



**FORM ADV**  
**UNIFORM APPLICATION FOR INVESTMENT ADVISER REGISTRATION**

**Part 2A – Investment Adviser Brochure**

**March 6, 2015**

**FOUNTAIN CAPITAL MANAGEMENT, L.L.C.**

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This brochure provides information about the qualifications and business practices of Fountain Capital Management, L.L.C. If you have any questions about the contents of this brochure, please contact the Chief Compliance Officer at (913) 345-2766, or email [dcampbell@fountaincapital.com](mailto:dcampbell@fountaincapital.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.

Additional information about Fountain Capital Management, L.L.C. (Fountain) also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 - Material Changes**

This summary includes only material changes since the last annual update of our brochure, submitted on March 26, 2014. On February 4, 2015, Fountain sold a substantial portion of its investment advisory business to Palmer Square Capital Management, LLC ("Palmer") and redeemed substantially all of Palmer's majority membership interest in Fountain. As a result of this transaction, over 99% of Fountain's membership interests are now owned by FCM Management, LLC and neither Palmer nor its affiliates have, nor exercise, any control over Fountain or its advisory activities. Fountain intends to close its remaining investment advisory business and is now in the process of winding down all of its operations.

### **Item 3 – Table of Contents**

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#### **Item 4 – Advisory Business**

Fountain Capital Management, L.L.C. (Fountain) is a registered investment adviser that was founded in 1990. On February 4, 2015, Fountain sold a substantial portion of its investment advisory business to Palmer Square Capital Management, LLC ("Palmer") and redeemed substantially all of Palmer's majority membership interest in Fountain. As a result of this transaction, over 99% of Fountain's membership interests are now owned by FCM Management, LLC ("FCM") and neither Palmer nor its affiliates have, nor exercise, any control over Fountain or its advisory activities. FCM is owned by Doug Campbell, Erin Carney, Paul Carey, Greg Murphy and Adam Peltzer. Fountain intends to close its remaining investment advisory business and is now in the process of winding down all of its operations.

Fountain provides below-investment grade (or "high yield") corporate bond portfolio management services primarily to institutional clients. Within high yield, Fountain offers two strategies. We offer a Total Return strategy that seeks to maximize returns through investments in a diversified portfolio of BB and B rated corporate securities by minimizing defaults and selecting securities with upgrade potential. In addition, we offer a Short Duration strategy with shorter maturities and higher average credit ratings than both the Total Return strategy and the overall high yield market. At various times both strategies may include below-investment grade rated bank loans, convertible bonds and preferred stocks that are similar in nature to high yield bonds if allowed by individual client guidelines.

Most of the portfolios we manage are separate institutional accounts. While the portfolios in each style generally hold similar securities, we can tailor portfolios to meet clients' specific needs in terms of quality, maturity, security types and other guideline restrictions as requested by the client.

We also serve as the investment manager and managing trustee of two commingled funds: the Fountain High Yield Total Return Trust and the Fountain Short Duration High Yield Trust.

Fountain does not participate in wrap fee programs.

As of February 27, 2015, Fountain had assets under management of \$673,514,110.

#### **Item 5 – Fees and Compensation**

The annual fee schedule for Total Return portfolio management is 50 basis points on the first \$50 million plus 40 basis points on amounts above \$50 million.

The annual fee schedule for Short Duration portfolio management is 40 basis points on the first \$50 million plus 30 basis points on amounts above \$50 million.

Fees are negotiable based on the size of the account and the level of services. Fees are calculated and billed to clients quarterly, and are typically based on the average aggregate market value of

assets under management for that quarter. Contracts may be terminated by either party with 30 days notice, in which case fees are prorated to date of termination.

Clients will incur brokerage and custody costs in connection with the portfolios we manage. See Item 12 in this brochure for detail on brokerage practices.

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

While currently not material to Fountain's overall business, we may in the future enter into contracts that include performance-based fees.

The potential conflict of interest that could arise from an incentive to favor a performance-fee account over an asset-based fee account would be mitigated by Fountain's adherence to our Trade Allocation Policy.

Because high yield bonds trade most efficiently in round lot sizes, Fountain routinely allocates single transactions across multiple managed accounts. However, it is frequently difficult to buy or sell the ideal amount of bonds in a single trade to cover all accounts. Fountain's Trade Allocation Policy is aimed at treating all client accounts on a fair and equitable basis. Factors used to determine account allocations include client guidelines and objectives, transactions initiated for specific account needs, existing account exposure to the transacted security and levels of account cash. Generally, allocations will be in multiples of \$50,000 par in order to preserve individual account liquidity and trading efficiency.

A copy of our Trade Allocation Policy is available to any client or prospective client upon request.

### **Item 7 – Types of Clients**

Fountain generally provides its portfolio management services to investment companies, commingled funds, institutions and occasionally to high net worth individuals. Institutional clients include pension funds, state government entities, foundations, corporations, other investment advisers or commingled funds. The minimum separate account size may vary based on factors such as client objectives, but typically they are \$10 million and above. The commingled funds that Fountain advises have minimum account sizes of \$1.0 million, although this restriction may be waived.

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

Fountain's investment process combines broad secular themes and cyclical trends with detailed company and security-specific fundamental analysis and valuation to create our high yield

portfolios. This process is driven by our investment committee, which is comprised of all our investment professionals. The investment committee meets every quarter to discuss the broad secular themes and economic cyclical dynamics that will drive performance among the industries in the high yield market. Our goal is to overweight industries that are experiencing positive and improving fundamentals and avoid industries where we believe defaults may occur.

The investment committee also meets weekly to track our performance and discuss any changes that need to be made to industry positions and security positions. Additionally, the investment committee and trading personnel meet daily to review any topical news items, economic releases, new bond issuance, and company releases to address any tactical changes or ideas that will be implemented for the client portfolios.

As discussed in Item 4, Fountain generally offers two distinct strategies of high yield management: Total Return and Short Duration.

While most of our client's portfolios within each strategy are similar to one another, they can differ based on client-specific guidelines and mandates.

There are risks associated with investing in high yield bonds. The primary risk to investing in the high yield market is default risk, and investors may bear considerable losses if a bond they own enters default. Default risk exists because by definition, companies within the high yield market have considerable debt obligations. In addition to default loss risk, high yield bond investors are also subject to credit spread risk, interest rate risk, liquidity risk, prepayment risk, and reinvestment risk. Investors should be aware of the potential for price volatility. While rapid and frequent trading is not a core investment strategy for Fountain, transaction costs are relatively high within the high yield market.

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

There are no legal or disciplinary events that are material to our clients' or prospective clients' evaluation of our advisory business or the integrity of our management.

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

We are the investment manager to the Fountain Short Duration High Yield Trust and the Fountain High Yield Total Return Trust.

All relevant information, terms and conditions relative to the aforementioned private funds, including the investment objectives and strategies, minimum investments, qualification requirements, suitability, fund expenses, risk factors, and potential conflicts of interest, are set forth in the offering documents (which typically include confidential private offering memorandum, Limited Partnership Agreement, and Subscription Agreement), which each investor is required to receive and/or execute prior to being accepted as an investor.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

We have adopted a code of ethics that sets forth the standards of conduct expected of our associated persons and requires compliance with applicable securities laws (“Code of Ethics”). In accordance with Section 204A of the Advisers Act, the Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information by us or any of our associated persons. The Code of Ethics also requires that certain of our personnel (“access persons”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings. Unless specifically permitted in our Code of Ethics, none of our access persons may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the access person) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of our clients.

When we are purchasing or considering for purchase any security on behalf of a client, no Access Person may themselves effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. This does not include transactions for accounts that are executed as part of a block trade within a managed strategy. Similarly, when we are selling or considering the sale of any security on behalf of a client, no Access Person may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. 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 money market funds; (iv) shares issued by other mutual funds that are not advised or sub-advised by the firm or its affiliates; and (v) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds, none of which are funds advised or sub-advised by the firm or its affiliates.

Our clients or prospective clients may request a copy of the firm's Code of Ethics by contacting us at (913) 345-2766 or [dcampbell@fountaincapital.com](mailto:dcampbell@fountaincapital.com).

## **Item 12 – Brokerage Practices**

Brokers are selected based on their trading capabilities, underwriting position, research and service. Members of the investment management team quantitatively rate each of the firm’s brokers on the above factors. Overall rankings are compared to commissions generated during the period. Business is generally directed to the higher ranking firms, but individual trades are

based on the best bid or offer available. When possible, the next best “cover” bid or offer is documented for each trade.

High yield bonds trade most efficiently in round lots which are often larger than individual client requirements. We therefore aggregate client trades in order to achieve the best execution. However, clients should recognize that the advice given and the actions taken with respect to their accounts may differ from advice given or the timing and nature of action taken with respect to other advisory accounts. See Item 6 for a description of our Trade Allocation Policy.

Fountain does not participate in “soft dollar” arrangements in which we would receive products or services as a result of doing trades with a particular broker. We do not consider, in selecting or recommending brokers, whether we receive client referrals from brokers. We do not participate in directed brokerage, which is generally not applicable to the high yield bond market.

### **Item 13 – Review of Accounts**

Portfolios are actively managed and securities are continuously monitored by members of the investment committee. The investment committee meets weekly to review portfolio statistics, portfolio strategy and investment performance. The investment committee is made up of all the Portfolio Managers/Analysts in the firm. See Item 8 for more information on the investment committee and our investment process.

Our portfolio records are reconciled to custodial statements on a monthly basis by a member of the administrative staff.

Written reports are prepared and sent to clients each month. These monthly reports include summary portfolio statistics, performance, transaction reports, portfolio holdings and a review of investment guidelines. Additional items may be included at client request.

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

If a client is introduced to us, we may pay that introducer 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 shall be paid solely from our investment management fee, and shall not result in any additional charge to the client. If the client is introduced to us by an unaffiliated solicitor, the client will be given, prior to or at the time of entering into any advisory contract with the client, (1) a copy of our written disclosure statement which meets the requirements of Rule 204-3 of the Advisers Act, and (2) a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of ours shall disclose 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 our written disclosure statement at the time of the solicitation.

We may have clients that are solicited to invest in investment-related limited partnerships or limited liability companies for which one of our related persons serves as the general partner or manager.

### **Item 15 - Custody**

While Fountain does not maintain physical custody of client assets, Fountain is deemed to have custody by virtue of its status as the investment manager to each commingled fund. Fountain will maintain the assets of the commingled funds in accounts with a “qualified custodian” and reasonably believes that all investors in the commingled funds will be provided with audited financial statements, prepared by an independent accounting firm that is registered with and subject to review by the Public Company Accounting Oversight Board, in accordance with U.S. Generally Accepted Accounting Principles, within 120 days of the fiscal year end. Investors should carefully review the audited financial statements of the respective commingled funds upon receipt.

For all other clients, Fountain does not maintain custody of client funds or securities. Clients select and maintain separate relationships with qualified custodians. While clients receive monthly statements directly from their custodian, Fountain urges clients to compare those statements with the monthly reports provided by Fountain. See Item 13 for related information.

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

Unless otherwise instructed by the client, Fountain has full discretion to direct the investments of the portfolios that it manages. All actions must be consistent with the investment policies that are set forth in the client’s Investment Advisory Agreement.

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

Fountain generally does not vote proxies with respect to securities held in a client’s portfolio. It is rare as a fixed income manager that such a proxy voting situation would arise. It is Fountain’s policy to forward all proxy voting material to the client. However, in the event that Fountain is requested to do so by a client, Proxy Voting Policies and Procedures have been adopted to guide the firm in such voting. In all cases proxy votes must be cast in a manner consistent with the best interests of clients. In the event that the Chief Compliance Officer determines that Fountain has a material conflict of interest, then the conflict will be disclosed to the client. Copies of the Proxy Voting Policies and Procedures as well as Fountain’s proxy voting record are available to clients upon request.



Fountain does vote bond-specific items such as indenture changes in a manner it believes will maximize security value.

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

Fountain has no financial conditions or information to disclose that a client would consider reasonably likely to impair our ability to meet contractual commitments to clients.