



CapGroup Advisors

A FOCUS FINANCIAL PARTNER

Client Part 2A Brochure

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March 31, 2014

This Brochure provides information about the qualifications and business practices of CapGroup Advisors, LLC (“CapGroup”) relating to its Institutional and Private Client Advisory Services. If you have any questions about the contents of this Brochure, please contact us at (804)648-3500 or at [questions@thecapgroup.com](mailto:questions@thecapgroup.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

CapGroup Advisors, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. This brochure is provided to assist investors in a determination to hire or retain CapGroup.

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

## **Item 2 - Material Changes**

This Brochure Dated March 31, 2014:

We have no material changes to report in this current brochure.

Summary of Material Changes since the Last Annual Update March 31, 2013:

Pursuant to SEC rules, we are hereby providing a summary of the material changes that have been made to our Brochure since our last annual update. The last annual update was March 31, 2013.

Change 1. Item 4, Brochure dated November 14, 2013. John C. White is the Chief Compliance Officer, effective September 2013.

Change 2. Item 14, Brochure dated November 14, 2013. CapGroup clarified its policy related to client referrals.

### **Change to Item 4 – Advisory Business**

CapGroup's management team is comprised of six Managing Directors, including one who is also the Chief Compliance Officer, as identified on Schedule A of Form ADV. John C. White is Chief Compliance Officer, appointed as of September 2013, assuming this role from Tommy R. French.

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

CapGroup pays a percentage of the advisory fee we receive from a client account to certain Investment Adviser Representatives ("IARs") registered with CapGroup who make a referral of the client for investment management services. The IAR typically shares from 15% to 25% of fees for either a limited time period, or for as long as the client remains a client of CapGroup. The IAR is subject to CapGroup's compliance procedures and Code of Ethics. Clients introduced to CapGroup in this manner pay the same fees and receive the same services and priorities as all other CapGroup clients. The IAR discloses this arrangement with the client at the time of the introduction.

**Our entire current Brochure may be requested free of charge by contacting John C. White, Chief Compliance Officer at (804)565-9279 or at [jwhite@thecapgroup.com](mailto:jwhite@thecapgroup.com). Our Brochure is also available on our web site at [www.thecapgroup.com](http://www.thecapgroup.com).**

**Additional information about CapGroup Advisors, LLC is also available via the SEC's website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with CapGroup Advisors, LLC who are registered as investment adviser representatives of CapGroup Advisors, LLC.**

### Item 3 - Table of Contents

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

## **Item 4 - Advisory Business**

### **Investment Advisory Services**

CapGroup provides a suite of Investment Advisory Services specifically designed for individuals, families and associated privately owned businesses as well as investment advisory, fiduciary consulting and investment management consulting services to the fiduciary investors of institutions, including charitable foundations, endowments, associations, corporations and qualified retirement plans. CapGroup acknowledges that it is held to a fiduciary standard of care in the performance of these services.

Institutional clients employ CapGroup as an investment advisor/consultant to supervise the management of specific portfolios or investment accounts. CapGroup provides ongoing advice to a client regarding the investment of client funds based on the financial needs and funding requirements of the client.

CapGroup has been in business as an SEC registered investment adviser since September of 1983. CapGroup's management team is comprised of six Managing Directors, including John C. White who is also the Chief Compliance Officer, as identified on Schedule A of Form ADV.

CapGroup is owned by Focus Operating, LLC, which is wholly-owned by Focus Financial Partners, LLC. More than 25% of Focus Financial Partners, LLC is held by CP Falcon AIV, L.P., affiliated with Centerbridge Partners, L.P., a registered investment adviser. Further information regarding Centerbridge is set forth in its Form ADV filed with the Commission. As of December 31, 2013, CapGroup managed total assets of \$303,175,095 on a discretionary basis and \$855,000,845 on a non-discretionary basis.

See **Item 8** below for a more detailed explanation of our investment management process. The client may impose restrictions on the securities or certain types of securities to be managed in the client's account(s).

### **Financial Planning Services**

The full execution of the Investment Advisory Process is normally preceded by an engagement for Financial Planning Services. These Financial Planning Services lead to the development of the client's plan which summarizes the client's financial resources, projects future income streams and net worth levels and establishes a written investment policy statement(s) and other protocols that guide future investing. This financial planning work may also include other related services, such as estate planning analysis, insurance/risk management reviews, investment tax planning and investment manager evaluations.

For its initial Private Client Financial Planning Services, CapGroup charges a flat dollar amount fee that varies according to the level and scope of the services required. This fee typically ranges from \$2,500 to \$10,000 and is described in a Financial Planning Agreement between the client and CapGroup. If the client terminates CapGroup's Financial Planning Services before the services are completed, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Beyond the initial financial planning engagement, the costs for reviewing and updating the client's strategic asset planning are normally included in CapGroup's annual retainer fee for Investment Advisory Services as described below. Otherwise, the client and CapGroup may agree in writing on another basis for compensating CapGroup for strategic asset planning updates.

### **Investment Consulting Services**

CapGroup offers to provide certain investment management consulting services on a project basis. Such services are offered to investors and independent RIAs and typically involve CapGroup performing one or more of the functions or sub-functions contained in CapGroup's Investment Advisory Process.

### **Fiduciary Consulting Services**

CapGroup offers to provide certain consulting services to fiduciary investors to assist such investors in establishing and maintaining an appropriate investment management governance structure and decision making process. These consulting services employ CapGroup's Investment Advisory Process in assisting the client in adopting an investment management governance process based on established fiduciary investor best practices. These services are consultative in nature and do not involve the discretionary or non-discretionary management of client assets.

### **Sub-Advisory Services**

CapGroup may act as a sub-adviser to other independent registered investment advisers ("RIAs") and their clients. As a sub-adviser, CapGroup is hired by the RIA to provide discretionary investment advisory services to the clients of the independent RIA through the engagement of CapGroup's Investment Advisory Process, as applicable, for each client. The independent RIA will work with the client to determine the range of investment advisory services required, to identify the assets that are appropriate for sub-advisory services, to interact with CapGroup as a servicing agent for the client and to monitor the investment advisory services provided by CapGroup.

### **Turnkey Asset Management Program ("TAMP") Services**

As a discretionary sub-adviser, CapGroup provides investment management services in its "Turkey Asset Management Program ("TAMP") Services program, where CapGroup assists RIAs who provide discretionary investment management to their clients. CapGroup also provides investment advisors with multiple-asset class model investment portfolios that investment advisors may use to manage investment accounts for their investment clients.

For certain independent RIAs, CapGroup may offer expanded TAMP support services that provide additional customization to the Standard TAMP Services based on the individual requirements of the independent RIA. In its Expanded TAMP Services, CapGroup provides supplementary support services for designing and implementing portfolio solutions which includes, but are not limited to:

1. Administrative assistance with qualified custodians to open and maintain investment advisor master accounts and to assist with investment advisor's client accounts, including supplying investment advisor with all custodial documentation required for

- clients of the investment advisor to open and maintain accounts.
2. Access to customized portfolio accounting and reporting services in conjunction with the services of Adhesion Wealth Advisor Solutions.
  3. Access to model Client Questionnaires and Investment Policy Statements Templates, with updates as appropriate.
  4. Samples of investment advisor's client agreement templates (which should be reviewed by local counsel prior to use).
  5. Assistance for the independent RIA with providing its clients with access to investment management products available to investment advisors but not generally available to the public.
  6. To the extent available, access to trading costs and fee structures with authorized broker-dealer/custodian(s) that take advantage of CapGroup's collective arrangements.
  7. Collecting and remitting net fees (gross fees minus fees due CapGroup from investment advisor) to investment advisor on a quarterly basis.

## **Item 5 – Fees and Compensation**

### **Private Client Advisory Services Fee Schedule:**

Investment Advisory Services are provided for an ongoing annual fee that is charged as a percentage of assets under management according to the following CUMULATIVE schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
On amounts up to \$500,000	1.25%
On amounts from \$500,000 to \$1,000,000	1.00%
On amounts from \$1,000,000 to \$2,000,000	.75%
On amounts from \$2,000,000 to \$5,000,000	.50%
On amounts from \$5,000,000 to \$10,000,000	.40%
On amounts from \$10,000,000 to \$20,000,000	.30%
On amounts above \$20,000,000	.20%

The fees are billed quarterly, in arrears, at the beginning of each quarterly cycle based upon the value (market value or fair market value in the absence of market value) of the client's account at the end of the previous quarter. CapGroup generally requires a minimum annual fee of \$10,000. Exceptions to the minimum fee and fee schedule may be separately negotiated on a case by case basis. CapGroup may agree to provide supplemental financial planning and investment advisory services on a retainer fee basis that is acceptable to the client. These services may include reporting and recommendations on investment accounts held outside of CapGroup's direct supervision.

## **Institutional Client Advisory Services Fee Schedule:**

Investment Advisory Services are provided for an ongoing annual fee that is charged as a percentage of assets under management according to the following CUMULATIVE schedule:

<u>Assets Under Management</u>	<u>Annual Fee</u>
On amounts up to \$5,000,000	.65%
On amounts from \$5,000,000 to \$10,000,000	.25%
On amounts from \$10,000,000 to \$25,000,000	.15%
On amounts from \$25,000,000 to \$50,000,000	.10%
On amounts from \$50,000,000 to \$100,000,000	.05%
Fees for amounts above \$100,000,000 are negotiated.	

The fees are billed quarterly, in arrears, at the beginning of each quarterly cycle based upon the value (market value or fair market value in the absence of market value) of the client's account at the end of the previous quarter. CapGroup does not have a minimum account size requirement, but generally requires a minimum annual fee of \$15,000 for each client relationship. CapGroup may agree to exceptions to the standard fee schedule, including minimum annual fees, to be negotiated on a case by case basis at CapGroup's discretion.

## **Services for Qualified Purchasers:**

Institutional clients with accounts of \$25,000,000 or more are deemed to be sophisticated investors ("qualified purchasers") under securities law and may require a set of services that are tailored to the specifications of the client and that fall outside of the scope of investment supervisory services CapGroup normally provides. Therefore, the fees and scope of services for these clients may be negotiated on a separate basis. A client agreement for such services may be terminated at any time, by either party, for any reason upon receipt of 30 days prior written notice. Upon termination of any engagement, any unearned fees will be promptly refunded. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

## **General Information on Fees and Services**

The specific manner in which fees are charged by CapGroup is established in the client's written agreement with CapGroup. Investment advisory fees are generally billed on a quarterly basis in arrears, and clients normally authorize CapGroup in the Investment Management Agreement to directly debit fees from client accounts. Alternatively, clients may elect to be billed directly for CapGroup's fees. Investment advisory fees are not prorated for each capital contribution or for withdrawals made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

CapGroup fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties, such as fees charged by investment managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Mutual funds and exchange traded funds also charge internal management fees and operating costs, which are disclosed in a fund's prospectus or other disclosure document as required by securities regulations. Such charges, fees and commissions are exclusive of and in addition to CapGroup's fee, and CapGroup will not receive any portion of these commissions, fees, and costs. Item 12 below further describes the factors that CapGroup considers in selecting or recommending broker/dealers for client transactions and for determining the reasonableness of their compensation (e.g., commissions).

### **Termination of an Investment Advisory Relationship**

A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days prior written notice. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

### **Investment Consulting Services**

Fees for Investment Consulting Services for Institutional clients are charged based upon the level of engagement required by the client and are determined in advance by mutual agreement between the client and CapGroup.

### **Fiduciary Consulting Services**

Fees for Fiduciary Consulting Services for Institutional clients are charged on either a project or retainer basis and are based upon the level of services required by the client. Such fees are determined in advance by mutual agreement between the client and CapGroup.

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

CapGroup 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) and does not engage in side-by-side investment management practices.

## **Item 7 – Types of Clients**

CapGroup provides investment advisory services for a variety of institutional clients including charitable organizations, endowments, associations, and corporate pension and profit-sharing plans as well as individuals, families, associated privately owned businesses and fiduciary accounts, such as trusts and estates. While there is no minimum account size requirement, CapGroup generally requires a minimum annual fee of \$10,000 for its Private Client Services and \$15,000 for its Institutional Advisory Services. Fees are further discussed in Item 5, above.

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

The CapGroup investment philosophy is based on the fundamental premise that success in managing investments is predicated on effective risk management. Investment risk is manifested in many different forms, but to most investors risk is understood as a *severe and permanent loss*



*of capital*, one that would be large enough to compromise the achievement of the investor's outcome goals. CapGroup seeks to build client investment strategies that avoid such losses and develop long term returns that satisfy the investor's outcome goals.

## **CapGroup Investment Process**

CapGroup primarily invests for relatively extended time horizons, usually for periods exceeding five years, by employing globally diversified investment strategies implemented with multiple specialist investment managers. Client investment strategies are tailored to client outcome goals.

## **Delivery of CapGroup Investment Advisory Services**

CapGroup's investment advisory services are delivered to the client by one or more of CapGroup's Client Advisors ("Advisors"). Part 2B of this Brochure provides summaries of individual Advisor qualifications. These advisory services are supported by the work of CapGroup's Investment Committee, which is responsible for the development of asset allocation strategies and the selection of investment managers. The Investment Committee's members include Timothy Jester, Chief Investment Strategist and Committee Chairman, W. Richard Smith, III, firm Chairman Emeritus, Clay T. Eubank, Jr., Managing Director, Lisa C. Longest, Senior Analyst, John C. White, Chief Operating Officer and Chief Compliance Officer, and Nicholas P. Zizzo, Managing Director. The Investment Committee meets formally on a regular basis to discuss existing and prospective investments.

The asset allocation and manager selection decision making responsibilities of the Investment Committee are supported by CapGroup's Research Team, which is a unit comprised of a team of investment analysts who perform asset allocation studies and provide in-depth analyses on investment management products ("Managers"), including separate/private accounts, mutual funds, ETFs and partnerships.

## **Open Source Research Platform**

In performing the investment research described above, CapGroup maintains an open source research platform. Recognizing that no single research resource can cover the entire investment management spectrum, CapGroup employs the services of over a dozen providers with various research services in the following primary areas:

- Ongoing capital markets and economic research;
- Periodically updated capital markets projections relating to forward estimates of returns, risks and correlations for a wide range of traditional and non-traditional asset classes;
- Asset allocation modeling and simulation software;
- Investment management product research and due diligence on mutual funds, separate account managers and hedge funds-of-funds;
- Access to select investment management products on a preferred basis;
- Negotiated institutional custody services with multiple custodians;
- Performance measurement analytics and reports; and
- Access to a range of fully integrated investment management systems.

Different types of investments involve varying degrees of risk, and no client should assume that future performance of any specific investment strategy (including those designed and implemented by CapGroup) will be profitable or achieve any specific performance levels. All investments

represent some level of risk, and an investor should understand that losses of investment capital can and do occur.

## **Item 9 – Disciplinary Information**

CapGroup has not been the subject of any disciplinary actions.

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

None of the adviser representatives of CapGroup that provide services to institutional clients have licenses, registrations or affiliations with other financial services industry entities, including brokerage firms, banks or insurance companies.

CapGroup is part of the Focus Financial Partners, LLC (“Focus”) network. As such, CapGroup is a wholly-owned subsidiary of Focus Operating, LLC, which is a wholly-owned subsidiary of Focus. Focus also owns other registered investment advisers, broker-dealers, pension consultants, insurance firms, and other financial service firms (the “Focus Partners”). The Focus Partners provide wealth management, benefit and investment consulting services, serving individuals, families, employers, and institutions. Some Focus Partners also manage or advise limited partnerships, private funds or limited liability companies as disclosed on their respective Form ADV Schedule Ds.

CapGroup has a business relationship with a Focus affiliate, The Colony Group, whereby CapGroup provides investment sub-advisory services to institutional clients of Colony. CapGroup provides these services through a sub-advisory agreement as described in *Item 4 – Sub-Advisory Services* on page 5 of this Brochure. There are no requirements for the Focus Member firm to use CapGroup’s services in lieu of its own services for these institutional clients, as the use of CapGroup’s sub-advisory services is entirely at the discretion of the Focus Member firm and is based entirely on the Focus Member firm’s judgment regarding the most effective and appropriate service for the subject client. CapGroup provides the same level of service and the same impartial advice to all clients’ accounts and does not give differential treatment or preference to clients of firms affiliated with Focus Financial Partners.

A list of the related person investment advisers and broker dealers can be found on CapGroup’s Form ADV Part 1 Schedule D, and additional information about Focus can be found at [www.focusfinancialpartners.com](http://www.focusfinancialpartners.com).

CapGroup’s management does not feel that the Focus relationships pose a material conflict to clients. The Focus Partner firms do not share client information amongst each other without prior client consent. The Principals of the other Focus Partner Firms are not involved in the management of CapGroup.

CapGroup has entered into agreements with Adhesion Wealth Advisor Solutions (“Adhesion”), a registered investment adviser located in Charlotte, NC, to design and support a series of model investment portfolio for use by a nationwide network of independent registered investment advisers in providing investment management services for their clients. CapGroup receives a fee from Adhesion for its model management services and other advisor support services.

## **Item 11 – Code of Ethics**

CapGroup has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. CapGroup's Code of Ethics describes the firm's fiduciary duties and responsibilities to clients, and sets forth CapGroup's practice of monitoring the personal securities transactions of supervised persons with access ("Access Persons") to client information. Individuals associated with CapGroup may buy or sell securities for their personal accounts identical to or different than those recommended to clients. It is the expressed policy of CapGroup that no person employed by CapGroup shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients. To supervise compliance with its Code of Ethics, CapGroup requires that all Access Persons provide duplicate brokerage statements and to report quarterly all personal securities transactions to the firm's Chief Compliance Officer, John C. White.

CapGroup requires that all individuals must act in accordance with all applicable Federal and State regulations governing the practices of registered investment advisers. CapGroup's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. Any individual not in observance of the above may be subject to disciplinary measures.

CapGroup will provide a complete copy of its Code of Ethics to any client or prospective client upon request to the Chief Compliance Officer, John C. White, at CapGroup's principal address.

## **Item 12 – Brokerage Practices**

CapGroup does not have the discretionary authority to determine the broker/dealer to be used or commission rates to be paid, so clients must direct CapGroup as to the broker/dealer they wish to use. In directing the use of a particular broker or dealer, it should be understood that CapGroup will not have authority to negotiate commissions among various brokers or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to other clients.

### **Recommended Brokerage Services**

In providing its advisory services, CapGroup has negotiated a suite of services and pricing for its clients with two firms ("Recommended Custodians") that hold client funds, effect trades, collect investment income and report holdings monthly. In selecting the Recommended Custodians, CapGroup endeavors to act in its client's best interests and seeks to leverage its clients' assets in the aggregate to obtain benefits for all CapGroup clients. Broker/dealers and licensed trust companies that provide services to the clients of independent registered investment advisers, such as CapGroup, typically provide the advisers with ancillary services intended to assist the adviser in managing and further developing its investment operations platform.

Charles Schwab & Co. CapGroup may recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc., a registered broker/dealer, Member SIPC/NYSE. Schwab Advisor Services provides CapGroup with access to its institutional trading and operations services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisers at no charge to them, so long as a total of at least \$10 million of the adviser's clients' account assets are maintained at Schwab Advisor Services.

Schwab Advisor Services' support includes research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab Advisor Services also makes available to CapGroup other products and services that benefit CapGroup but may not benefit its clients' accounts directly. Some of these other products and services assist CapGroup in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of CapGroup's fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting. Some of these services generally may be used to service a substantial number of CapGroup's accounts, including accounts not maintained at Schwab Advisor Services.

Schwab Advisor Services may also provide CapGroup with other services intended to help CapGroup to manage and further develop its business enterprise. These services may include consulting, publications and presentations on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab Advisor Services may make available, arrange and/or pay for these types of services to CapGroup by independent third parties. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to CapGroup.

SEI Investments. CapGroup may recommend that clients establish custody accounts with SEI Investments and SEI Private Trust Company ("SEI"), a licensed trust company, to maintain custody of clients' assets and to effect trades for their accounts. SEI provides CapGroup with access to its adviser trading and operations services, which are generally not available to retail investors. SEI's services include research, custody, trading and access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment.

SEI also makes available to CapGroup other products and services that benefit CapGroup but may not benefit its clients' accounts directly. Some of these other products and services assist CapGroup in managing and administering clients' accounts. These include software and other technology that provide access to client account data, provide research, pricing information and other market data, facilitate payment of CapGroup's fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting. Some of these services generally may be used to service a substantial number of CapGroup's accounts, including accounts not maintained at SEI.

For Qualified Purchasers, as described in Item 5 above, and certain other clients, CapGroup may provide investment management consulting services for clients who select national banks as custodians and hire separate account managers that trade securities with broker/dealers of their own choosing. In these cases, the clients may elect not to use the brokerage and custody services that CapGroup has arranged with Charles Schwab & Co. or SEI Investments.

### **Item 13 – Review of Accounts**

For those clients for whom CapGroup provides investment advisory services, account reviews are

conducted regularly. Each client's CapGroup Advisor reviews client account holdings monthly and performance is reviewed quarterly. Quarterly reviews include evaluation of the client's asset allocation targets and IPS conformance. All clients (in person or via telephone) are encouraged to review with their CapGroup Advisor financial planning issues (to the extent applicable), investment objectives, account performance, and any personal or financial changes on at least an annual basis.

In addition, CapGroup may conduct account reviews upon the occurrence of a triggering event, such as a change in investment objectives and/or financial situation, market corrections, manager or portfolio structure changes, and client requests.

The account custodian provides detailed account statements to clients on at least a quarterly basis, and CapGroup may provide interim reports as requested by the client. The custodian statements include all transactions for the period including details of advisory fees charged by CapGroup, where applicable. CapGroup also provides a quarterly performance report to each client, which contains summary information on account holdings including current asset allocation percentages and current and historical performance data. Clients are encouraged to compare the quarterly performance reports from CapGroup with the account statements received from the custodian. Should there be any material discrepancy in asset valuations; the custodian's report should be relied upon.

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

CapGroup pays a percentage of the advisory fee we receive from a client account to certain Investment Adviser Representatives ("IARs") registered with Capgroup who make a referral of the client for investment management services. The IAR typically shares from 15% to 25% of fees for either a limited time period, or for as long as the client remains a client of CapGroup. The IAR is subject to CapGroup's compliance procedures and Code of Ethics. Clients introduced to CapGroup in this manner pay the same fees and receive the same services and priorities as all other CapGroup clients. The IAR discloses this arrangement with the client at the time of the introduction.

#### **Item 15 – Custody**

Clients' cash or securities are held with an independent qualified custodian (see Item 12 above). Clients will receive at least quarterly statements from the broker/dealer, bank or other qualified custodian (Charles Schwab, SEI, etc.) that holds and maintains client investment assets. CapGroup is authorized by clients to directly debit client accounts for its advisory fees, pursuant to the Investment Management Agreement.

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

CapGroup usually receives authority from the client at the outset of an advisory relationship to select the identity and amount of client investment funds to be allocated to individual investment managers/funds, or other securities to be bought or sold, without prior consent ("discretionary authority"). When selecting Managers and/or securities and determining amounts, CapGroup observes the client's investment policies, limitations and restrictions, as set forth in the written Investment Advisory Agreement between the client and CapGroup, as well as the client's written

Investment Policy Statement. Investment guidelines and restrictions must be provided to CapGroup in writing.

Alternatively, the client and CapGroup may agree to limit CapGroup's discretionary authority. Such limitations are established in the Investment Advisory Agreement between the client and CapGroup. The client should understand that the limiting of CapGroup's discretionary authority may increase the financial risk associated with the timely and efficient execution of CapGroup's recommendations.

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

As a matter of firm practice and policy, CapGroup does not take responsibility for voting proxies for securities owned in client accounts. To the extent that proxy voting responsibilities are not assumed by Managers engaged by CapGroup on behalf of the client, the custodian of the client's account (Schwab, SEI, etc.) is instructed to forward all proxies and shareholder communications directly to the client.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about CapGroup's financial condition. CapGroup 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.