten. For most of these accounts, fees are calculated and paid differently from traditional Stewart and Patten accounts in order to continue the billing procedure at prior firms. For accounts that have come to Stewart and Patten in this way, fees are based on the market value of supervised assets at the beginning of each quarter and are payable in advance. Any client who terminates the services of Stewart and Patten after paying a management fee in advance will receive a pro-rata refund equal to the period in which they would have pre-paid fees but are no longer a client.

In addition to investment management fees, clients will pay commissions to their broker / custodian upon the purchase or sale of an investment (see Broker Practices on page 7). In most cases, investment management fees are deducted directly from clients' account by Stewart and Patten and clients receive a "notification only" bill. We believe these fees are similar to those charged by other investment counseling firms for similar services; however, comparable service may be available from other sources for lower fees.

## **6. Types of Clients**

Although most of our clients are individuals, some clients are trusts, charitable foundations, retirement plans, estates, and corporations. Minimum dollar valuation for starting an account is \$1,000,000. Under special circumstances, smaller accounts are occasionally accepted.

## **7. Methods of Analysis, Investment Strategies, Risk of Loss**

Our investment approach consists of fundamental analysis, as opposed to technical or quantitative strategies. We study company financial statements and reports, industry trends and conditions, and general business conditions. Principal sources of information are (1) the company's annual report, prospectus, Form 10-K and press releases, (2) various trade publications, (3) general business periodicals, newspapers and the internet, (4) brokers' reports, (5) meetings or phone conversations with company officers, and (6) webcasts of company quarterly and annual meetings for analysts. Common stocks provide the potential for growth and contribute a steadily rising income stream as dividends increase. Typically, we maintain the stock portion of a client's portfolio with a target of 60% of the total value of the account. Other targets are occasionally utilized to meet specific client needs. Our approach to stock selection is conservative and income-orientated, concentrating on financially strong companies with medium to large capitalizations. We generally select stocks paying dividends, where our fundamental analysis suggests good prospects for additional profit and dividend growth. A typical portfolio contains 20 to 25 stocks.

The bonds in a portfolio normally are intended, in part, to reduce volatility. We select high quality bonds - U.S. Government issues, municipal bonds, and corporate bonds; with maturities ranging up to 10 years. Usually, about 30 to 35 percent of a portfolio is invested in bonds. Assets not invested in stocks or bonds are invested in cash equivalents including CD's, money market funds and Treasury bills, in order to maximize short-term returns.

Accounts are not assigned to individual principals or associates. Each member of the firm is familiar with all accounts, and we urge clients to contact any principal or associate whenever they have questions. The investment committee consists of all the principals of the Firm. When committee members review an account, they present their

recommendations to the whole committee, which usually meets daily. The committee decides which securities are bought or sold and the quantity. Generally, we will not purchase additional shares in any stock that results in the total holding in that issue exceeding 5% of the total portfolio

We are long-term investors – not speculators – and our investment philosophy is conservative in nature. However, clients should recognize that investing in any type of stock or bond security poses some level of risk. In our initial discussion with potential clients we will quantify and discuss the volatility inherent in investing in more detail. We explain broadly that economic, environmental, political and market developments can result in the value of investments declining. There is no guarantee of investment return and past performance is no guarantee of future success.

## **8. Disciplinary Information**

Stewart and Patten Co., LLC, hereby certifies that neither the firm nor any Principals or employees of the firm are presently debarred, suspended, proposed for debarment, or denied the ability to actively participate in the investment industry. Stewart and Patten Co., LLC as a firm, and all Principals and employees of the firm, have never been convicted of, or had a civil judgment rendered against them for any reason, and are not presently indicted for, or otherwise criminally or civilly charged by any governmental entity with commission of any offense. This certification extends for every Principal and employee of Stewart and Patten for the 70 year history of our Company.

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

Stewart and Patten Co., LLC is an independent investment advisor, unaffiliated with any other financial institution or securities dealer or issuer. We recommend that our clients custody their assets with Charles Schwab & Co., Inc., (“Schwab”) or Fidelity Investments, Inc. (“Fidelity”) both SEC registered broker-dealers and members of FINRA and SIPC. Although we recommend that our clients custody their investment accounts at Schwab or Fidelity, we have no affiliation with these brokers, do not supervise their custody or brokerage activities and are not subject to their supervision.

Although we may refer our clients to other professionals such as attorneys or accountants for estate planning, tax or other matters, neither the Firm nor its principals or employees are affiliated with any law or accountancy firm.

## **10. Code of Ethics, Participation/Interest in Client Transactions, Personal Trading**

Stewart and Patten's Code of Ethics is applicable to all Principals and employees of the Company. Our full Code of Ethics is available upon request. While proper and ethical behavior is expected of every principal and employee in all aspects of Stewart & Patten's business, the following Fundamental Standards will serve as a basic guideline for our Firm:

1. Principals and employees will place the interests of our clients first at all times.
2. Principals and employees will conduct all aspects of their personal business in such a manner as to avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility.
3. Principals and employees will not take inappropriate advantage of their positions.

With regard to compliance with SEC regulations on insider trading, transactions for clients always have priority over the personal transactions of principals and associates. Personal transactions of principals/associates never operate adversely to clients' interests. Principals and associates occasionally buy or sell securities bought or sold for clients. Principals/associates are required to conduct all aspects of their personal business in such a manner to avoid any actual or potential conflict of interest. Principals/associates are prohibited from placing personal trades for securities when there are open client orders for that security. This effectively means that all trades for principals/associates take place at the end the day after all client trades have been completed. The one exception would be periods when the firm makes a series of transactions in a given security for client accounts over a period of several days. In this case, no personal trades in this security would be allowed until after all client transactions are complete. The company maintains a file (updated quarterly) on all principals' and associates' transactions involving the purchase and sale of equity securities.

## **11. Broker Practices**

Client accounts are usually held in custody at one of three major broker / dealers – Schwab, Fidelity, or Merrill Lynch Institutional. We have made arrangements with each of these firms for brokerage and custody at commission rates substantially lower (averaging under \$10 per trade) than regular "full service" brokerage accounts. Our written Investment Management Agreement with our clients grants us authority to negotiate lower commissions, and we have done so wherever possible. In a limited number of circumstances, we execute trades at a broker other than the client's custodian solely to improve pricing/execution. A few brokers voluntarily send us research reports; however, this is not a factor in our selection of custodians or allocation of trading, nor is it a factor in our negotiating lower commissions. We do not use "soft dollars" to buy research. We do most of our research ourselves and it applies to all our clients.

Stewart & Patten may aggregate multiple client trades into a single transaction when it is determined that aggregation is consistent with the Firm's duty to seek best execution, consistent with the investment objectives for the client accounts participating in the trade and that aggregation would be in the best interests of the participating clients. We will purchase or sell a security as one aggregated trade through a selected broker and then allocate that trade among the clients that have selected that broker as their custodian. We then repeat that process for clients who have selected other brokers until the total transaction has been completed for all clients. Although price and transaction costs may vary from broker to broker, within each group of clients who share the same broker, average share price and transactions costs are shared on a pro rata basis. Orders are placed with the small number of retail brokers utilized by some clients first in order to ensure that a connection is made with the broker during the trading day. All other brokers are traded on-line. The sequence in which aggregated trades are placed with each broker group varies based on the size of the order and the liquidity of the security in the marketplace.

## **12. Review of Accounts**

The frequency of review of a client's account varies. Copies of quarterly valuations are distributed to each investment committee member, resulting in committee review soon after release. Accounts with significant cash flows are reviewed immediately. The companies owned by our clients are reviewed whenever earnings or significant news is announced, or after a principal or associate visits the company or its representatives. Other factors which will trigger a review of client accounts include: a significant change in stock prices, a change in a client's personal or financial situation, or a change in emphasis in particular investments such as a new candidate for purchase or sale.

## **13. Client Referrals and Other Compensation**

The only referral payment is to a former Registered Investment Adviser who retired and referred his clients to Stewart and Patten. He is paid a percentage of earned revenue received from all referred clients for a specified amount of time. Our obligation ends March 31, 2017. Stewart and Patten pays no other referral fees to any party.

## **14. Custody**

We do not have custody of clients' securities or funds except in very rare instances where a Principal of Stewart and Patten also serves as Trustee of a client's Trust. As outlined in the Broker section above, non-affiliated brokerage firms - and not Stewart and Patten - always serve as custodians of client accounts. However, Stewart and Patten Principals act as Trustee for a limited number of client accounts. In these cases, Stewart and Patten



would have custody of client assets as defined by the SEC. Nevertheless, client assets are still held at a qualified custodian not affiliated with Stewart and Patten. Co-trustees and/or beneficiaries of these trusts receive all custodial/brokerage reports, quarterly reports from Stewart and Patten, and year-end principal and income accountings from Stewart and Patten. In addition, in compliance with recent changes to the SEC's "Custody Rule", Stewart and Patten contracted to have an independent examination of accounts where Stewart and Patten principals serve as trustee of an account managed by the Firm. The trusts that were examined will bear the cost of this process on a pro-rata basis. A copy of this examination is available upon request. These trusts represent about \$17 million in client assets and 14 separate accounts as of December 31, 2013.

From our own portfolio management system, Stewart and Patten furnishes quarterly portfolio appraisals to each client. We also prepare a year-end schedule of realized capital gains and losses based on the information from the records maintained in our office. Virtually all client records are electronically updated each business day and reconciled monthly. Client account data is retained for at least five years. In addition, each client receives directly from their custodian reports that include monthly summary statements and individual broker confirmations for each purchase and sale.

## **15. Investment Discretion**

In almost all cases, Stewart and Patten has full discretion to manage client portfolios within the parameters of our general investment philosophy as outlined above. The types of securities in which we invest for our clients are limited to common stocks listed on the New York Stock Exchange, American Stock Exchange, or NASDAQ, corporate debt securities, municipal securities and U.S. Government obligations. Securities usually are purchased for the long term and our portfolio turnover tends to be relatively low. We do not use short sales, margin transactions, options or futures.

## **16. Voting Client Securities**

With the exception of a small number of pension accounts and accounts where a Principal of Stewart and Patten is a Trustee of the account managed, we do not vote proxies or other client solicitations for our clients. We have a written proxy voting policy for those accounts where we do vote proxies and a copy of this policy is available upon request. Clients are encouraged to contact us with questions concerning proxy or corporate governance votes and we do provide assistance as requested.

## Index of ERISA Related Disclosures

Stewart and Patten Co., LLC (sometimes the “Firm” or “Adviser”) may provide investment management services to retirement plans governed by the Employee Retirement Investment Security Act (“ERISA”). ERISA regulations require that specific disclosures be made to the ERISA plan fiduciary that is authorized to enter into, or extend or renew, an agreement with the Firm to provide these services. The following Index identifies the disclosures required and the location where plan representatives may find them. It is intended to assist ERISA Plan representatives with compliance with the service provider disclosure regulations under section 408(b)(2) of ERISA. Any questions concerning this guide or the information provided regarding our services or compensation should be addressed to our Chief Compliance Officer at the number noted on the cover page of this ADV Part 2A.

Required Disclosure	Location of the Required Disclosure
Description of the services that Adviser will provide to covered ERISA plans	Items 3 and 6 of this Form ADV Part 2A and the client plan’s investment management agreement with the Firm at page 1.
Statements that the services that Adviser will provide to covered ERISA plans will be as an ERISA fiduciary and registered investment adviser	Item 3 of this Form ADV Part 2A.
Description of the direct compensation to be paid to Adviser	Item 4 of this Form ADV Part 2A and the client plan’s investment management agreement with the Firm at page 1.
Description of the indirect compensation Adviser might receive from third parties in connection with providing services to covered ERISA plans, if any	Items 9 and 11 and of this Form ADV Part 2A
Description of the compensation to be shared between Adviser and any third party or any affiliated entity, if any	Item 9 of this Form ADV Part 2A.
Compensation that Adviser will receive upon termination of its agreement to provide investment management services, if any	Item 3 of this Form ADV Part 2A.

# Stewart & Patten

Company LLC

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*Investment Advisers since 1942*

**SEC FORM ADV**

**Part 2B: BROCHURE SUPPLEMENT**

**MARCH 2014**

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This Brochure supplement provides information about “Supervised Persons” or key Principals and Employees working with clients at Stewart and Patten Co., LLC, and supplements Stewart and Patten’s Brochure. You should have received a copy of that Brochure. Please contact our

Chief Compliance Officer, Lori E. Sherman, using the information above if you did not receive Stewart and Patten's Brochure or if you have questions about the content of this supplement.

## Investment Professionals

As a firm, Stewart and Patten has maintained business continuity by hiring younger associates, who grow to become principals of the firm. Stewart and Patten has thus provided clients with long-term relationships and investment oversight through multiple generations.

### **Principals –**

*(Additional information about each of the Principals listed below is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov))*

**RONALD S. PATTEN** – A lifelong Californian and a descendant of early California settlers, Ron was born and raised in southern California. After working in commercial banking, Ron moved to northern California and joined Jack Stewart in 1962, later forming Stewart and Patten Company. He brings over 50 years of experience in the investment management industry, providing insight and advice to both his colleagues at Stewart and Patten and our clients. Ron has a B.A. from Occidental College and an M.B.A. from Stanford University. Born 1932.

**ROBERT M. GENTRY, CFA** – Rob is a native of the San Francisco Peninsula and first worked in the investment industry in 1984 at Franklin-Templeton Funds. He later held positions with CR-P Associates, a firm specializing in Latin American finance, and was a co-founder and CFO of software consulting firm DBSS/InterMax Solutions from 1990 to 1997. He joined Stewart & Patten in 1997. Rob is a Chartered Financial Analyst charter holder and is a member of the CFA Society of San Francisco and the CFA Institute. Rob has a B.S. from the University of California at Davis, and a M.S. from St. Mary's College. Born 1962.

**LORI E. SHERMAN, CFP®** – Lori originally hails from southern California and began her business career as a CPA with Coopers & Lybrand in 1986. She was an independent consultant for several years prior to being appointed as Vice President and Controller at Roger Engemann & Associates. Lori joined Stewart and Patten in 2000. She has been an active Girl Scout leader for ten years. She is member of the California Society of CPAs and the American Institute of CPAs. While Lori meets all requirements for CPA licensing, her current status is "inactive". She became a Certified Financial Planner in 2008. Lori has a B.S. from California State Polytechnic University, Pomona. Born 1964.

## **Associates –**

### **Director, Equity Research –**

**MATTHEW J. SCHMIDT, CFA** – Matt joined Stewart and Patten in 2008 as an Analyst. Previously, he was a Portfolio Manager Associate with Dodge & Cox and prior to that worked at State Street Bank, mPower Advisors, and Wentworth, Hauser & Violich in research and trading positions. Matt is a member of the CFA Society of San Francisco and CFA Institute and previously served on the Board of Directors of Huckleberry Youth Programs. Matt received a bachelor's degree in Economics and Psychology from Georgetown University and is a CFA charter holder. Born 1974

### **Trading and Operations Associate –**

**CASEY B. WEST** – Casey joined Stewart and Patten in 2011. Previously, he was an Analyst in the Strategic Value Advisory Group with Duff and Phelps, and has also worked in the biotechnology industry and as an educator. Casey is an affiliate member of the CFA Society of San Francisco and the CFA Institute. He has successfully passed all 3 levels of the CFA examination process. Casey completed his undergraduate degree at California State University, Sacramento in 2001 and a Master of Science in Finance (with High Honors) from Golden Gate University in 2010. Born 1978

## **Supervision**

Principals and employees of Stewart and Patten are supervised by the committee of principals / owners of the Firm. No major business or investment decision is ever acted upon individually by principals and employees. Review and changes to client portfolios are always done with at least 2 principals present.

## **Professional Designations**

\* The Chartered Financial Analyst (“CFA”) designation requires the holder to pass three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and have 48 months of qualified, professional work experience. CFA charter holders are also obligated to adhere to a strict code of ethics and standards governing professional conduct.

\*\* The Certified Financial Planner (“CFP”) designation requires the holder to meet education, examination, experience and ethics requirements, and pay an ongoing certification fee. A bachelor's degree (or higher), or its equivalent in any discipline, from an accredited college or university is required. Students are required to complete course training in nine core financial topic areas, sit for a 10 hour CFP Board Certification Examination, acquire three years full-time or equivalent (2,000 hours per year) part-time

work experience in the financial planning field and undergo an extensive background check—including an ethics, character and criminal check. CFP® professionals must complete 30 hours of continuing education (CE) accepted by CFP Board (including completion of 2 hours of CFP Board approved Ethics CE).

\*\*\* A Certified Public Accountant (“CPA”) is licensed and regulated by the applicable state board of accountancy. While state laws and regulations vary, the education, experience and testing requirements for licensure as a CPA generally include minimum college education (typically 150 credit hours with at least a baccalaureate degree and a concentration in accounting), minimum experience levels (most states require at least one year of experience providing services that involve the use of accounting, attest, compilation, management advisory, financial advisory, tax or consulting skills, all of which must be achieved under the supervision of or verification by a CPA), and successful passage of the Uniform CPA Examination. In order to maintain a CPA license, states generally require the completion of 40 hours of continuing professional education (CPE) each year (or 80 hours over a two year period or 120 hours over a three year period). Additionally, all American Institute of Certified Public Accountants (AICPA) members are required to follow a rigorous *Code of Professional Conduct* which requires that they act with integrity, objectivity, due care, competence, fully disclose any conflicts of interest (and obtain client consent if a conflict exists), maintain client confidentiality, disclose to the client any commission or referral fees, and serve the public interest when providing financial services.