

Item 1 – Cover Page

**Firm Brochure**

**(Part 2A of Form ADV)**

**Lee, Danner & Bass, Inc.**

**3100 West End Ave., Ste. 1250**

**Nashville, TN 37203-1370]**

**(615) 244-7775**

**[www.leedannerbass.com](http://www.leedannerbass.com)**

**March 11, 2014**

This Brochure provides information about the qualifications and business practices of Lee, Danner & Bass, Inc. (“LDB”). If you have any questions about the contents of this Brochure, please contact us at (615) 244-7775. 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.

LDB is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## **Item 2 – Material Changes**

This is an update of Form ADV (Part 2A) for Lee, Danner & Bass, Inc. Our last update was filed with the SEC on March 12, 2013. The material change from the March 12, 2013 filing of Lee, Danner & Bass, Inc.'s Form ADV relates to the following:

We are updating the amount of discretionary client assets we manage.

Currently, our Brochure may be requested free of charge by contacting Mark Smith, Chief Compliance Officer at (615) 244-7775 or [mark@leedannerbass.com](mailto:mark@leedannerbass.com). Additional information about LDB is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with LDB who are registered, or are required to be registered, as investment adviser representatives of LDB.

### **Item 3 -Table of Contents**

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents.....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	2
Item 7 – Types of Clients .....	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	3
Item 9 – Disciplinary Information.....	8
Item 10 – Other Financial Industry Activities and Affiliations.....	8
Item 11 – Code of Ethics.....	8
Item 12 – Brokerage Practices.....	10
Item 13 – Review of Accounts .....	13
Item 14 – Client Referrals and Other Compensation .....	13
Item 15 – Custody .....	16
Item 16 – Investment Discretion .....	17
Item 17 – Voting Client Securities .....	17
Item 18 – Financial Information.....	18
Brochure Supplement(s)	

#### **Item 4 – Advisory Business**

A. Lee, Danner & Bass, Inc. was founded in 1988 as an independent investment counseling firm dedicated to providing its Clients with an investment management service of superior quality. We are registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Our firm is owned in its entirety by its principals and officers and is not affiliated in any way with any other company. The principal owners are:

1. Frank Bass II
2. Ernest Williams III
3. Lawson C. Allen
4. Mark B. Smith
5. Frank M. Bass III

As an independent entity, we are able to devote all of our resources to serving our Clients.

- B. We provide investment management services of financial assets, to include stocks, bonds, mutual funds, and cash equivalent money market instruments.
- C. The Client is the focal point around which the entire investment management process evolves. The process begins with a clear definition of the Client's individual needs, objectives and constraints, if any. Factors will include income and liquidity requirements, expectations of capital enhancement, time horizon and tolerance for risk. A program is then designed to achieve these objectives. As time passes, conditions change and a Client's needs and objectives may change. By maintaining a close working relationship with each Client, we are able to reflect such change in the Client's investment portfolio in a timely and responsive manner.
- D. From time to time LDB participates in wrap fee programs by providing portfolio management services. The Client's agreement with the wrap program sponsor generally requires transactions to be executed through the program sponsor's broker/qualified custodian and best execution policies of the broker/qualified custodian are utilized. Of the wrap fee charged to Client accounts, LDB receives a portion of this fee consistent with our regular fee schedule.
- E. LDB manages approximately \$1.124 billion in discretionary investment assets on December 31, 2013 and \$0 in non-discretionary investment assets.

## **Item 5 – Fees and Compensation**

- A. LDB will manage Clients' portfolios on a discretionary basis. For this service an annual fee will be charged that is determined by applying a percentage to the market value of assets under management in accordance with the schedule of fees below.

### **Schedule of Fees**

An annual fee will be charged based upon the market value of the assets under management in accordance with the following schedule:

	<u>Annual</u>	<u>Quarterly</u>
On first \$2,000,000	.75%*	.1875%*
On next \$3,000,000	.60%	.15%
On excess over \$5,000,000	.50%	.075%

\*The minimum annual fee shall be \$6,000 and the minimum quarterly fee shall be \$1,500

- B. The fee will be billed quarterly in arrears (with the minimum quarterly fee being \$1,500) and will be based upon market value of the portfolio as of the end of the Client's most recent fiscal quarter. Clients may elect to have fees deducted from their assets or be billed directly to their address of record. Fees are negotiable for accounts which are fixed income only and firm minimums apply. There will be a proration of the fee if the Client or LDB cancels the advisory contract during a quarter. The investment management contract may be terminated by either party on ten days written notice. The contract does not provide for any termination fees or penalties upon cancellation.
- C. Clients may pay other types of fees or expenses in connection with LDB investment management, such as custodial fees or mutual fund expenses. (See Item 12 – Brokerage Practices)
- D. LDB does not require Clients to pay fees in advance.
- E. LDB does not permit any supervised persons to accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds,

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

LDB does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation) of the assets of a Client.

## **Item 7 – Types of Clients**

LDB provides portfolio management services to high net worth individuals, banks or thrift institutions, investment companies, corporate pension and profit-sharing plans, trusts, estates, charitable institutions, foundations, endowments and corporations. While there are no account relationship minimums of account size, the annual fee minimum applies.

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

### **A. Investment Strategies**

Our goal as an investment manager is to preserve and enhance our Clients' capital. We seek to achieve the highest possible investment return for our Clients, consistent with their individual objectives and constraints.

Preservation of capital and purchasing power is an integral part of capital enhancement. Investing in securities involves risk of loss that Clients should be prepared to bear. LDB invests in stocks, bonds, mutual funds, and cash equivalent money market instruments. The diminution or loss of capital, albeit only temporary, can impair long-term investment results. We are long-term investors, not short-term traders. LDB does not generally seek short term trading gains, sell short, or purchase securities on margin which involves frequent trading and can affect investment performance. Option strategies are limited generally to the sale of call options or the purchase of put options against underlying equity positions in order to limit risk and stabilize returns. Although LDB does not employ margin (borrowed funds) as an investment strategy, some accounts may be on margin for short periods of time when purchases are made prior to corresponding sales and/or to allow for Client withdrawals and check writing. LDB will normally sell securities to remove any debt balance that it becomes aware of, unless it expects the Client to make a cash contribution in the immediate future or the Client has given explicit direction to leave the account in a debit position. In recent years there has been an increased emphasis placed by some on short-term performance. Unfortunately, this has caused managers to pursue a more trading-oriented approach that, in the final analysis, impedes long-term objectives that we believe can best be achieved by long-term investment strategies.

We employ a highly disciplined methodology in the management of our Clients' assets. It consists of a series of integrated activities, carried out on a continuous and systematic basis, that are designed to achieve the investment objectives of each Client:

1. The Client's objectives are defined and an applicable program is developed.
2. The investment environment is thoroughly analyzed, and the optimal combination of financial assets is determined.
3. Individual securities are selected.
4. Individual holdings, market conditions and Client objectives are continuously monitored and portfolio adjustments are made on a timely basis.

The Client is the focal point around which the entire investment management process evolves. The process begins with a clear definition of the Client's individual needs, objectives and constraints, if any. Factors will include income and liquidity requirements, expectations of capital enhancement, time horizon and tolerance for risk. A program is then designed to achieve these objectives.

As time passes, conditions change and a Client's needs and objectives may change. By maintaining a close working relationship with each Client, we are able to reflect such change in the Client's investment portfolio in a timely and responsive manner.

### **Asset Allocation**

The ultimate objective of the investment process is to earn the highest possible rate of return through the assumption of an acceptable level of risk. Investment return is identifiable and quantifiable. Risk is much more elusive. Certain types of risk, such as the risk inherent in a particular security or group of securities, can be completely avoided. One type of risk, the risk associated with the overall market, cannot be avoided and must be managed. In actuality, the primary objective of investment management is the management of market risk.

Market risk can be substantially enhanced or reduced by the manner in which capital is deployed into three basic classes of financial assets -- stocks, bonds and cash equivalents. For this reason, the asset allocation decision has a very significant impact on overall investment performance.

Our asset allocation decisions are based upon capital market and individual asset expectations. For each of the three major asset classifications, we develop an expected rate of return for the coming twelve and twenty-four month periods. Based on these expectations and attendant to the inherent market risks, we develop the optimal asset mix.

Our capital market expectations are based upon a thorough analysis of the fundamental forces that exert the strongest influence on the financial markets. Of principal importance in this regard is the economy. Utilizing both internal and external research, we develop an economic forecast for the coming twelve and twenty-four month periods. In the development of this forecast, we pay particular attention to fiscal and monetary policies pursued in this country. Further, because our economy is so increasingly dependent upon foreign economic conditions, our research takes on a global perspective. We are vitally interested in the economic outlook for the major industrial countries abroad, their inflationary expectations and interest rates. In addition, we also analyze political and social conditions, both in this country and abroad, to ascertain what impact, if any, they might have on the overall level of economic activity.

In recognition of the fact that there is a margin of error in any economic forecast, we develop alternative projections and assign probabilities to each. Utilizing these forecasts as a foundation, we then generate projections for growth in earnings, dividends and interest rates. These projections are the basis upon which we compute the estimated rates of return for each of the three major asset classifications. Our conclusions with respect to the economy, as well as our

expectations for interest rates, earnings and dividends, are under continuous review and are appropriately changed on a timely basis as warranted.

## **B. Methods of Analysis**

### **Equity Investments**

Our equity investment process incorporates a complementary blend of the top-down and bottom-up approaches to investment management. It begins with a thorough analysis of the overall investment environment and the forces that will most likely shape the future. It culminates in the selection of those individual equity securities that will best serve to achieve Clients' goals.

Earnings, dividends, cash flows and interest rates, the primary determinants of equity values and prices, are the direct result of the level of economic activity and the political and social environment in which it is conducted. For this reason, our equity investment process begins with a thorough analysis of the economy. At the outset, our primary interest lies in discerning the basic underlying trends of the economy, the strength of these trends and their expected duration. We then analyze the various sectors of the economy with the objective of ascertaining the relative performance of each component of the economy during the period ahead. This exercise enables us to identify those asset classes, industries and companies that are most likely to achieve superior earnings growth in the future.

The top-down approach described above provides a very efficient methodology for screening industries and companies. However, it is not perfect, nor is it all-inclusive. For example, there are many innovative companies creating new markets for their goods and services whose future success is not dependent on the overall economy. For this reason, we supplement our top-down analysis with bottom-up analysis. In this process, we identify individual companies that, because of their unique characteristics and strong management teams, are likely to achieve superior earnings growth regardless of economic conditions. We then analyze them in the context of their respective industries to ascertain what external influences, if any, might alter their future prospects. In utilizing both the top-down and bottom-up approaches, we are able to conduct a more comprehensive and effective stock selection process.

In selecting individual equity issues for investment, we emphasize a proper balance between growth and value. Quite simply, we search for companies whose earnings per share are most likely to grow at an above average rate and that can be purchased at a price that represents an attractive investment value. Such companies must possess certain qualitative characteristics. First and foremost, they must be engaged in good businesses; that is, in the context of the economic, political and social forces at work, the business must afford the opportunity for above average growth. They are usually the low-cost producer and are increasing market share in their respective industries. We favor companies that possess marketing and/or technological superiority over their competition. Ideally, we look for companies that, for one reason or another, occupy somewhat of a franchise position. Such companies will usually command a leadership position in their respective industries or business.

In addition to the qualitative considerations described above, selected companies must also meet certain quantitative tests. They must have an excellent balance sheet, with debt making up a



manageable percentage of total capital. They must have a demonstrated ability to achieve and maintain high industry profit margins and above average returns on equity and total capital. The companies must have a relatively high reinvestment rate and be able to finance future growth largely from internally generated capital, and cash flows.

In the selection process, we utilize smaller capitalization companies as well as those with large capitalizations. We will use cyclical as well as non-cyclical issues. We also utilize Exchange Traded Funds (ETFs) or mutual funds for some Clients as a tax efficient and cost efficient means of gaining direct exposure to international investments, industry sectors, or general market exposure. In all cases, the common thread of their utilization is the expectation of future earnings, growth and appreciation. These securities charge management fees to the funds which are reflected in the net asset value of the fund.

Valuation is extremely important in our decision making process, as we want to ensure that the purchase price represents excellent investment value. We utilize several methods for appraising valuation, as no single methodology is perfect all of the time. In most instances, valuation is a relative matter. For example, we compare a company's prospective earnings growth rate and price/earnings ratio to that of other companies in the same industry and to the overall market. We further examine a company's relative price/earnings ratio to its five year average relative price/earnings ratio. We make similar comparisons with respect to price-to-book value and price-to-cash flow. In addition, we also use dividend discount models.

Our buy/sell decisions are driven primarily by fundamental considerations and general market conditions. However, we also employ technical analysis as an additional tool. Oftentimes, the behavioral pattern of a single stock or group of stocks will foretell a change in fundamentals. When a technical change occurs, we immediately launch an extensive review of the fundamentals so that we are able to react on a timely basis.

All equity portfolios are managed in a consistent, highly disciplined manner and correlate very closely with our current investment strategy. Of course, Client objectives, constraints and levels of risk tolerance are always of paramount importance, and each portfolio will reflect these individual considerations.

### **Fixed Income and Cash Equivalent Investments**

Consistent with Client objectives and constraints, we actively manage fixed income securities to enhance investment return and preserve principal values. The fixed income securities market has undergone some rather dramatic changes through the years. The Federal Open Market Committee has become more proactive and transparent in dictating monetary policy. Inflationary expectations and market psychology also change rapidly, resulting in increased volatility. Changes in actual or perceived credit quality, resulting from economic conditions, increased financial leverage or corporate takeover activity, have a marked impact on the value of fixed income securities. Because of these and other factors, prudence dictates the active management of fixed income investments.

We believe that proper positioning along the yield curve, as a result of interest rate forecasting and yield curve analysis, is one of the most important principles in fixed income investment management. Thorough credit analysis is a close second. History has well documented the interrelationship between the business cycle and the cyclical movement in interest rates. For this reason, our fixed income investment process begins with a comprehensive analysis of the economy. In this regard, we analyze domestic fiscal and monetary policy, as well as economic and political conditions abroad. Our objective is to discern, as accurately as possible, the current position and underlying trend of the business cycle, the strength of that trend and its expected duration. This enables us to ascertain the current position of the interest rate cycle and the future course of rates. We also examine the projected demand for funds in the public and private sectors to determine the influence it will have on the future course of rates.

Inflationary expectations have a significant influence on interest rates. As a corollary to our economic analysis, we continually monitor consumer and producer prices in this country as well as the prices of sensitive materials. Further, because our markets are global in nature, we analyze inflationary trends abroad and the currency markets. Thorough analysis of all of these conditions, to include the economic and interest rate cycle, the demand for funds, inflationary expectations and the currency markets, enables us to select the appropriate maturity structure and duration so as to properly position the portfolio along the yield curve.

In selecting individual fixed income securities for investment, primary emphasis is placed on quality. The timely payment of principal and interest when due is accorded the very highest priority. Further, because any deterioration in credit quality will have an adverse impact on market value, we avoid issues when such risk exists and seek out those where there is an opportunity for credit quality enhancement. In addition to credit quality, other characteristics emphasized are liquidity, yield, diversification and call protection.

We utilize bonds whose interest is fully taxable to meet the needs of our tax-exempt Clients such as endowment funds, foundations and employee benefit funds. United States Treasuries, debentures backed by a government agency, corporate bonds and preferred stocks are examples of fixed income instruments most commonly used for our Clients. In the case of corporate bonds, we analyze each issue paying particular attention to capital structure, tangible assets, stability of earnings and cash flow, return on total assets and debt service coverage. "Event risk" is a major consideration in today's environment, and we avoid those issues that are believed to be vulnerable to such an occurrence.

For corporate and individual Clients subject to relatively high income taxes, we use tax-exempt bonds issued by states and their political subdivisions. We favor general obligation bonds that are backed by the full faith and credit (and taxing power) of the issuer, but we use selected revenue bonds of a very high quality. We thoroughly analyze each issue with respect to its credit quality and particular characteristics. In the case of general obligation bonds, we pay particular attention to the economy of the issuer, its per capita net debt, its tax structure and its record of tax collections. With respect to revenue bonds, we analyze the purpose for which the bonds were issued, the source and stability of the revenue stream and the debt service coverage. Bond insurance and other credit enhancements are also evaluated when applicable. We also have the unique ability to customize tax-exempt securities in an account to specific state issuers, as such

actions can further shield municipal income from state taxes that can apply to issuers from states outside of an individual's or corporation's domicile.

Cash management is an integral part of our overall investment management process. Client funds that are not invested in bonds or stocks are temporarily invested in high quality short-term debt instruments. For this purpose, we will use instruments that provide a high current income, as well as safety and liquidity to ensure that cash is available when needed. Depending upon their relative attractiveness, from time to time we may use short duration floating-rate debt, United States Treasury bills, certificates of deposit, high grade corporate commercial paper and master notes, and money market mutual funds.

#### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of LDB or the integrity of LDB's management. LDB has no information applicable to this Item.

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

LDB has no information applicable to this Item.

#### **Item 11 – Code of Ethics**

To comply with the Investment Advisor Act Rule 204a-1 and the Investment Company Act Rule 17j-1 effective August 31, 2004, LDB adopted this Code of Ethics to be adhered to by all personnel. The Principals and Board of Directors of LDB support the ideals and standards set-forth on ethical conduct.

Failure to comply with the firm's Code of Ethics may result in disciplinary action including, but not limited to a warning, fines, suspension, demotion or termination of employment.

LDB takes seriously its duty to conduct business in a manner that places high value on ethics. The fiduciary obligation with which our Clients have entrusted us mandates it. Honesty, integrity, professionalism and trust are principles that we strongly uphold and upon which our reputation is based. The interests of our Clients at all times are placed first. Therefore, all supervised and access persons<sup>1</sup> must avoid violations of the Code of Ethics and any perceivable action that has the appearance of misconduct.

---

<sup>1</sup> **Access Person-** A supervised person, who has access to nonpublic information regarding Clients' purchase or sale of securities, is involved in making securities recommendations to Clients or who has access to such recommendations that are nonpublic. A supervised person who has access to non-public information regarding the portfolio holdings of affiliated mutual funds.

**Access Persons include: portfolio management personnel, directors, officers and partners**

Supervised persons are required to comply with all federal security laws and regulations. In complying with this requirement, supervised persons are not permitted to defraud Clients, mislead Clients, or partake in any manipulative practices and operations regarding any Client or Client's securities.

All supervised and access persons have a duty of care to protect material non-public information. Client securities holdings, as well as advisors securities recommendations should be safeguarded. In the event that a supervised person obtains material non-public information, all personal trading or trading on behalf of others is prohibited. The firm's Inside Information Policy & Procedures details guidelines on insider trading as well as penalties and sanctions that can be assessed for violations.

Personal securities trading and holdings must be reported to the firm's chief compliance officer. Once a person becomes an access person, a complete report of all securities holdings must be given to the chief compliance officer. All access persons are required annually to furnish the chief compliance officer a list of all reportable securities holdings of which the access person has, or acquires any direct or indirect beneficial ownership<sup>2</sup>. The exceptions of reportable securities that need not be disclosed are as follows:

- Transactions and holdings in direct obligations of the Government of the United States
- Money market instruments including bankers' acceptances, bank certificate of deposits, commercial paper, repurchase agreements and other high quality short term debt instruments
- Shares of money market funds
- Transactions and holdings in shares of other types of mutual funds, unless the adviser or a control affiliate acts as the investment adviser or principal underwriter for the fund
- Transactions in units of investment trust if the unit investment trust is invested exclusively in unaffiliated mutual funds

In addition to reporting annual holdings, all access persons are required to provide the chief compliance officer with quarterly reports of all personal securities transactions. This should be provided no later than thirty days after the close of the calendar quarter. All access persons must submit a personal trading form to the chief compliance officer for pre-approval before buying or selling securities. Duplicate copies of trade confirmations must be provided to the chief compliance officer within ten days. Also, all access persons must refrain from violating the blackout period which is considered the day approval is signed by the chief compliance officer, as it relates to Clients' securities transactions of the particular securities. Exceptions to the reporting requirement are transactions that are effected pursuant to an automatic investment plan

---

<sup>2</sup> **Beneficial Ownership**- Access person is presumed to be a beneficial owner of securities that are held by his or her immediate family members sharing the access person's household.

which include dividend reinvestment plans, and securities held in accounts over which the access person has no direct or indirect influence or control. Access persons must also obtain approval from the chief compliance officer before investing in an initial public offering (IPO) or private placement. The chief compliance officer will review reports for compliance. All reports submitted are kept confidential and maintained for a period of five years.

All supervised personnel should avoid conflicts of interest. Anything of material value that could influence the supervised person's decision-making or make them feel in any way obligated to a person or firm would be considered a conflict of interest. Gifts, including cash, exceeding \$100 in value may not be received from or given to a Client, prospective Client or entity doing business on our behalf without pre-approval from the chief compliance officer. Supervised persons should not accept entertainment considered extravagant. A business entertainment event, such as a dinner or sporting event of reasonable value is considered acceptable if the Client or entity we do business with is present. In keeping with avoiding conflicts of interests, it is important that investment advisor personnel remain independent and avoid misusing their position. Trades should be fairly made among Clients to avoid favoritism of one Client over another.

Each supervised person has a fiduciary duty to act in the Clients' best interest. It is our responsibility to assure that our Clients' interests always come first and that we operate in strict compliance with all federal securities laws. All violations are to be promptly reported to the chief compliance officer.

## **Item 12 – Brokerage Practices**

### **The Custodians and Brokers We Use**

LDB is independently owned and operated and is not affiliated with any custodian. LDB does not maintain custody of Clients' assets under management; although LDB may be deemed to have custody of a Client's assets if a Client gives LDB authority to withdraw assets from the Client's accounts (See Item 15 – Custody). A Client's assets must be maintained in an account at a "qualified custodian," generally a broker dealer or bank. While LDB may recommend multiple custodians, the Client will decide which custodian to use and will open the account with the custodian entering into an account agreement directly with them. LDB does not open accounts for Clients, although LDB may assist in doing so. Even though a Client's account is maintained at a custodian, LDB can still use other brokers to execute trades for the account (See "Custodian Costs").

### **Custodian Recommendation**

The Client will select, but LDB will make recommendations for custody of the Client's assets and execution of transactions. LDB considers a wide range of factors in the selection of recommended firms, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)

- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other Clients

### **Custodian Costs**

The selected custodian will charge a fee as a “prime broker” or “trade away” for each trade that is executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the Client’s custodial account. These fees are in addition to the commissions or other compensation the Client pays the executing broker-dealer for the transaction. Clients selecting a bank custodian to hold the Client’s assets will be charged a separate custodial fee, which the Client agrees to in a separate custodial agreement.

### **Custodians Services**

The following services may not directly benefit each LDB Client, but may benefit all LDB’s Clients in total.

- Provide access to Client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple Client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our Clients’ accounts
- Assist with back-office functions, recordkeeping, and Client reporting

The following services may benefit Clients of LDB only by enhancing the quality of LDB’s management of assets, up-to-date technology and business acumen:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

### **Brokerage Practices**

LDB does not consider it necessary, or advisable, to seek out the absolute lowest commissions in the markets, but it does attempt to negotiate a “fair” commission for its Clients on security trades that it initiates. It is LDB’s belief that there are factors other than simply the lowest commission rate which should be considered when placing a securities order, such as execution ability, ability

of the broker to settle promptly, and the financial integrity and responsiveness of the broker. In addition, although LDB itself does most of the primary research into various securities using corporate supplied information, regulatory information, and independent data sources, it also depends on ideas and opinions from brokers and dealers concerning companies, industries, and the economy. In recognition of the assistance provided by such brokers or dealers for their research services, LDB may direct or allocate a certain amount of commissions to them. Therefore, LDB may not pay the lowest possible commission rates on securities trades. Furthermore, commissions paid by one account may be in recognition of research services that benefit all of LDB's Clients rather than just the one for whom the order is executed. LDB will, however, always attempt to obtain on behalf of its Clients the most reasonable commission rates consistent with the research value added, execution ability, and other relevant characteristics of the brokers or dealers with whom it does business. It is the opinion of LDB that the above policy best will serve the mutual welfare of LDB and all of its Clients.

Because LDB's Clients use several different brokers and banks as custodians, care is taken in entering orders so that each Client is treated as fairly and equitably as possible. As a general rule, LDB will begin an initial program of accumulation or distribution of a security by entering an order, likely aggregated to include broker and bank accounts, with the broker/custodian that holds the largest part of LDB's managed Client assets and work down to the smallest custodian. Orders will not be entered with more than one broker at the same time for the same security to assure that LDB is not placing its Clients into competition with each other and to avoid creating the appearance of activity in the security. Orders will normally be entered as limit orders in order to avoid undue volatility and so that existing Clients receive the same approximate price regardless of their custodian. Because of different Client objectives and needs, LDB may, within a short time frame, sell a security for one Client and purchase the same security for another. Because LDB tends to take a long term and contrarian investment approach, buying on weakness and selling on strength, any investment program of accumulation or distribution may be expected to take a considerable amount of time, possibly years, and may be accomplished at significantly varying prices.

In the event a security is deemed suitable both for purchase or disposition by Client accounts and for the account of any person associated with LDB, LDB will observe a policy of effecting any appropriate purchase or disposition of such security for Client accounts prior to affecting such purchase or disposition on behalf of any person associated with the LDB.

Brokers will be selected on the basis of execution capability and the quality of their research as well as on the basis of commission rate. LDB utilizes research on brokerage firm websites with whom securities transactions are initiated for individual equities, industrial sectors, and fixed income securities. In appropriate circumstances, the applicant might pay a broker a commission in excess of that which another broker might have charged because of superior execution or research service. LDB's Clients will be informed that the benefit of research services may be generally applied in servicing all of LDB's accounts and not just those upon which commissions were paid for those services.

## **Directed Brokerage**

A Directed Client Account is required to transact purchases and sales of investment securities with a particular broker at a predetermined commission rate. LDB does not negotiate commissions for accounts with directed brokerage and these accounts might pay higher transaction costs.

## **Brokerage for Client Referrals**

LDB participates in the institutional advisor program (the “Program”) offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA (“TD Ameritrade”), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. LDB receives some benefits from TD Ameritrade through its participation in the Program. (Please see the disclosure under Item 14. below.)

LDB participates in Fidelity Wealth Advisor Solutions (“WAS”) offered by Fidelity Investments. Fidelity WAS is a division of Fidelity Investments, Inc., member FINRA/SIPC/NFA (“Fidelity Investments”), an unaffiliated SEC-registered broker-dealer and FINRA member. Fidelity Investments offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. LDB receives some benefits from Fidelity Investments through its participation in the WAS. (Please see the disclosure under Item 14. below.)

## **Item 13 – Review of Accounts**

Each Client’s portfolio will be reviewed daily by the portfolio manager to whom it is assigned. All accounts will be under the periodic review of the principals of the firm.

A complete report will be furnished quarterly, or monthly if so requested. This report will reflect in detail all securities owned as of the report date, their cost, their market value and the estimated annual dividend or interest income each is projected to produce. LDB believes that it is important to keep its Clients informed about its methodology, and telephone contact is supplemented by occasional written commentary on individual investments, economic and financial matters, or other items of interest, although there presently is no formal or regular schedule for such reports.

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

As disclosed under Item 12. above, LDB participates in TD Ameritrade’s institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between LDB’s participation in the program and the investment advice it gives to its Clients, although LDB receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits



include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving LDB participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to LDB by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by LDB's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit LDB but may not benefit its Client accounts. These products or services may assist LDB in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help LDB manage and further develop its business enterprise. The benefits received by LDB or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to Clients, LDB endeavors at all times to put the interests of its Clients first. Clients should be aware, however, that the receipt of economic benefits by LDB or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the LDB's choice of TD Ameritrade for custody and brokerage services.

LDB may receive Client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, LDB may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, Client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with LDB and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise LDB and has no responsibility for LDB's management of Client portfolios or LDB's other advice or services. LDB pays TD Ameritrade an on-going fee for each successful Client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the Client pays to LDB ("Solicitation Fee"). LDB will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by LDB from any of a referred Client's family members, including a spouse, child or any other immediate family member who resides with the referred Client and hired LDB on the recommendation of such referred Client. LDB will not charge Clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its Clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its Clients. For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form.

LDB's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer Clients through AdvisorDirect to investment advisors that encourage their Clients to custody their assets at TD Ameritrade and whose Client accounts are profitable to TD

Ameritrade. Consequently, in order to obtain Client referrals from TD Ameritrade, LDB may have an incentive to recommend to Clients that the assets under management by LDB be held in custody with TD Ameritrade and to place transactions for Client accounts with TD Ameritrade. In addition, LDB has agreed not to solicit Clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. LDB's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for Client accounts.

As disclosed under Item 12. above, LDB participates in Fidelity Investments institutional customer program and LDB may recommend Fidelity Investments to Clients for custody and brokerage services. There is no direct link between LDB's participation in the program and the investment advice it gives to its Clients, although LDB receives economic benefits through its participation in the program that are typically not available to Fidelity Investments retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving LDB participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to LDB by third party vendors. Fidelity Investments may also have paid for business consulting and professional services received by LDB's related persons. Some of the products and services made available by Fidelity Investments through the program may benefit LDB but may not benefit its Client accounts. These products or services may assist LDB in managing and administering Client accounts, including accounts not maintained at Fidelity Investments. Other services made available by Fidelity Investments are intended to help LDB manage and further develop its business enterprise. The benefits received by LDB or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to Fidelity Investments. As part of its fiduciary duties to Clients, LDB endeavors at all times to put the interests of its Clients first. Clients should be aware, however, that the receipt of economic benefits by LDB or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the LDB's choice of Fidelity Investments for custody and brokerage services.

LDB participates in the Fidelity Wealth Advisor Solutions Program (the "WAS Program"), through which LDB receives referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. LDB is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control LDB, and SAI has no responsibility or oversight for LDB's provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for LDB, and LDB pays referral fees to SAI for each referral received based on LDB's assets under management attributable to each client referred by SAI or members of each client's household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to

LDB does not constitute a recommendation or endorsement by SAI of LDB's particular investment management services or strategies. More specifically, LDB pays the following amounts to SAI for referrals: For a period of seven years from the date that a Client funds any client Account(s) with Advisor, Advisor shall pay SAI an amount equal to an annual percentage of 0.20% of any and all assets in such Client Accounts, with such amount to be billed and collected in arrears on a quarterly basis based on the average daily balance of assets held in such Accounts during the relevant quarter. These referral fees are paid by LDB and not the client. LDB's participation in the WAS Program raises potential conflicts of interest. SAI will most likely refer Clients through the WAS Program to investment advisors that encourage their Clients to custody their assets at Fidelity Investments and whose Client accounts are profitable to Fidelity Investments. Consequently, in order to obtain Client referrals from SAI, LDB may have an incentive to recommend to Clients that the assets under management by LDB be held in custody with Fidelity Investments and to place transactions for Client accounts with Fidelity Investments.

To receive referrals from the WAS Program, LDB must meet certain minimum participation criteria, but Advisor may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC ("FBS"). As a result of its participation in the WAS Program, LDB may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and Adviser may have a potential incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to LDB as part of the WAS Program. Under an agreement with SAI, LDB has agreed that Advisor will not charge clients more than the standard range of advisory fees disclosed in its Form ADV 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, LDB has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when LDB's fiduciary duties would so require; therefore, LDB may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However, participation in the WAS Program does not limit LDB's duty to select brokers on the basis of best execution.

#### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains Client's investment assets. The statements will be sent to the email or postal mailing address that the Client provided to the custodian. LDB urges the Client to carefully review such statements and compare such official custodial records to the account statements that LDB provides. LDB statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Under government regulations, LDB is deemed to have custody of a Client's assets if, for example, the Client authorizes LDB to instruct the custodian to deduct LDB's advisory fees directly from the Client's account. The custodian maintains actual custody of the Client's assets.

#### **Item 16 – Investment Discretion**

In all of its Client relationships LDB seeks discretionary authority relating to which securities are bought or sold, the total amount of securities bought or sold, brokers or dealers through whom securities are bought or sold, and the commission rates at which securities transactions are effected. LDB and the Client jointly sign an Investment Management Agreement which details the discretionary authority from the outset of the advisory relationship. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Client account. When selecting securities and determining amounts, LDB observes the investment policies, limitations and restrictions of the Client for which it advises. For registered investment companies, LDB's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made. Investment guidelines and restrictions must be provided to LDB in writing. Additionally, the Client selects a qualified custodian to establish accounts to hold their assets. This custodial agreement establishes a Limited Power of Attorney to authorize LDB to direct:

- buy/sell transactions
- payment of LDB management fees
- disbursement of cash to the Client
- corporate actions

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

The Securities and Exchange Commission ruling #206(4)-6 regarding proxy disclosure effective March 10, 2003, requires LDB to notify Clients of policies and procedures relating to proxy voting. Beginning January 1, 2010 Lee, Danner and Bass, Inc. will no longer vote proxies. LDB feels that it is in our Clients' best interest to be familiar with the securities LDB manages on their behalf, and this information flow should help accomplish this goal. With this change, Clients will now be in charge of voting proxies. Proxies will be sent directly to Clients instead of to LDB. Please note that LDB will inform Clients in writing regarding any contested or controversial voting items that might require special attention. Clients for whom we are privileged to manage assets specifically for ERISA accounts, Lee, Danner and Bass, Inc. follows the guidance provided by the U.S. Department of Labor Interpretive Bulletin CFR 2509.94-2 which states that, "The fiduciary act of managing plan assets that are shares of corporate stock includes the voting of proxies appurtenant to those shares of stock. As a result, the responsibility for voting proxies lies exclusively with the plan trustee."

**Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about LDB's financial condition. LDB has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of a bankruptcy proceeding.