

# Disclosure Brochure

August 8, 2014

## **Capital Security Advisors LLC**

*a Registered Investment Adviser*

This brochure provides information about the qualifications and business practices of Capital Security Advisors LLC (hereinafter "CSA" or the "Firm"). If you have any questions about the contents of this brochure, please contact the Firm at the telephone number listed below. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). CSA is an SEC registered investment adviser. Registration does not imply any level of skill or training.

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## **Item 2. Material Changes**

In this Item, CSA is required to discuss any material changes that have been made to the brochure since the last annual amendment. As this brochure has been prepared in connection with the Firm's initial application for investment adviser registration, there are no such material changes to disclose.

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## Item 4. Advisory Business

CSA offers a variety of advisory services, which include wealth management, financial planning, pension consulting and investment management services. Prior to the rendering of any of the foregoing advisory services, clients are required to enter into one or more written agreements with CSA setting forth the relevant terms and conditions of the advisory relationship (the "*Agreement*").

CSA has been an independent registered investment adviser since January, 2014 and is wholly owned by Daniel R. Irvin. . As of July 30, CSA had \$108,014,107 assets under management, \$95,274,107 of which was managed on a discretionary basis and \$12,740,000 of which was managed on a non-discretionary basis.

While this brochure generally describes the business of CSA, certain sections also discuss the activities of its *Supervised Persons*, which refer to the Firm's officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on CSA's behalf and is subject to the Firm's supervision or control.

### Financial Planning Services

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CSA offers clients a range of financial planning services, which may include any or all of the following functions:

- Business Planning
- Cash Flow Forecasting
- Asset Allocation
- Retirement Planning
- Estate Planning
- Financial Reporting
- Investment Consulting
- Insurance Needs Analysis
- Retirement Plan Analysis
- Charitable Giving

Generally speaking, these services are not available on a stand-alone basis, but rather certain of them are rendered in conjunction with investment portfolio management as part of a comprehensive wealth management engagement (as described below). In performing these services, CSA is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information.

CSA may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if clients engage CSA to provide additional fee-based services. Clients retain absolute discretion over all decisions regarding implementation and are under no obligation to act upon any of the recommendations made by CSA under a financial planning engagement or to engage the services of any such recommended professionals, including CSA itself. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial

situation or investment objectives for the purpose of reviewing, evaluating or revising CSA's previous recommendations and/or services.

### **Investment Management and Wealth Management Services**

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CSA manages client investment portfolios on a discretionary or non-discretionary basis. In addition, CSA may provide clients with wealth management services which generally include a broad range of comprehensive financial planning services.

CSA primarily allocates client assets among various mutual funds, exchange-traded funds ("ETFs"), individual debt and equity securities, independent investment managers ("*Independent Managers*"), as well as the securities components of variable annuities and variable life insurance contracts, in accordance with the investment objectives of its individual clients. In addition, CSA may also recommend that clients who qualify as accredited investors, as defined by Rule 501 of the Securities Act of 1933, invest in privately placed securities, which may include debt, equity and/or interests in pooled investment vehicles (e.g., hedge funds). Where appropriate, the Firm may also provide advice about any type of legacy position or other investment held in client portfolios.

Clients may also engage CSA to advise on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, CSA directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product's provider.

CSA tailors its advisory services to meet the needs of its individual clients and continuously seeks to ensure that client portfolios are managed in a manner consistent with their specific investment profiles. CSA consults with clients on an initial and ongoing basis to determine their specific risk tolerance, time horizon, liquidity constraints and other qualitative factors relevant to the management of their portfolios. Clients are advised to promptly notify CSA if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if CSA determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

### **Retirement Plan Consulting Services**

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CSA provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing and optimizing their corporate retirement plans. Each engagement is individually negotiated and customized, and may include any or all of the following services:

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- Plan Design and Strategy
- Plan Review and Evaluation
- Executive Planning and Benefits
- Investment Management and Review
- Plan Fee and Cost Analysis
- Retirement Plan Committee Consultation
- Fiduciary and Compliance
- Legacy Plan Services

As disclosed in the *Agreement*, certain of the foregoing services are provided by CSA as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). In accordance with ERISA Section 408(b)(2), each plan sponsor is provided with a written description of CSA’s fiduciary status, the specific services to be rendered and all direct and indirect compensation the Firm reasonably expects under the engagement.

## **Use of Independent Managers**

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As mentioned above, CSA may select or recommend certain *Independent Managers* to actively manage a portion of its clients’ assets. The specific terms and conditions under which a client engages an *Independent Manager* are set forth in a separate written agreement between the designated *Independent Manager* and either CSA or the client. In addition to this brochure, clients also may receive the written disclosure documents of the designated *Independent Managers* engaged to manage their assets. CSA does not receive compensation from any such *Independent Managers*.

CSA evaluates various information about the *Independent Managers* it chooses to manage client portfolios, which may include the *Independent Managers’* public disclosure documents, materials supplied by the *Independent Managers* themselves and other third-party analyses it believes are reputable. To the extent possible, the Firm seeks to assess the *Independent Managers’* investment strategies, past performance and risk results in relation to its clients’ individual portfolio allocations and risk exposure. CSA also takes into consideration each *Independent Manager’s* management style, returns, reputation, financial strength, reporting, pricing and research capabilities, among other factors.

CSA continues to provide services relative to the discretionary or non-discretionary selection of the *Independent Managers*. On an ongoing basis, the Firm monitors the performance of those accounts being managed by *Independent Managers*. CSA seeks to ensure the *Independent Managers’* strategies and target allocations remain aligned with its clients’ investment objectives and overall best interests.

## **Management of Collective Investment Vehicle**

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CSA’s affiliate, Infrastructure Capital LLC is the managing member of IDSC LLC (the “*Fund*”). The *Fund* is currently exempt from registration under the Investment Company Act of 1940 and the interests in the *Fund* are privately offered pursuant to Regulation D under the Securities Act of 1933. The *Fund’s* investment objective is to preserve value in both inflationary and deflationary environments and to achieve stable returns which are not highly correlated to either equities or high grade bonds. The *Fund*

seeks to achieve these objectives by investing in infrastructure-related assets, including debt and equity of entities and projects that provide essential services, such as transportation, water and sewer, power and energy, healthcare, education and governmental services. Participation as an investor in the *Fund* is restricted to investors that are qualified clients pursuant to the requirements under Rule 205-3 under the Investment Advisers Act of 1940. If eligible, CSA may recommend that certain clients invest in the *Fund*. All relevant information, terms and conditions relative to the *Fund*, including the compensation received by CSA or an affiliate, withdrawal rights, minimum investments, qualification requirements, suitability, risk factors, potential conflicts of interest, are set forth in the relevant confidential private offering memorandum, operating agreement and/or subscription agreement (collectively the “*Offering Documents*”), which each investor is required to receive and/or execute prior to being accepted as an investor in the *Fund*.

### Sub-Advisor

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The Firm offers a platform of management services to other investment advisers through a sub-advisory relationship. While typically CSA ensures that clients’ investments are suitable for their investment needs, goals, objectives and risk tolerance when advising directly to clients, when acting as a sub-advisor the Firm has no similar responsibility.

## Item 5. Fees and Compensation

CSA offers its services on a fee basis, which may include fees based upon assets under management or advisement or the performance of the client’s portfolio.

### Investment Management and Wealth Management Fees

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CSA provides investment management services for an annual fee based on the amount of assets under the Firm’s management. The fee varies between 80 and 125 basis points (0.80% – 1.25%), depending upon the size of a client’s portfolio and the type of services rendered.

The annual fee is prorated and charged quarterly in arrears, based upon the market value of the assets being managed by CSA on the last day of the previous billing period.

If assets are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is adjusted to reflect the change in portfolio value. For the initial period of an engagement, the fee is calculated on a *pro rata* basis. In the event the *Agreement* is terminated, the fee for the final billing period is prorated through the effective date of the termination and the unearned portion is refunded to the client, as appropriate.

## **Sub Advisor Investment Management Fees**

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CSA provides investment management services under sub-advisory relationships for an annual fee based on the amount of assets under the Firm's management. Under such relationships, the Firm has no direct relationship with the ultimate client. These fees will vary between 20 and 35 basis points (0.20% – 0.35%).

The annual fee is prorated and charged quarterly in arrears, based upon the market value of the assets being managed by CSA on the last day of the previous billing period.

## **Retirement Plan Consulting Fees**

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CSA generally charges as fixed project-based fee to provide clients with retirement plan consulting services. Each engagement is individually negotiated and tailored to accommodate the needs of the individual plan sponsor, as memorialized in the *Agreement*. These fees vary, based on the scope of the services to be rendered. In those situations where CSA has agreed to manage a plan's assets, the Firm may also charge an annual asset-based of 50 and 150 basis points (0.50% – 1.50%), depending upon the amount of assets to be managed.

## **Performance Based Investment Management Fees**

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Alternatively, CSA offers investment management services to qualified clients for a performance-based fee in accordance with applicable laws, rules and regulations. Under this arrangement, CSA charges clients a fee based upon the performance of their accounts (the "performance fee") in addition to a fee based upon the market value of the assets being managed by CSA (the "base fee").

The performance fee is equal to 20% of the net performance of a client's portfolio, subject to a high water mark by which the account exceeds an agreed upon hurdle rate. The performance fee is charged quarterly in arrears and is based upon a client's net gains during a calendar year period. The base fee varies between 150 and 200 basis points (1.50% – 2.00%), depending upon the size of a client's portfolio and the type of investment management services rendered. The base fee is prorated and charged quarterly in arrears, based upon the market value of the assets being managed by CSA on the last day of the previous billing period.

If assets are deposited into or withdrawn from an account after the inception of a billing period, the base fee payable with respect to such assets is adjusted to reflect the change in portfolio value. For the initial term of an engagement, the base fee is calculated on a *pro rata* basis. In the event the *Agreement* is terminated, the base fee for the final billing period is prorated through the effective date of the termination and the unearned balance is refunded to the client, as appropriate.



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## Fee Discretion

CSA, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationship, account retention and *pro bono* activities.

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## Use of Margin

CSA may be authorized to use margin in the management of the client's investment portfolio. In these cases the fee payable will be assessed gross of margin such that the market value of the client's account and corresponding fee payable by the client to CSA will be increased.

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## Additional Fees and Expenses

In addition to the advisory fees paid to CSA, clients may also incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "*Financial Institutions*"). These additional charges may include securities brokerage commissions, transaction fees, custodial fees, fees charged by the *Independent Managers*, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), 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. The Firm's brokerage practices are described at length in Item 12, below.

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## Fee Debit

Clients generally provide CSA with the authority to directly debit their accounts for payment of the Firm's investment advisory fees. The *Financial Institutions* that act as qualified custodian for client accounts have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to CSA.

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## Account Additions and Withdrawals

Clients may make additions to and withdrawals from their account at any time, subject to CSA's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to CSA, subject to the usual and customary securities settlement procedures. However, CSA designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. CSA may consult with its clients about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, fees assessed at the mutual fund level (i.e., contingent deferred sales charge) and/or tax ramifications.

### Item 6. Performance-Based Fees and Side-by-Side Management

As discussed in Item 5, CSA offers investment management services to qualified clients for a performance-based fee. Although CSA believes this fee arrangement appropriately aligns the interests of the Firm and its clients, it may potentially raise certain conflicts of interest. The performance fee may be an incentive for the Firm to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where CSA charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, there is an incentive to favor accounts paying a performance-based fee. CSA has procedures in place whereby it seeks to ensure that all recommendations are made in the best interest of clients regardless of whether or not the client is paying a performance-based fee.

### Item 7. Types of Clients

CSA provides its services to individuals, investment limited partnerships or other collective vehicles, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

#### Minimum Portfolio Size

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As a condition for starting and maintaining an investment management relationship, CSA generally imposes a minimum portfolio size of \$500,000.

The Firm, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client relationships, account retention and *pro bono* activities. CSA only accepts clients with less than the minimum portfolio size if, in the sole opinion of the Firm, the smaller portfolio size will not result in a substantial increase of investment risk beyond the client's identified risk tolerance. CSA may aggregate the portfolios of family members to meet the minimum portfolio size.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than CSA. In such instances, CSA may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

### **Methods of Analysis**

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CSA may utilize a combination of top-down and bottom-up fundamental analysis as well as technical, and cyclical methods of analysis.

Fundamental analysis involves an evaluation of the fundamental financial condition and competitive position of a particular fund or issuer. For CSA, this process typically involves an analysis of an issuer's management team, investment strategies, style drift, past performance, reputation and financial strength in relation to the asset class concentrations and risk exposures of the Firm's model asset allocations. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, evolving market conditions may negatively impact the security.

Technical analysis involves the examination of past market data rather than specific issuer information in determining the recommendations made to clients. Technical analysis may involve the use of mathematical based indicators and charts, such as moving averages and price correlations, to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. A substantial risk in relying upon technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that CSA will be able to accurately predict such a reoccurrence.

Cyclical analysis is similar to technical analysis in that it involves the assessment of market conditions at a macro (entire market or economy) or micro (company specific) level, rather than focusing on the overall fundamental analysis of the health of the particular company that CSA is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### **Investment Strategies**

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CSA seeks to construct, monitor and optimize broadly diversified balanced portfolios, that include access to several major asset classes globally, direct ownership of bonds to meet specific cash flow needs, as well as to seek tax-efficient solutions to protect income and capital in the face of deflation and inflation. The Firm utilizes both strategic and tactical asset allocation. Strategic allocation is accomplished by establishing long-term target portfolio weightings designed to meet client goals, risk tolerance, time horizon, income, liquidity and emotional needs. CSA develops strategic allocations based on estimates of disposition, future inflation, taxes and fees, asset class returns, variability of returns (standard deviation) and cross-asset class correlation of returns. Strategic asset allocation assumes that long-term relative asset class returns generally compensate investors based on risk (markets are efficient and one gets paid to take risk). CSA adjusts strategic targets (tactical asset allocation) based on the analysis and recognition that short to intermediate term inefficiencies (e.g., illiquid markets, high transaction costs,

monetary policy and irrational fear and greed) exist. These inefficiencies cause asset mispricing and returns and risks which might vary significantly from strategic expectations.

### Risks of Loss

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#### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear potential losses.

#### *Market Risks*

The profitability of a significant portion of CSA's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that CSA will be able to predict those price movements accurately.

#### *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their *pro rata* NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Use of Independent Managers*

CSA may recommend the use of *Independent Managers*. In these situations, CSA continues to do ongoing due diligence of such managers, but such recommendations rely to a great extent on the *Independent Managers'* ability to successfully implement their investment strategies. In addition, CSA generally may not have the ability to supervise the *Independent Managers* on a day-to-day basis.

### *Use of Private Collective Investment Vehicles*

CSA recommends that certain clients invest in privately placed collective investment vehicles (e.g., hedge funds, private equity funds, etc.). The managers of these vehicles have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. Hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. Clients should consult each fund's private placement memorandum and other offering documents explaining such risks prior to investing.

### *Management Through Similarly Managed "Model" Accounts*

CSA manages certain accounts through the use of similarly managed "model" portfolios, whereby the Firm allocates all or a portion of its clients' assets among various mutual funds and/or securities on a discretionary basis using one or more of its proprietary investment strategies. In managing assets through the use of models, the Firm remains in compliance with the safe harbor provisions of Rule 3a-4 of the Investment Company Act of 1940.

The strategy used to manage a model portfolio may involve an above average portfolio turnover that could negatively impact clients' net after tax gains. While the Firm seeks to ensure that clients' assets are managed in a manner consistent with their individual financial situations and investment objectives, securities transactions effected pursuant to a model investment strategy may be done without regard to a client's individual tax ramifications. Clients should contact CSA if they experience a change in their financial situation or if they want to impose reasonable restrictions on the management of their accounts.

### *Use of Margin*

The market value of the client's account will be determined gross of margin and the corresponding fee payable by the client will be increased by the use of margin. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase the management fee payable to CSA. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can substantially improve returns, it may also increase overall portfolio risk. Margin transactions are generally effected using capital borrowed from a *Financial Institution*, which is secured by a client's holdings. Under certain circumstances, a lending *Financial Institution* may demand an increase in the underlying collateral. If the client is unable to provide the additional collateral, the *Financial Institution* may liquidate account assets to satisfy the client's outstanding obligations, which could have extremely adverse consequences. In addition, fluctuations in the amount of a client's borrowings and the corresponding interest rates may have a significant effect on the profitability and stability of a client's portfolio.

### Item 9. Disciplinary Information

CSA has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of its management.

### Item 10. Other Financial Industry Activities and Affiliations

#### Acting as Sub-Adviser for Affiliated Investment Adviser

CSA also renders individual fee only investment management services to clients of unaffiliated registered investment advisers (*Other Advisers*), pursuant to a sub-advisory relationship between CSA and these *Other Advisers*.

*Other Advisers'* clients are provided with a copy of CSA's Form ADV Part 2A upon the commencement of the investment management relationship. CSA is paid for its investment management services directly by *Other Advisers*, pursuant to the terms and conditions of the *Agreement* between *Other Advisers* and the client. The Firm has no direct relationship with clients of *Other Advisers*.

### Item 11. Code of Ethics

CSA has adopted a code of ethics in compliance with applicable securities laws ("*Code of Ethics*") that sets forth the standards of conduct expected of its *Supervised Persons*. CSA's *Code of Ethics* contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its *Supervised Persons* and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The *Code of Ethics* also requires certain of CSA's personnel (called "*Access Persons*") to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, CSA *Supervised Persons* are permitted to buy or sell securities that it also recommends to clients if done in a manner consistent with the Firm's policies and procedures. This *Code of Ethics* has been established recognizing that some securities trade in

sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no *Access Person* may knowingly effect for themselves or for their immediate family (i.e., spouse, minor children and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the *Access Person* is completed as part of a batch trade (as defined below in Item 12) with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact CSA to request a copy of its *Code of Ethics*.

As discussed above in response to Item 4, an affiliate of CSA is the general partner to the *Private Fund*. CSA may recommend, on a fully disclosed basis, that certain clients invest in the *Private Fund*. As such, a conflict of interest exists to the extent that CSA recommends that clients invest in *Private Fund*. CSA does not receive any additional compensation if a client invests in the *Private Fund*. As such, CSA does not believe this arrangement poses any additional conflict of interest.

## Item 12. Brokerage Practices

CSA generally recommends that clients utilize the brokerage and clearing services of Schwab Advisor Services™ ("*Schwab*") for investment management accounts.

Factors which CSA considers in recommending *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* enables CSA to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by CSA's clients comply with the Firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where CSA determines that the commissions are reasonable in relation to the value



of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates and responsiveness. CSA seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom CSA and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. CSA periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct CSA in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution* and the Firm will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by CSA (as described below). As a result, the client may pay higher commissions or other transaction costs, greater spreads or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, CSA may decline a client's request to direct brokerage if, in the Firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless CSA decides to purchase or sell the same securities for several clients at approximately the same time. CSA may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among CSA's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among CSA's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that CSA determines to aggregate client orders for the purchase or sale of securities, including securities in which CSA's *Supervised Persons* may invest, the Firm generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. CSA does not receive any additional compensation or remuneration as a result of the aggregation. In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and



cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, CSA may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist CSA in its investment decision-making process. Such research generally will be used to service all of the Firm's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because CSA does not have to produce or pay for the products or services.

### **Software and Support Provided by Financial Institutions**

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CSA may receive from *Schwab*, without cost to CSA, computer software and related systems support, which allow CSA to better monitor client accounts maintained at *Schwab*. CSA may receive the software and related support without cost because CSA renders investment management services to clients that maintain assets at *Schwab*. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit CSA, but not its clients directly. In fulfilling its duties to its clients, CSA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that CSA's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence CSA's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support or services.

Additionally, CSA may receive the following benefits from *Schwab* through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information. Finally *Schwab* has agreed to pay certain initial set up costs incurred by the Firm in the amount of \$60,000.

## Item 13. Review of Accounts

### Account Reviews

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For those clients to whom CSA provides investment management services, CSA monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a biannual basis. For those clients to whom CSA provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of CSA’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals and objectives with CSA and to keep CSA informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

### Account Statements and Reports

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Clients are provided with transaction confirmation notices and regular summary account statements directly from the *Financial Institutions* where their assets are custodied. From time-to-time or as otherwise requested, clients may also receive written or electronic reports from CSA and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with those they receive from CSA or an outside service provider.

Those clients to whom CSA provides financial planning services will receive reports from CSA summarizing its analysis and conclusions as requested by the client or as otherwise agreed to in writing by CSA.

## Item 14. Client Referrals and Other Compensation

### Client Referrals

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If a client is introduced to CSA by either an unaffiliated or an affiliated solicitor, CSA may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from CSA’s investment management fee and does not result in any additional charge to the client. If the client is introduced to CSA by an unaffiliated solicitor, the solicitor provides the client with a copy of CSA’s written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor’s disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of CSA discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of CSA’s written disclosure brochure at the time of the solicitation.

## Other Economic Benefits

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In addition, CSA is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

## Item 15. Custody

CSA's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize CSA through such *Financial Institution* to debit the client's account for the amount of CSA's fee and to directly remit that management fee to CSA in accordance with applicable custody rules.

The *Financial Institutions* recommended by CSA have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to CSA. In addition, as discussed in Item 13, CSA also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from CSA.

## Private Fund

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CSA acts as investment adviser to the *Fund* and due to CSA's affiliation with the general partner and managing member of the *Fund*, the Firm is deemed to have custody of client assets. As such, CSA requires an annual audit of the *Fund* by an independent public accountant registered with, and subject to regulatory inspection by, the Public Accounting Oversight Board (PCAOB). The Firm distributes the audited financials to each investor within 120 days of the *Fund's* fiscal year-end. CSA does not have direct access to client funds. The *Fund* is administered by a third-party administrator and maintained with an independent qualified custodian.

## Item 16. Investment Discretion

CSA may be given the authority to exercise discretion on behalf of clients. CSA is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. CSA is given this authority through a power-of-attorney included in the agreement between CSA and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). CSA takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

### Item 17. Voting Client Securities

CSA may vote client securities (proxies) on behalf of its clients. When CSA accepts such responsibility, it will only cast proxy votes in a manner which it believes to be consistent with the best interest of its clients. Absent special circumstances, which are fully- described in CSA's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in CSA's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact CSA to request information about how CSA voted proxies for that client's securities or to receive a copy of CSA's Proxy Voting Policies and Procedures. A brief summary of CSA's Proxy Voting Policies and Procedures is as follows:

- CSA has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to CSA's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, CSA devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct CSA's vote on a particular solicitation but can revoke CSA's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that CSA maintains with persons having an interest in the outcome of certain votes, CSA takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 18. Financial Information**

CSA is not required to disclose any financial information pursuant to this Item due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in arrears of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.

## Capital Security Advisors LLC

Prepared by:



**MARKETCOUNSEL®**  
*The Adviser's Advisor®*