

## Item 1 – Cover Page

Pugh Capital Management, Inc.

(CRD Number: 111765)

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March 22, 2016

This Brochure provides information about the qualifications and business practices of Pugh Capital Management, Inc. ["Pugh Capital"]. If you have any questions about the contents of this Brochure, please contact us at 206-322-4985 and/or [info@pughcapital.com](mailto:info@pughcapital.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.

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

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

**Item 2 – Material Changes**

Material changes of this Brochure dated March 22, 2016 from our previous annual brochure dated January 27, 2015 include:

1. The firm has grown its assets under management from \$3,677.2 million as of December 31, 2014 to \$3,909.6 as of December 31, 2015. Currently, all the client assets we manage are discretionary.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Deanna Hobson, Marketing & Client Service, at 206-322-4985 or [info@pughcapital.com](mailto:info@pughcapital.com).

Additional information about Pugh Capital Management, Inc. is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may obtain the brochure as Form ADV Part 2 by searching Pugh Capital in the Investment Adviser Search. The SEC's web site also provides information about any persons affiliated with Pugh Capital who are registered, or are required to be registered, as investment adviser representatives of Pugh Capital.

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#### **Item 4 – Advisory Business**

Pugh Capital Management, Inc. is an SEC registered investment advisor and was founded in Seattle, Washington in 1991. We specialize in investment-grade fixed income portfolio management for institutional investors. Our goal is to provide our clients with responsive client service and consistent, above-benchmark returns. We pursue these objectives through a disciplined approach to investment management and by developing strong client relationships. Pugh Capital's experienced professionals strive to achieve success for our clients, our company, and our community.

Our founding principals, Mary Pugh and Scott Greiwe, built the firm through capital infusions, the reinvestment of earnings and through "sweat equity". We have endowed Pugh Capital with a client-centric and performance based culture. As a result of these efforts, the firm has grown its assets under management from \$5 million at its inception to \$3,909.6 million as of December 31, 2015. On a discretionary basis, we manage \$3,909.6 million as of December 31, 2015.

Pugh Capital is a fixed income manager focused on providing separate account management to the institutional investment community. Pugh Capital's product offerings include: Core Fixed Income, Intermediate-Term Fixed Income, Mortgage Strategy, Long Duration Strategy, Long Credit Strategy, and Core Plus Fixed Income. Clients may impose restrictions on investing in certain securities or types of securities based on the products we offer.

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

Unless otherwise stated in a client's contract the following methodology is used regarding Pugh Capital's advisory fees.

Unless otherwise requested by a client, fees paid for services provided by Pugh Capital will be billed in arrears on a quarterly basis. Clients may choose to deduct the fees directly from their accounts. But in no instance will Pugh Capital deduct the fees from clients' assets. The client must authorize and direct such a withdrawal directly through its custodian. Unless otherwise requested by a client, the fee will be based on the market value

of the securities under management at the end of the previous quarter. The contract may be canceled upon 45 days written notice. Management fees shall not be prorated for each capital contribution and withdrawal made during the applicable calendar quarter, unless so specified in the client contract. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee based on the initiation or termination date. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Investment fees will be based on a schedule below depending on the product, although a different fee structure may be negotiated on a case by case basis.

The following schedule applies to fixed income assets invested in the Core Fixed Income product and the intermediate-term fixed income products excluding the Intermediate-Term Core Plus Fixed Income.

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$15 to \$100 Million	0.25%
Over \$100 Million	0.15%

The following schedule applies to fixed income assets invested in the Long Duration Strategy product and the Ultra Long Government/Credit Strategy mandate.

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$15 to \$50 Million	0.27%
Next \$50 Million	0.25%
Over \$100 Million	0.18%

The following schedule applies to fixed income assets invested in the products of Core Plus Fixed Income, Intermediate-Term Core Plus Fixed Income, Long Credit Strategy and Long Corporate Strategy.

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$15 to \$50 Million	0.30%
Next \$50 Million	0.25%
Over \$100 Million	0.20%

Pugh Capital also offers short fixed income products. Investment management fees will be based on the schedule below.

<u>Assets Under Management</u>	<u>Annual Fee</u>
Under \$20 Million	0.2500%
Over \$20 Million	0.1875%

For fixed income assets invested in our Mortgage Strategy and other mandates, investment management fees will be based on the schedule below, paid in the same manner as described above.

<u>Assets Under Management</u>	<u>Annual Fee</u>
\$15 to \$75 Million	0.25%
Next \$25 Million	0.20%
Over \$100 Million	0.18%

Pugh Capital's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, and other fees on accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Pugh Capital's fee, and Pugh Capital shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that Pugh Capital considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

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

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

## **Item 7 – Types of Clients**

Pugh Capital provides portfolio management services to banks or other financial institutions, public and corporate pension plans, medical and charitable institutions, foundations, endowments, municipalities and trust programs.

Pugh Capital accepts new client accounts that start with at least \$15 million for all product offerings.

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

The fixed income market is comprised of a variety of investors with different goals and risk constraints. Pugh Capital believes these competing interests can create inefficiencies within the market that can be exploited through active management. However, Pugh Capital also recognizes that fixed income securities have asymmetrical risks relative to upside potential and therefore we embrace active risk management.

Pugh Capital's investment approach is designed to provide incremental return relative to the benchmark while minimizing downside risk. Client portfolios are invested in the full spectrum of investment-grade securities, with an emphasis on higher credit quality securities. Portfolio durations are managed within a range of +/- 10% of the client's Index.

Pugh Capital's investment process typically begins with top-down analysis of the economy, the fixed income and equity markets and the political environment to determine investment themes. The firm uses this information to develop a portfolio profile that incorporates targets for each sector of the fixed income market, as well as duration targets. This profile is used to position the firm for market opportunities. From a macro perspective, sector allocation is the most significant variable, while duration and yield curve decisions are more tightly constrained.

Security selection is also very important part of our process. Once the sector targets and maturity buckets have been identified, the firm then uses a bottom-up research approach to identify the most attractive individual issues to populate the identified sectors. The firm uses an industry framework to identify key trends and to identify relative value among

issuers. Some key fundamental factors include commitment to bond ratings, debt to market cap, free cash flow and industry dynamics. Our analysts perform fundamental analysis within an industry framework. Each analyst prepares an industry report for each industry he or she covers on an annual basis. Industry reports include issuer analysis and recommendations based on a perspective of identifying core issuers, opportunistic issuers and pans. Analysts conduct their own credit assessments of individual issuers. Their industry and issuers analysis are presented to Pugh Capital's investment committee for approval. The firm maintains a corporate buy/sell list that is updated on a regular basis.

Over a market cycle, Pugh Capital seeks to capitalize on the transitional periods where the market is experiencing either greed or fear. This typically occurs when there are shocks to the system such as a large company bankruptcy, a credit crunch or a severe recession. The firm will also position portfolios to take advantage of individual security inefficiencies, such as when new issues are brought to market with a concession to their secondary trading levels.

Pugh Capital's team of investment professionals conducts extensive in-house research on the economy, interest rates, sectors and individual securities. The analysts and portfolio managers also use various third party research sources to ensure we remain current on market events, have an understanding of different viewpoints, and to supplement our own analysis. The firm also utilizes research from other sources such as the Federal Reserve, Bloomberg and BondEdge, to provide input into our research process.

Research on the economy and specific sectors of the fixed income markets are conducted by Pugh Capital's portfolio managers and analysts. The process incorporates internally generated reports and graphs on the economy, interest rates and historical spread relationships using a standard deviation methodology to highlight areas that warrant further evaluation.

Macro research focuses on analysis of key economic indicators and interest rates, supply/demand trends, market volatility, credit and mortgage trends, market liquidity and the relationship between sector and yield curve spreads. The result of this analysis is used to determine our desired portfolio profile, which includes duration and yield curve positioning and sector allocation targets.

Some of the outputs of the firm's research efforts include analysts' industry and company research reports, internal buy/sell lists, mortgage relative value reports, the firm's



economic outlook, interest rate scenarios, portfolio analytics, new product analysis and portfolio profiles for a given product.

Research results are shared regularly at the firm's Investment Committee meeting, or as needed to take advantage of an investment opportunity.

For the analysis of the agency mortgage sector, Pugh Capital incorporates our top down analysis to identify key themes that may influence the mortgage sector. The firm combines this top down view with our relative value screens to identify which mortgage coupons should be over or underweighted. Pugh Capital has developed a report that highlights a number of relative value screens across the mortgage security coupon curve including total return scenario analyses, duration volatility, prepay sensitivity and yield and option-adjusted spread analysis. Once specific coupons have been identified the firm determines whether there are specified pool strategies that might provide additional alpha.

In terms of specific security analysis for Commercial Mortgage Backed Securities (CMBS), we look at historical delinquency performance, geographic and property type concentrations, top 10 loan exposures, percent of loans in special servicing, original and current credit enhancement, ratings changes if applicable, and other valuation indicators. We review a security relative to the averages in each of these areas for a given vintage (origination year) to arrive at investment decisions. We are able to track the universe of CMBS securities using Bloomberg, which provides detailed reporting on each public CMBS deal. In Asset-Backed Securities (ABS), we primarily hold positions backed by automobile loans or credit card receivables that have an extremely stable credit performance history.

Investing in securities involves risk of loss that clients should be prepared to bear. Pugh Capital has implemented a firm-wide risk management system to control risks associated with our portfolios. All portfolio positions, trades, and transaction data are stored in a centralized data system using Advent Axyx software. Portfolio data is updated in our BondEdge portfolio analytical system daily. Pugh Capital uses BondEdge for routine checks on portfolio position limits, durations, sector allocations, maturity and quality distributions and other parameters. In addition, BondEdge provides more complex analysis including comparisons with client benchmarks, stress tests, Monte Carlo simulations for scenario analysis, and portfolio performance attribution. Pugh Capital utilizes these tools and analysis to monitor risks as well as to enhance portfolio returns. The firm has developed internal risk management guidelines and monitors these using both BondEdge and our

trading system Linedata Longview. Pugh Capital also uses Bloomberg to verify data and validate the pricing in both BondEdge and IDC to ensure that the portfolio managers receive reliable information.

To control and monitor credit risks, on an annual basis Pugh Capital's credit analysts present the Investment Committee with a deep-dive analysis on their covered industries. Each quarter, analysts update their recommendations on their corporate sectors and individual credit names with the new information about companies' operations results and financial conditions. They inform portfolio managers immediately upon any significant event that they view as an increase in credit risk.

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

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

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

Pugh Capital is not engaged in any financial industry activities other than giving investment advice. Pugh Capital is an independent, 100% employee owned firm. It does not have any affiliate relationships. Pugh Capital does not receive compensation for recommending or selecting other investment advisers for its clients.

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

Pugh Capital's code of ethics adopted is pursuant to SEC rule 204A-1. We believe that our most valuable assets include our reputation for integrity and professionalism. The confidence and trust of clients should be valued and protected by every employee at Pugh Capital. Pugh Capital has adopted a code of ethics for all employees of the firm describing

its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All employees at Pugh Capital must acknowledge the terms of the Code of Ethics annually, or as amended.

Each employee is responsible for ensuring that he or she does not violate the federal securities laws and the prohibitions and procedures set forth in the above documents.

In general, the Code of Ethics requires every employee to pre-clear certain personal securities trades with the CCO and to report such trades quarterly. It also restricts certain access persons from making securities trades when in possession of material nonpublic information about the issuer.

Pugh Capital would be happy to provide a full copy of our Code of Ethics to any client or prospective client upon request.

It is Pugh Capital's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer, which does not apply to Pugh Capital.

Pugh Capital does not execute internal cross trades for any account.

**Item 12 – Brokerage Practices**

The decision of which broker to use will be based on two major criteria:

- 1) Whenever possible, Pugh Capital will contact several brokers for pricing securities in order to obtain the best execution for its clients.
- 2) The broker's reputation and the customer service it provides to Pugh Capital may be a factor in the selection of brokers.

Occasionally, clients request that we use their list of brokers. Pugh Capital's ability to achieve best execution may be limited when clients direct it to execute securities transaction through a specific broker-dealer. In a directed brokerage account, the client may pay higher brokerage costs because Pugh Capital may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.

Commission rates paid, if any, will be negotiated by one of Pugh Capital's portfolio managers. Typically, there are no commissions paid on fixed income security trades.

Pugh Capital considers its best execution policy of paramount importance in executing trades. It believes that soft dollar relationships can impair a firm's ability to provide best execution on all of its trades. As such, Pugh Capital has not entered into any soft dollar arrangements that require business be conducted with a given broker-dealer, and it is Pugh Capital's intention not to enter into any such contract in the future. However, Pugh Capital does receive benefits such as proprietary research from various dealers on its approved list. But Pugh Capital does not direct client transactions to a particular broker-dealer in return for soft dollar benefits.

Pugh Capital does not consider client referrals from a broker-dealer or third party as a factor in selecting or recommending broker-dealers. Pugh Capital does not direct client transactions to a particular broker-dealer in return for client referrals. Our clients' interest in receiving the most favorable execution is of foremost importance for Pugh Capital.

Pugh Capital aggregates client orders to obtain the best possible price, normally obtains securities in one order at one price, and allocates trades to client accounts immediately after the aggregated order is executed. Allocations are recorded in the trading software with any exceptions explained.

### **Item 13 – Review of Accounts**

Pugh Capital employs a top down investment philosophy. The Investment Committee, which includes all our portfolio managers and analysts, meets twice monthly to review client portfolios, the economy and fixed income markets. We update our economic outlook monthly, which serves as the starting point for our fixed income analysis. Market sectors are ranked on a relative value basis using internally generated reports. Each portfolio's compliance with client policies is evaluated on an ongoing basis. The portfolio managers regularly review the portfolio holdings and characteristics. Performance versus client benchmarks is calculated and discussed monthly.

Pugh Capital's standard reporting process for our clients includes a quarter-end packet that contains a qualitative review of the market and the portfolio along with a portfolio appraisal and the following reports: performance, realized gains and losses, purchase and sale, and fixed income distribution. Each quarter the firm offers to all of its clients a conference call to provide an update on the portfolio, investment performance, strategy and current market outlook. In addition to our standard quarterly reporting, we work with each client to address their unique reporting needs and to ensure all reporting is received within the desired timeframe.

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

Pugh Capital does not directly or indirectly compensate any person who is not its supervised person for client referrals. The firm's marketing staff receives incentive compensation for client referrals.

Neither the firm nor its employees have any arrangements to receive cash or some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients.

### **Item 15 – Custody**

Pugh Capital does not have custody of client assets. Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains client's investment assets. Pugh Capital urges clients to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

Pugh Capital usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Pugh Capital observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Pugh Capital's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Pugh Capital in writing. A contract allowing discretionary trades signed by an authorized individual must be provided before any discretionary trading takes place.

At the time a new client relationship is established, Pugh Capital receives the client's investment guidelines, which identify investment criteria for the account. Pugh Capital's portfolio managers adhere to those guidelines in making all investment decisions.



Form ADV Part 2A

Portfolio transactions will be conducted by one of the firm's portfolio managers or analysts, and will be based on information discussed in the firm's investment meetings.

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

Pugh Capital specializes in the management of fixed income portfolios. As such, the firm does not receive shareholder proxies on behalf of our clients. In the unlikely event that a proxy was provided to the firm for a security held on behalf of a client, we would submit the proxy directly to the respective client.

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

As a registered investment adviser, we are required in this Item to provide you with certain financial information or disclosures about Pugh Capital's financial condition. Pugh Capital 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.