

## **Form ADV Part 2A Brochure**

### **Item 1 – Cover Page**

#### **Collegiate Capital Management, Inc.**

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**October 20, 2016**

This Brochure provides information about the qualifications and business practices of Collegiate Capital Management, Inc. (CCM). If you have any questions about the contents of this Brochure, please contact us using one of the methods provided above.

CCM is a Registered Investment Adviser. Our Firm provides investment advisory services to our clients subject to regulation by the United States Securities and Exchange Commission (SEC). A firm's registration as an Investment Adviser does not imply any specific level of skill or training. We are fiduciary to our clients and as such must act at all time in the best interest of our clients-resolving all conflicts in the best interest of our clients.

The oral and written communications of an Adviser provide you with information to determine whether to hire or retain an Adviser. The information in this Brochure, while required by the SEC to be included in this document, has not been approved or verified by the SEC or any state securities authority.

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

## **Item 2 – Material Changes**

**October 20, 2016**

The purpose of this section is to inform individuals that have seen our most recent Brochure of any material changes since the completion of the previous version. If you are receiving this brochure for the first time, this section may not be relevant to you. CCM reviews and updates our brochure at least annually or when material changes within our Firm have occurred since the annual update to our brochure dated March 16, 2016.

CCM has initiated a Wrap Fee Program at Charles Schwab & Co. The details of this program are described in our Wrap Fee Program Brochure.

Investment Adviser Representatives (“IARs”), with the client’s previous authorization, may purchase structured products in client accounts. See disclosures about the risks of structured products under Item 8.

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#### **Item 4 – Advisory Business**

Collegiate Capital Management, Inc. (“CCM,” “Firm,” “we,” “our,” or “us”) was incorporated in July of 1994, and is currently registered as an investment adviser with the SEC. Dr. Tony W. Sigmon, the original founder of the Firm, owns CCM. The Firm’s headquarters is located in Raleigh, North Carolina, and the Firm has branch office locations in Decatur, Georgia; Charlottesville, Virginia; and Austin, Texas. Dr. Sigmon and Mr. D. Grant Walker have been colleagues at the Firm since 1999 and have enjoyed a successful collaborative effort that has benefited the Firm’s clients in many ways. Immediate members of Dr. Sigmon’s family work at the Firm in various positions. We believe this staffing structure offers our clients dedicated individuals that have a strong team bias and will provide our clients with continuity in the long-term. The following describes the responsibility of the Firm’s key employees:

Dr. Tony W. Sigmon – Corporate President, Chief Compliance Officer, Investment Adviser Representative (“IAR”) of CCM, Registered Representative of Securities Service Network, Inc. (SSN)

Mr. D. Grant Walker – Chief Investment Officer, Corporate Vice President, IAR of CCM, and Registered Representative of SSN

Mr. Cory B. Capps – Vice President of Investment Management, IAR of CCM, and Registered Representative of SSN

Mr. Daniel Sigmon – Vice President of Financial Planning, IAR of CCM, and Registered Representative of SSN

Mr. Jason Cole – Director of Client Services

Mrs. Erin R. Capps – Director of Compliance

Ms. Jennifer Robinson – Director of Operations

T. Sigmon, G. Walker, C. Capps, and D. Sigmon, acting as IARs, work with the Firm’s clients daily and are responsible for the management of each of their client’s portfolios and for maintaining communications with their clients. These four individuals form the Investment Committee of the Firm.

#### **Clients and Their Accounts**

Most of our clients have at least one employer-sponsored retirement account and one or more brokerage accounts at Schwab. Generally, the employer-sponsored accounts are 401(a), 403(b) and 457(b) accounts. For each of these account types, the employer has provided the client with a small number of vendors that can act as custodian of their accounts. One of our roles as advisors is to suggest to the client one or more of these as vendors to act as custodian of their account(s). In some cases, there is only one available custodian for a certain account types. The most appropriate custodian for a client will depend upon many factors, including other accounts of the client, investment options made available by each custodian and flexibilities offered by each custodian. Employer-sponsored accounts are not eligible for the firm’s wrap fee program

#### **New Client Processes**

In most cases, a restructuring of the client's accounts is completed in order to consolidate duplicative accounts, take advantage of triggering events based on age and employment status that allow rolling over assets in an employer-sponsored account into a IRA, or take advantage of specific attributes offered by a particular custodian. CCM completes for our client's signature all forms necessary to transact these changes. No accounts can be opened or closed, nor can assets be transferred between accounts, without the signature of our client on all required forms.

Many of our clients will have non-employer brokerage accounts. Others will roll over employer-sponsored accounts into brokerage IRA accounts. For non-employer brokerage accounts, we require those clients that wish to participate in our firm's wrap fee program to use Charles Schwab & CO., Inc. ("Schwab"), a FINRA registered broker-dealer, member SIPC, as the qualified custodian of the client's assets. See Item 12 below for more information about Schwab.

### Asset Management

CCM offers asset management services to clients pursuant to a properly executed Client Agreement. The Client-Relationship Addendum to the Client Agreement will describe any restrictions imposed by the client, including restrictions on investment in certain securities or types of securities. The Firm's IARs develop an asset allocation strategy consistent with each individual client's investment objectives, financial and tax status, risk tolerance, and time horizon as documented in this addendum. The addendum also lists the accounts to be managed and whether the fee is to be paid by check or debited from a particular account. The Firm invests client assets in mutual funds, individual equities, and various fixed income investments. CCM offers customized investment advice and model portfolios. After the client discovery process, the Firm's IAR will determine if either service is appropriate to meet the client's needs and make a recommendation.

### Customized Investment Advice

The financial and other personal information that the client provides to CCM determines all investment analyses, recommendations, and decisions. The client should provide all relevant information that might affect any investment decisions. It remains the client's responsibility to advise CCM of any changes in circumstances (e.g., financial needs, objectives, goals and investments held with other firms) that impact the client's financial condition and that therefore may affect our approach. Transactions in non-retirement accounts may trigger taxable consequences.

Clients that participate receive a broad range of asset management, financial planning and consulting services which may include any or all of the following:

- Asset Management
- Consolidated Portfolio Reporting
- Access to our Proprietary Client Portal
- Trust and Estate Planning
- Financial Planning
- Insurance Needs Analysis
- Retirement Planning
- Retirement Income Analysis
- Investment Risk Management
- Charitable Giving
- Retirement Income Planning
- Tax Planning

Once the appropriate asset allocation strategy has been determined, the Firm assists with the transfer/rollover of a new client's existing assets to another custodian and invests in investment vehicles consistent with the agreed upon asset allocation. The fixed income allocation may include: (a) certificates of deposit; (b) money market funds; (c) U.S. government securities; (d) U.S. corporate debt; (e) municipal securities; (f) bond mutual funds; and (g) fixed accounts of annuity products. The equity portion of the allocation may include the following: (a) individual stocks that are exchange traded; (b) individual stocks that trade over the counter; (c) individual stocks issued by foreign corporations; (d) equity mutual funds; (e) variable annuity products; and (f) exchange traded funds (ETFs). We only suggest variable annuities to our clients in rare cases when particular client circumstances would warrant such counsel. We do have a small number of legacy annuity contracts that we manage for our clients. In some cases, we may assist our clients in completing 1035 exchanges to a no-load annuity with lower expense ratios than the legacy contract.

Our clients' accounts collectively form a portfolio. The portfolio is managed to take advantage of the complementary characteristics offered by each custodian. For this reason, our clients should not evaluate the performance of a single account without consideration of the collective portfolio.

When developing and executing an investment strategy, the client's IAR will perform the following:

- Consult with the client and analyze the client's financial needs and objectives based upon the information provided by the client.
- Recommend investment strategies the IAR believes are suited to the client's financial needs and objectives.
- Conduct portfolio reviews on a frequency dictated by client directives, market conditions or CCM's perceived need. Generally, these reviews are conducted at least annually.
- Provide the client with quarterly statements of portfolio holdings.
- Provide the client with access to our proprietary client portal that provides aggregated portfolio account information across all custodians.

Most of the employer-sponsored accounts that we manage utilize either Fidelity Investments or TIAA as custodian. In many cases, employer-sponsored accounts allow participants to utilize a relatively small number of investment options in the "core" component of the account and to greatly expand the number of investment options by utilizing the custodians' self-directed brokerage (SDB). Mutual funds offered in employer-sponsored accounts are available without transaction fees in the core while SDB makes available both no transaction fee funds (NTF) and transaction fee funds (TF)-the latter generally having lower annual expense ratios.

In non-employer accounts held at Schwab, both TF and NTF funds are available. In like manner, both TF and NTF ETFs are offered within Schwab brokerage accounts. Under no circumstance in either account type are mutual funds purchased that impose a "load". *Please also see Factors Considered in Purchasing Mutual Funds in Item 12.*

#### CCM Model Portfolios

CCM offers four risk-based model portfolios that can be selected by certain clients. To participate, each portfolio must consist only of retirement accounts held at Schwab or within an employer-sponsored retirement account held at Fidelity Brokerage Services or TIAA-CREF that provides access to self-directed brokerage.

Since we believe that certain asset levels require a more comprehensive approach that includes tax considerations, risk management and estate planning issues and considerably more personal interactions between client and advisor, the total portfolio generally can't exceed \$250,000.

These portfolios are intended for individuals with more modest asset levels that do not wish to incur the costs for a broader set of services offered in our customized portfolios. Interactions with clients are generally limited to electronic and telephonic exchanges.

#### Additional Disclosures

The Firm does not make new investments in limited partnerships on behalf of our clients. However, on occasion, a new client may have such holding(s) that become part of the advisory assets. In these cases, the Firm strives to act in the best interest of the client regarding a hold or sell decision.

Discretionary portfolios are those for which the client has authorized the IAR to determine the holding, quantity and timing of trades at the IAR's discretion based on guidelines provided by the client. Non-discretionary accounts are those that require the IAR to receive the client's approval before initiating any trade. Although the Firm's IARs believe that we can best serve our clients by acting on a discretionary basis, the Firm does have clients that prefer a non-discretionary relationship. We believe that in many cases our work is time sensitive and that reaching out to a large number of clients before implementing investment decisions might not be in the client's best interest.

Several of the Firm's IARs from time to time receive commissions while acting as licensed insurance agents. These commissions are limited to sales of fixed annuity products and, on occasion, life insurance.

#### Assets Under Management

As of December 30, 2015, the Firm managed \$214,118,308 in discretionary assets and \$40,502,092 in non-discretionary assets. These assets under management ("AUM") are those for which the Firm provides ongoing management. The custodian of each account reports these valuations to the Firm through electronic means.

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

Advisory fees paid by the client compensate the Firm for its services. All fees paid to CCM for investment advisory services are separate from fees and expenses charged to owners of mutual fund shares or variable annuity contracts by the product sponsor or the account custodian. CCM does not impose start-up, closing or annual maintenance fees, redemption fees, or penalty fees in connection with the portfolio, although the custodian of the account may impose such fees.

Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, short-term redemption fees, odd-lot differentials, transfer taxes, wire transfer and

electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Fund prospectuses disclose any management fees for mutual funds and exchange traded funds. Such charges, fees and commissions are exclusive of and in addition to our fee. Neither CCM nor its employees receive any portion of these commissions, fees, and costs for assets held in advisory brokerage accounts. Item 12 discusses our Firm's use of brokerage accounts. Clients have the option to purchase products that our Firm recommends through other brokers or agents that are not affiliated with CCM.

#### Fees for Customized Investment Advice

The percentage fee each client is charged for advisory services is determined based upon the linear fee structure shown below. CCM does not negotiate fees.

Portfolio Value	Annual Fee Percentage
Up to \$99,999	2.25%
\$100,000 - \$249,999	1.75%
\$250,000 - \$499,999	1.50%
\$500,000 - \$999,999	1.25%
\$1,000,000 - \$2,999,999	1.00%
\$3,000,000 - \$4,999,999	0.90%
\$5,000,000 - \$9,999,999	0.80%
Greater than \$10,000,000	0.75%

As AUM increase above certain breakpoints, the percentage fee on all assets decreases and vice versa. When a client reaches a breakpoint, all AUM are charged at this new percentage rate. The fee percentage applied to each portfolio will only change during the normal quarterly billing period. With prior consent from each party, CCM combines assets of spouses, children, parents, siblings, partners living at the same address and corporate or trust assets for which any of these individuals act as corporate officer or trustee when determining the fee percentage that will apply to the managed assets of these individuals and entities.

#### Fees for CCM Model Portfolios

The advisory fee for the management of the CCM Model Portfolios is 0.90% per annum.

#### General Fee Disclosures

The Firm charges certain clients an advisory fee based on a fee schedule that is different from the above schedule. These clients have previously executed client agreements that contained earlier versions of the Firm's fee schedule.

- a. *Payment.* Fees are payable quarterly, in advance, upon deposit of funds or securities into the portfolio. An initial payment will be prorated to cover the period from the date the assets are first held by the agreed upon custodian through the end of the current calendar quarter. In cases where



transaction costs borne by CCM to generate the funds for the payment of quarterly advisory fees exceed the fee itself, CCM may choose to bill the advisory fee for that account annually in arrears or not bill a client for partial fees that would result in a small payment.

b. *Calculation of Fee.* The Firm computes the fee for each full calendar quarter based upon the value of the assets at the close of the market on the last business day (valuation day) of the previous quarter and the applicable fee percentage. For example, a client whose annual fee percentage is 1.25% will be billed for the second quarter based on the value of the assets at the close of business on March 31st (or the last business day of March) according to the following algorithm:

$$\text{Fee} = \text{Value of Assets at the End of the Previous Quarter} \times (0.0125/4)$$

For new advisory assets, a partial fee will be billed based upon the fraction of the quarter for which the agreed upon custodian holds the assets. The Firm uses 91 billable days per calendar quarter for this calculation. As an example, if for this same client the assets fall under management on March 10th, the partial fee for that first quarter will be computed based upon the following algorithm:

$$\text{Fee} = \text{Value of the Assets on March 10th} \times (0.0125/4) \times (22/91)$$

c. *Computing Market Value.* In computing the market value of the portfolio, each equity security listed on a national securities exchange will be valued at the most recent market close. The custodian provides pricing for certain fixed income investments based upon information received from pricing matrix services. The price for any one fixed income instrument may not include such factors as liquidity, position sizes in any one account, or recent news concerning the issuer. The Firm includes accrued interest in fixed income accounts as a part of the market value on client portfolio statements and considers this also a component of the client's billable assets. While we make reasonable efforts to test the reliability of our sources, the Firm cannot guarantee the accuracy and completeness of the information provided to us. Discrepancies with custodial statements may arise due to different methodologies for calculating accrued interest for fixed income investments used by the custodian and the Firm's portfolio management software. CCM does make a reasonable attempt to verify both securities and fixed income pricing provided by the account custodian using independent sources. Stable value funds are generally priced at \$1.00 per unit.

d. *Additions and Withdrawals.* Clients may make additions and withdrawals to the portfolio at any time, subject to IRS and employer constraints and the usual and customary securities settlement procedures. Additional assets received into the portfolio, other than regular bimonthly and monthly contributions; will be charged a pro rata fee based upon the number of days remaining in the quarter in the same manner described in (b) Calculation of Fee. The market value of the deposits used in the partial fee calculation will be the value of the deposit on the date of deposit into an advisory account. CCM does not make fee adjustments for partial withdrawals or for the portfolio's appreciation or depreciation within a billing period.

e. *Termination.* Both CCM and the client have the authority to terminate the advisory relationship at any time. A pro rata refund of fees will be paid to the client according to (b) Calculation of Fee, if

either the client or CCM terminate the agreement within a given quarter after the fee for that quarter has been paid.

f. *Payment Method.* Authorization to bill specific accounts for fees is contained within the Client Agreement and Client-Relationship Addendum executed by the client and the Firm. The Firm receives advisory fees in one of the following two ways:

1. *Deducted from the client's portfolio, when due.* The IAR selects the specific investment within an account to liquidate if needed to generate funds for the payment of the fee. The client should not assume that the custodian determines or verifies the correct calculation of the fee. Authorization for the automatic deduction of fees from client accounts is contained in the Client Agreement. The client may instruct CCM to debit fees from one account for payment of the fee due for the management of one or more other advisory accounts. Fees for after-tax accounts are not debited from retirement accounts. Quarterly statements provided by the custodian of the account(s) will show the amount of the fee deducted. The client may terminate authorization for automatic fee deduction by notifying CCM or the custodian in writing.

2. *Paid by check.* Fees not directly debited from a client's portfolio are paid by check, consistent with an invoice provided by the Firm. Checks should be made payable to Collegiate Capital Management, Inc.

Our Firm is sensitive and attentive to the various conflicts that arise during the course of our business. We have developed and periodically review and update a Conflicts of Interest Matrix that identifies these conflicts and describes how we address each in order to mitigate risk.

This review consists of a testing process that identifies procedures to be tested, method of testing, results, and follow-up actions required. CCM also conducts an annual review of our procedures to identify weaknesses and corrective actions. We will provide a summary of these conflicts when requested by the client.

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

Some advisory firms receive a portion of the appreciation in a client portfolio as full or partial payment for services. CCM does not receive compensation in the form of these performance-based fees.

#### **Item 7 – Types of Clients**

Our Firm provides portfolio management services to individuals, high net worth individuals, business entities, charitable organizations, trusts and estates. The Firm does not require a minimum portfolio value for our clients. However, because of our fee structure, we do not believe that it is necessarily in an individual's best interest to utilize our Firm for the management of assets under \$100,000 unless this threshold is expected to be exceeded soon after entering the advisory relationship.

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

CCM follows an investment management approach that incorporates the strengths of our staff in the fields of finance, business, mathematics, physical sciences and behavioral economics. These perspectives

collaboratively sustain a methodology that seeks to achieve a balanced approach in addressing the relationship between risk and return. Each IAR accesses firm-wide research and analyses which supplement each IAR's own readings and investigations. Only each client's IAR has authorization to make trading decisions. Trades may be entered by the IAR or by others in the Firm at the direction of the IAR.

Each member of the investment committee of the Firm is required to stay current with those matters that could affect investment decisions for their client. Each member evaluates and updates their preferred sources of news and analysis. Areas of investigation include world and national events, macroeconomic trends and forecasts, current market drivers and analyses and projections of equity and fixed income market conditions. Additionally, the Firm purchases macroeconomic, equity and fixed income research from several sources.

The investment committee of the Firm meets to discuss market conditions, specific investment ideas independent investigations completed by individual staff members, specific client related investment issues faced by IARs and ideas for future investigation. The results of all these efforts form the basis for investment decisions made by the Firm's IARs.

Because a large percentage of the accounts we manage are employer-sponsored accounts and are restricted to investment in mutual funds, we focus most of our collaborative efforts on the analysis and evaluation of mutual funds. CCM has developed various analytical methods of evaluation that are key to the investment decisions made by our IARs. These analyses begin with a screening of mutual funds that do not satisfy certain criteria such as manager tenure, age of fund and relative ranking based upon a comparison of performance over different periods of time with other funds within the same asset class. CCM overlays the differences in asset class performance over time onto these data. The Firm applies these methods to investment options available within particular employer-sponsored accounts and to a much broader population of funds that can be used in brokerage accounts.

Individual equities and exchange-traded funds (ETFs) may be a part of a client's brokerage account depending upon several factors including the client's risk tolerance. The Firm evaluates individual equities and ETFs using the purchased research mentioned previously, as well as many publicly available resources including Morningstar, Big Charts, Yahoo Finance and Bloomberg.

IARs use mutual funds, individual bonds, certificates of deposit, money market accounts, fixed annuities and stable value funds as fixed income investments. The Firm evaluates fixed income investments using the same resources described above but also with input from Schwab's fixed income specialists and trading desks as well as third-party bond dealers. Many of our clients have access to stable value funds or fixed annuities in their employer-sponsored retirement plans. IARs select these fixed income investments on their merits when compared to other fixed income options available to a specific client's needs.

IARs may also use structured products in the management of client accounts. A structured product is an investment vehicle based on a basket of underlying securities, such as derivatives, equities, debt issuance, commodities, indices, currencies, or any combination thereof. A structured product can be customized by the investor, and since payoffs and components vary and contain no standards from product to product, the risks vary from one product to another. Structured products are subject to the risk of default by the issuer. Therefore, the financial condition and creditworthiness of the issuer are important considerations when assessing the

ability of the issuer to meet its obligations according to the terms of the structured product. Structured products are intended to be held until maturity. Due to a limited secondary market, it may not be possible to sell a structured product prior to maturity. Additionally, should a secondary market exist, investors who need to sell a structured product prior to maturity may be subject to a significant loss. The potential return on structured products is subject to market volatility and the risks associated with the linked index or basket. The issuers of structured products may choose to hedge their obligations by entering into derivatives and/or trading in one or more instruments, such as options, swaps, or futures. The costs associated with such hedging activity could affect the market value of a structured product. If the investment benchmark is linked to one or more commodities, the investment may be subject to market volatility and risks relating to commodities. If the investment benchmark is linked to a foreign currency or currency basket, the investment may be subject to foreign currency risks.

Our methodology for portfolio management requires first that the client's portfolio have the correct allocation between fixed income and equity investments. We then focus on each of these groups to establish specific holdings. Holdings are selected based upon the types of accounts owned by the client, the choice of investment options available in these accounts, the client's stated investment objectives, restrictions placed on the management of the portfolio by the client, anticipated and past performance of the various alternatives, any restrictions imposed by the custodian on the holding or trading of certain investment options and any other factor that the IAR deems appropriate.

Investing in securities involves certain risks including the loss of capital and clients should be prepared to bear that risk. Investors should be diligent to understand the risks associated with each of their investments and should also understand their exposure to other risks including interest rate risk, credit risk and longevity risk. We encourage our client's to seek our counsel and other sources that they may choose in order to obtain the best possible understanding of these risks. Nondiscretionary clients may incur added risk since some investment approaches are time sensitive and can best be implemented in a timely fashion without a requirement to receive the client's authorization for trades.

#### **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 Collegiate Capital Management, Inc. Our Firm has no such events to report.

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

Three of the Firm's IARs have licenses to offer life and health insurance products. IARs maintain these licenses primarily for the purpose of engaging in general discussions regarding the suitability of life insurance products and, in limited cases, recommending the purchase of fixed annuity products. While CCM does not receive any commissions for insurance recommendations, these individuals receive commissions on the sale of insurance products. This presents a conflict of interest because these individuals may have an incentive to recommend insurance products as a result of the commission received, rather than on the client's needs. In all cases, CCM will fully disclose any insurance commissions to the client. Insurance commissions are separate from any fees

that CCM receives for investment advisory services. Clients are not obligated to act upon any insurance recommendations. IARs allocate less than five percent of their time to this business activity.

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

The Firm's IARs and all staff adhere to a strict Code of Ethics (COE). Each employee of the Firm must certify, annually, that they have read, understand and will abide by the COE. The COE addresses (a) our general standard of business conduct, (b) prohibition against insider trading, (c) personal securities transactions, (d) gifts and entertainment, (e) protecting the confidentiality of client information, (f) employee service as a director or board member of any organization, (g) compliance procedures, (h) certification by employees of certain Firm dictates and procedures, (i) maintenance of records, and (j) reporting violations and sanctions. CCM will provide a copy of our COE to any client or prospect upon request.

## **Item 12 – Brokerage Practices**

### The Custodians and Brokers We Use

CCM does not maintain custody of the assets on which we advise. Although, under certain circumstances, we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account (*see Item 15 Custody, below*). Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank.

Schwab must be the custodian of any brokerage account that is part of our wrap fee program. We are independently owned and operated and not affiliated with Schwab. Schwab will hold your non-employer assets in a brokerage account and buy and sell securities as we instruct. While we require that you use Schwab as custodian/broker to participate in our wrap fee program, you will decide whether to do so and open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you. We do provide the completed forms needed for client signature to cause the account to be opened.

### How We Select Custodians

We seek to use a custodian who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others, these:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear and settle trades (buy and sell securities for your account)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds (ETFs), etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services

- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below (*see “Products and Services Available to Us from Schwab”*)

### Your Custody and Brokerage Costs

CCM pays all commissions and fees on account that are part of our wrap fee program at Schwab. For our clients' accounts it maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. For some accounts, Schwab may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. Schwab's commission rates and asset-based fees applicable to our client accounts were negotiated based on our commitment to maintain \$10 million of our clients' assets statement equity in accounts at Schwab. This commitment benefits you because the overall commission rates and asset-based fees you pay are lower than they would be if we had not made the commitment. In addition to commissions or asset-based fees Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account.

### Products and Services Available to Us from Schwab

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage – trading, custody, reporting and related services – many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us as long as we keep a total of at least \$10 million of our clients' assets in accounts at Schwab. The following is a more detailed description of Schwab's support services:

#### (a) Services that Benefit You

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

#### (b) Services that May Not Directly Benefit You

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

(c) Services that Generally Benefit Only Us

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits such as occasional business entertainment of our personnel.

Our Interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services so long as we keep a total of at least \$10 million of client assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to require that you maintain your account with Schwab based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. It is primarily supported by the scope, quality and price of Schwab's services (based on the factors discussed above – *see "How We Select Custodians"*) and not Schwab's services that benefit only us. We have approximately \$125,000,000 in client assets under management at Schwab, and do not believe that maintaining at least \$10 million of those assets is a risk for our firm.

Employer-Sponsored Accounts

Clients who have employer sponsored accounts generally are required to select a qualified custodian from the list of custodians that their employer has selected. As a participant, the client must choose the qualified

custodian; however, CCM may review the list of options and recommend a broker-dealer/qualified custodian. Based on the options available, CCM primarily considers the range of securities offered by each custodian in recommending a custodian. Secondly, CCM may also consider the following criteria: 1) the availability and accessibility of electronic account information 2) the costs borne by the client and 3) our experience of the custodian's ability and willingness to correct trade errors. We may also have other factors that are considered in addition to the factors listed here. The final choice of broker-dealer/qualified custodian rests with the client. Under these arrangements, clients direct CCM to use a broker-dealer that the client has selected for all trading, and the client may pay higher commission charges. Under these circumstances, CCM may not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. Clients should further understand that when they direct CCM to use a specific broker, disparity in transaction charges might exist with the transaction costs charged to other clients. Generally, CCM is not able to aggregate orders to reduce transaction costs for clients who direct CCM to use a particular broker-dealer, and such clients may receive less favorable prices.

Many university-sponsored retirement plans offer a self-directed brokerage (SDB) component. Using SDB makes available thousands of mutual funds, many more than would be available if SDB were not utilized. The majority of our clients have their university-sponsored accounts held at either TIAA-CREF or Fidelity Brokerage Services. The transaction fee for TIAA-CREF accounts is \$50 for each trade. CCM has negotiated a lower transaction cost of \$30 for clients within SDB at Fidelity. Therefore, a round-trip cost (the cost of buying and selling a mutual fund with a transaction fee) within a TIAA-CREF account is \$100 and for Fidelity \$60.

#### Factors Considered in Purchasing Mutual Funds in Non-Wrap Fee Accounts

Many mutual funds available to our clients are no transaction fee (NTF) funds with only a single share class. Other funds are available in multiple share classes with different annual expense ratios. In some cases, those share classes with the lowest expense ratio impose a transaction fee (TF) when bought and sold. When purchasing mutual funds for client accounts, in particular for SDBs, we sometimes have an option to purchase either a NTF fund or an equivalent TF fund with a lower expense ratio.

CCM pays the transactions costs for wrap fee accounts. In such cases, CCM has an incentive to purchase only NTF funds. This presents a conflict of interest. We strive to always purchase the mutual fund share class with the lowest expense ratio regardless of whether a transaction fee is imposed. CCM has no mechanism to pay the transaction costs in university-sponsored plans, therefore the plan participant must pay the transaction costs. In all cases, CCM must act in the best interest of the client.

In employer-sponsored, or other non-wrap fee accounts, and depending on the transaction fees for the purchase and sale of the fund and the holding period of the fund, the total cost of a TF fund may be lower or higher than the cost of the NTF fund. Lower expense ratios for the same fund in a different share class could result in higher returns. While we cannot definitively know the holding period of a fund at the time of purchase, we assume a holding period of six months. On this basis, we evaluate the total cost to each client of purchasing a TF share class vs. the NTF share class of the same fund. If the annual expense savings between the NTF and TF share classes exceed the transaction costs, we will purchase the TF share class of the fund.



For example, a Fidelity SDB account has a round-trip transaction cost of \$60. If the initial purchase amount of the fund is \$50,000 and there is a 0.25% difference in annual expenses between the NTF and TF share classes, the math would yield:  $\text{Savings} = 0.5 \text{ years} \times \$ 50,000 \times 0.0025 = \$ 62.50$ . In such a case, we would purchase the TF share class of the fund.

#### Other Accounts

Certain clients may have pre-existing annuity accounts for which CCM acts as advisor. Under these arrangements, clients direct CCM to use a broker-dealer/custodian that the client has selected for all trading, and the client may pay higher commission charges. Under these circumstances, CCM may not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved. Clients should further understand that when they direct CCM to use a specific broker, disparity in transaction charges might exist with the transaction costs charged to other clients. Generally, CCM is not able to aggregate orders to reduce transaction costs for clients who direct CCM to use a particular broker-dealer, and such clients may receive less favorable prices.

#### Non-employer Sponsored Accounts Held at a Product Sponsor

We consider these accounts to be custodial accounts as well and are generally non-advisory. The Firm recommends opening these accounts when it anticipates that the asset level will stay at a modest level for some time, simplicity of managing the account, other custody options available for a certain type of account or at the client's instruction. These non-advisory accounts require that the IAR have the client's permission before making any trades in the account.

#### Account Access

The Firm does not have an aggregated direct electronic interface with all of the custodians that our clients may use. For this reason, certain advisory accounts managed by CCM require that the Firm's access persons use the client's personal login information to view account information. In these cases, CCM restricts our actions only to those necessary to carry out the Firm's services as set forth in the executed Client Agreement. These logins do not allow a level of access that provides the ability to withdraw funds or securities or transfer them to an account not in the client's name.

From time to time, and after authorization has been received by the client, one of the Firm's IARs will instruct the custodian that maintains a client account to remit funds or securities from the account to the same client at his or her address of record. Neither CCM nor its representatives have authorization to open accounts on behalf of the client or designate or change the address of record with the custodian without the client's signed consent.

#### Aggregation and Allocation of Transactions

The Firm carries out each client trade individually, unless CCM decides to purchase or sell the same security for several clients at the same time. CCM may combine trades of the same security into "batch" orders to obtain best execution, obtain better pricing, or negotiate more favorable transaction costs. Under this procedure, the Firm sells or purchases the security or securities at an average price. We then allocate these

proceeds among CCM's clients pro rata. Trades for nondiscretionary clients are included in these batch orders only to the extent that discretionary clients are not harmed by any delay in executing the trade.

In the event that CCM determines that a prorated allocation of a batch order 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 give priority to one account when that 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 in 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 batch trade would result in a *de minimis* allocation in one or more accounts, CCM 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.

### **Item 13 – Review of Accounts**

CCM uses Portfolio Center ("PC"), as a portfolio management software tool. PC utilizes electronic interfaces with the custodians of our client accounts and market pricing sources to provide transaction and price data. The Firm and its IARs use this information to provide daily updates of the quantity and value of client holdings. These data are then the basis of various holding, transaction and performance analyses and client reporting.

CCM has a four-tiered approach to the review of client portfolios. Our goal is to insure that we manage assets according to our client's wishes, that we do this with as few errors as possible and that we communicate with our clients in a manner that facilitates their understanding of our approach, actions and results.

**IAR Review** – As a result of the investigations described in Item 8, the Firm's IARs are aware of the short-term and long-term performance of various holdings in client accounts as well as the performance of similar alternative investments. Each IAR makes changes based upon the desired asset allocation, performance of individual holdings, as the client's investment objectives change or based upon factors that are judged by the IAR to be in the best interest of the client based upon any number of market and economic issues.

**Peer Review** – Members of the Investment Committee cross review the portfolios of each IAR's clients periodically. The purpose of this review is to confirm that the management of accounts is consistent with the Firm's policies and procedures, the client's investment instructions and certain criteria established by the investment committee of the Firm. The latter criteria identify certain parameters that might expose the client to added portfolio risk and to set ranges of generally acceptable values for these parameters. It is the responsibility of the IAR assigned to the specific account to address and/or monitor any issues that arise from this review.

Company Review – Each quarter all client portfolios undergo further review during billing and statement generation. Tests are conducted to confirm that the Firm accounts for and assigns each client account to the correct portfolio, individual asset values are correct, definition of proper asset class descriptions is correct and advisory fees are correctly calculated. The Firm provides each client with a quarterly portfolio statement. These statements show the individual holdings in each account, the asset class description, the quantity of each holding, its price, the current value of the holding, and the percentage that each holding represents of the total assets managed. CCM provides an asset allocation chart at the discretion of the IAR or at the request of the client, which shows a breakdown by asset class of the portfolio.

Client Review - The Firm's IARs communicate with their clients through personal meetings, phone conversations or email at least annually during which various aspects of the client's accounts are reviewed. This review may evaluate current holdings, allocations and performance, events that have or will impact their financial plans and any changes needed in our management approach. IARs use these interactions as a chance to share information that will assist the client in understanding the recent nature of the markets and other factors that have influenced our management decisions.

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

CCM does not provide investment advisory services to individuals and other entities unless they are clients of the Firm. The Firm also does not compensate any person or entity for client referrals. Employees of CCM do not accept gifts from or provide gifts to clients or members of the financial industry unless they are of minimal value.

We receive an economic benefit from Schwab in the form of the support products and services it makes available to us and other independent investment advisors that have their clients maintain accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described above (*see Item 12 – Brokerage Practices*). The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

#### **Item 15 – Custody**

CCM has limited custody of some of our clients' funds or securities only resulting from the authorization that allows us to deduct our management fees directly from the client's account. A qualified custodian (generally a broker-dealer, bank, trust company, or other financial institution) holds clients' funds and securities. Clients should receive at least quarterly statements from the qualified custodian that holds and maintains client's investment assets. CCM urges its clients to carefully review statements provided by their custodian(s) and compare those records to the account statements that are provided by our Firm. Statements provided by our Firm may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Should there be a discrepancy between the custodian's records and the statement provided by CCM, the records of the custodian shall prevail.

We periodically request that our clients confirm that they are receiving custodial records, including statements and transaction confirmations directly from the custodian of each account and that the client is also receiving quarterly portfolio summaries from CCM as part of the Firm's compliance testing program.



## **Item 16 – Investment Discretion**

CCM normally receives discretionary authority from the client at the outset of an advisory relationship. Unless a client notes an exception in the Client-Relationship Addendum to the Client Agreement, each client grants the IAR discretionary authority to determine the specific security, the quantity, and the timing of the purchase or sale of each security. In all cases, however, the Firm exercises discretion in a manner consistent with the stated investment objectives of the client and any other restrictions invoked by the client in the Client-Relationship Addendum. For assets that the Firm manages on a non-discretionary basis, the IAR executes trades only after receiving verbal or written authorization from the client. In no case are the Firm's IARs empowered to open or close accounts or transfer assets between accounts without the client's consent and the client's signature on appropriate documents.

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

As a matter of Firm policy and practice, CCM does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. CCM will not provide advice to clients regarding the clients' voting of proxies. In this same way, CCM will not advise a specific course of action regarding participation in investment-related class action suits. We will, however, provide to the client all information that the Firm possesses to allow the client to make an informed decision regarding their participation. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent.

## **Item 18 – Financial Information**

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