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**This brochure provides information about the qualifications and business practices of Sterling Capital Management, Inc. If you have any questions about the contents of this brochure, please contact Tom Portz by telephone at (262) 970-9700 and/or by email at [tomportz@moseco.com](mailto:tomportz@moseco.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 Sterling Capital Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**ITEM 2: MATERIAL CHANGES SINCE THE LAST ANNUAL  
UPDATE:**

There have been no material changes since the last  
annual updating amendment to our SEC Form ADV Part  
2A.

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**ITEM 3: TABLE OF CONTENTS:**

<b>ITEM</b>	<b>Page</b>
1 Cover Page	-
2 Material changes	2
3 Table of Contents	4
4 Advisory Business	5
5 Fees and Compensation	6
6 Performance-Based Fees and Side-By-Side Management	11
7 Types of Clients	12
8 Methods of Analysis, Investment Strategies And Risk Loss	13
9 Disciplinary Information	19
10 Other Financial Industry Activities and Affiliations	19
11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	20
12 Brokerage Practices	22
13 Review of Accounts	28
14 Client Referrals and Other Compensation	29
15 Custody	29
16 Investment Discretion	30
17 Voting Client Securities	31
18 Financial Information	32
19 Requirements for State-Registered Advisers	N/A

#### ITEM 4: ADVISORY BUSINESS

- A. Founded in February 1997, Sterling Capital Management, Inc. ("SCM or the "Advisor") is a corporation that was established in the state of Wisconsin and maintains offices in a landmark property known locally as the Priedeman Estate. Tom Portz is the sole owner of Sterling Capital Management, Inc. and has over 33 years of experience in the financial industry.
- B. The Advisor has a Certified Financial Planner (CFP), and provides financial planning and consulting services to individuals, corporations, and non-profit organizations. The services are provided either for a pre-determined hourly fee or flat fee.

Discretionary and non-discretionary portfolio management is provided to financial planning clients and others. Accounts are separately managed accounts ("SMA's"). They are uniquely tailored in an effort to meet each client's needs and objectives.

Sterling Capital Management, Inc. is the General Partner and investment advisor to Sterlingworth Capital Partners, L.P., a limited partnership also known as a hedge fund. The fund is a single pooled investment fund which is aggressive and non-diversified. It is offered by invitation only, to very high net-worth entities; a complete description of the fund is provided in the fund's *Confidential Private Placement Memorandum (the "Memorandum")*, a document which must be carefully reviewed by any prospective investor (limited partner) prior to investing.

- C. The Advisor manages segregated portfolios for individuals, corporations, and non-profit organizations. While client portfolios may hold similar securities, each portfolio is individually tailored, attempting to match the unique needs and objectives of each client.

The Advisor also manages a hedge fund. This is a pooled account, meaning the monies of more than one client are pooled into a single portfolio and traded as a single entity. The hedge fund is called Sterlingworth Capital Partners, L.P. Sterling Capital Management, Inc. is the sole investment advisor and General Partner to the fund. The fund is offered by invitation only to very high net worth investors.

Clients, other than those of the hedge fund, can impose restrictions on their investment portfolios. A few examples might include avoiding tobacco companies or avoiding purchase of the stock of a company that competes with the client's employer. These restrictions should be submitted to the Advisor in writing.

- D. The Advisor does not offer *wrap accounts*. A wrap account is structured such that a client pays a single fee, or single percentage fee which covers both investment advisory services and brokerage costs.
- E. As of 12/31/2016, The Advisor manages \$84,700,000 on a discretionary basis and \$69,200,000 on a non-discretionary basis.

#### ITEM 5: FEES AND COMPENSATION

- A. **For separately managed accounts, the Advisor's fee is 2% per year. This means the Advisor values the client's assets under management on a quarterly basis and**

charges  $\frac{1}{4}$  of the annual fee on that asset value. Fees are negotiable. The Advisor may choose to provide investment services without a fee.

The fee for financial planning services is \$275.00 per hour. By prior agreement, the Advisor may modify, waive, or otherwise charge a flat fee for service.

For the hedge fund, the Advisor's fee is 2% per year. Fees are calculated by the fund's administrator, Core Fund Solutions of Los Altos, California. While there are management and performance fees associated with the hedge fund, the Advisor has waived such fees indefinitely. The administrator values the fund on a quarterly basis and calculates  $\frac{1}{4}$  of the annual fee on the fund's asset value. The Advisor may choose to negotiate fees or offer services without charge.

- B. Subject to written approval from the client, fees are withdrawn from client accounts quarterly per item A above. The Advisor, at its discretion, may choose to delay the quarterly billing. Clients may pay their fees directly. For the hedge fund, the custodian of the hedge fund will remit fees from the hedge fund directly to the Advisor. Fees may not be paid directly by the client.
- C. In addition to A and B above, clients may incur a combination of other fees, charges, and expenses (see the Brokerage Practices section of this brochure).

For example, clients may also pay brokerage charges. These include commissions charged by a broker to make a stock or bond trade. In connection with the purchase or sale

of income securities, the broker may charge a mark-up or a mark-down. In some instances, there may be a transactional commission charged by a broker to purchase or sell both load and no-load mutual funds. In some instances the Advisor may purchase a class of mutual funds known as C shares. These shares have a level load, meaning the shares have a somewhat higher internal commission structure. Brokers often reduce, discount, or may waive commission fees completely at their discretion. Clients have the option to purchase investment products that SCM recommends through other brokers or agents that are not affiliated with SCM.

It is important to understand that mutual funds also charge advisory fees and expenses. These should be viewed as an additional layer of fees.

Clients may also pay trustee fees on individual retirement accounts, service fees such as wiring fees, and in some instances, fees to open or close accounts. Brokerage firms and the custodians holding the securities account usually charge a flat service fee for each transaction.

For the hedge fund, Interactive Brokers of Greenwich, Connecticut is the Prime Broker and custodian. The Prime Broker and the custodian may or may not receive trailing commissions (12b-1 fees) or expense fees from mutual funds. They may also charge commissions to the hedge fund for securities purchased or sold within the hedge fund. Neither Sterling Capital Management, Inc., nor any of its related entities, nor Moloney Securities, nor any of the officers, directors, or employees receive any direct or indirect trailing compensation or trading fees associated with the activities of the hedge fund.



- D. It is the stated policy of the Advisor to charge fees three months in advance. As mentioned in this section, the Advisor may, at its discretion, delay billing fees.

The Advisor will cease the accrual of advisory fees upon receipt of written notice by a client terminating investment advisory service. A refund will be paid for any fractional period for which the client has already paid or, alternately, charges will be assessed for any fees that have not been billed for a fractional period.

Fees are subject to change. Such changes must be approved by the client in writing. Any approved change in fees shall apply for the entire quarter in which the fee change was signed by the client.

For the hedge fund, advisory fees are paid to the Advisor in the quarter following the period in which they were earned. The Advisor may, at its discretion, delay the remittance of fees. As the Advisor is paid advisory fees in arrears, there will not be any refunds to Limited Partners withdrawing funds as the fees will have been fully earned by the Advisor.

- E. As mentioned herein, the Advisor directs trades through a broker. Certain personnel of the Advisor are also registered representatives of Moloney Securities ("Moloney"), a broker-dealer located in Manchester, Missouri. Moloney provides services to most of SCM's clients. Acting in their capacity of registered representatives, personnel of the Advisor may receive commissions on stock trades, bond trades, and related brokerage services. They may, at their discretion, choose to reduce commissions or complete trades at a loss. They may receive trailing commissions (called 12b-1 fees) on selected mutual funds, and

commissions or trailing commissions on annuities and insurance products. They may receive commissions on initial public offerings and mark-ups or mark-downs on selected income securities. This should be considered additional compensation to The Advisor.

- i. Additional compensation realized by personnel associated with the Advisor may be construed as a conflict of interest. It could be argued that it represents an incentive to recommend investment products based on the compensation received, rather than on the client's needs.
- ii. To address this concern, the Advisor considers the investment products offered in the marketplace, the characteristics of the products, and their fit in the then current economic condition. The Advisor also considers the accessibility and service offered on the products and the support offered by the respective firm assisting in product placement. The Advisor is satisfied that the historic and prospective choice of investments has and may maintain a reasonable balance, addressing overall fit and reasonable overall cost. The Advisor does not represent that any aspect of their fees or that the investment selection is driven solely by the lowest priced product.
- iii. The Advisor may include mutual funds in a client's overall investment portfolio. The Advisor considers funds that have no-load and funds that have front-end or rear-end load.

As also noted herein, most no-load funds and some load funds have a transaction charge upon purchase or sale. The amount of the charge is a factor, but not the primary consideration in choosing a fund.

iv. Tom Portz, the president of the Advisor, also maintains a related business, Sterling Financial, Inc. That firm ultimately receives commissions and related compensation earned by personnel of the Advisor acting in their capacity as registered representatives. Of the total compensation earned by both firms, more than 50% of the total is from the sale of commissionable investment products and trailing commission compensation.

v. Advisory fees are charged in addition to any commissions or other sales compensation. Advisory fees are not reduced to offset commissions or the other compensation received by personnel acting in their capacity as a registered representative. The Advisor may, as stated previously and, at its sole discretion, reduce or forego the overall annual fee charged at the time the account is established. This may be due in part to a belief that certain assets in the account may provide the Advisor, when acting in the capacity of a registered representative, adequate compensation to justify a reduction in the annual fee.

#### **ITEM 6: PERFORMANCE FEES AND SIDE-BY-SIDE MANAGEMENT**

The Advisor does not collect performance allocation fees on any accounts, with the exception of the hedge fund.

For the hedge fund, the Advisor may receive performance allocation fees on a quarterly basis. The fee is 20% of the profits of each investor in the fund. In theory, this additional remuneration could be construed as a conflict of interest as it could be materially greater than the management fees charged on all other client accounts. In practice, this additional fee provides further incentive for the Advisor to pursue exhaustive

research generating data useful to all accounts. While the hedge fund generally tends to be much more aggressive than other client accounts, it is in fact, just one portfolio. The Advisor has the staff, hardware/software, data feeds, and trading capabilities to properly manage all other accounts and the hedge fund.

In that the Advisor may receive a performance allocation fee on the fund, it could be argued that there is a conflict of interest as larger compensation may be earned on the fund as compared to SMA's and the Advisor may have an incentive to favor accounts for which a performance allocation fee is received. The Advisor believes this risk is mitigated by two factors. First, the Advisor has adequate personnel and technology to reasonably manage both the SMA's and the fund. Second, the performance allocation is paid just once on growth in the fund. Therefore, it is in the interest of the Advisor to do all possible research to maximize returns and minimize risk.

These efforts can only benefit SMA's as those accounts generally indirectly enjoy the benefit of this research and risk examination.

#### **ITEM 7: TYPES OF CLIENTS**

The Advisor has a broad mix of **SMA** clients including individuals, high-net worth individuals, pooled investment vehicles, pension and profit sharing plans, trust accounts, corporations, charities and non-profit organizations.

The Advisor has a minimum account size of \$100,000.00. The Advisor can and does waive the minimum if the

Advisor so chooses. The Advisor reserves the right to refuse to provide service to a prospective client.

Investors in the fund must be both “accredited investors” as defined in Rule 501(a) of Regulation D under the Securities Act of 1933 and “qualified clients” as defined in rule 205-3 under the Investment Advisers Act of 1940. The Interests will not be registered under the Securities Act or the securities laws of any state. However, the fund may accept up to thirty five (35) non- accredited “sophisticated investors” who have such knowledge and experience in financial matters to evaluate the merits and risks of an investment in the fund. The Interests will not be registered under the Securities Act of 1933 or the securities laws of any state.

This document is not an offer to sell, nor a solicitation of an offer to buy interests in the fund. Such an investment may be made only after the receipt and review of the Memorandum) and execution of certain agreements. The Memorandum contains important information concerning risk factors and other material aspects of the fund and must be read carefully before any decision whether to invest is made. The information in this document is qualified in its entirety by, and should be read in conjunction with, the information contained in the Memorandum. A copy of the Memorandum is available upon request to SCM to persons meeting the afore-mentioned eligibility criteria.

#### **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

- A. The Advisor focuses on changing factors in the global economy. These types of factors might include political

issues, changing inflation and interest rates, changes in currencies and the comparative economic strength of specific countries and geographic areas.

The interpretation of these types of global issues then leads the Advisor to choose specific stocks, bonds, mutual funds, and related investments. These investments are reviewed based on the Advisor's evaluation of data from one or many sources.

Countless sources of data are utilized. These include, but are not limited to televised news and online information, printed research available to the general public, printed research purchased by the Advisor or received gratuitously by the Advisor, newspaper and magazine information, economic and company research prepared by investment companies, as well as charts and direct information obtained from programs - such as those presented by the Chicago Federal Reserve.

***Risks (Discretionary and Non-Discretionary Accounts):*** SCM's investment strategies involve a risk of loss that clients should be prepared to bear. Our discretionary- managed accounts and our non-discretionary accounts are diversified and the values of SCM's accounts typically fluctuate in a manner consistent with their asset allocation, degree of value style tilt, and prevailing market conditions.

Risks are different for different strategies. As noted, investment programs/portfolios are uniquely structured in an attempt to match the needs and objectives of each client. Most portfolios are balanced, meaning they contain a mix of growth and income securities. Some portfolios limit investment exclusively to income securities. Some

clients prefer and have a risk tolerance that allows all growth securities. A limited number of portfolios, including those of the personnel associated with the Advisor, are quite aggressive. Clients in aggressive portfolios may borrow money (margin) to invest. Some investment portfolios are comprised of after-tax funds. This means the Advisor may seek income securities which have tax advantages, or may consider longer holding periods in an effort to improve after-tax returns. The Advisor believes in relative, rather than absolute, tax efficiency.

A **balanced portfolio** will invest in income securities including certificates of deposit, preferred shares, bonds, bond mutual funds, and exchange traded funds (ETFs) which invest in bonds. These securities have several risks including the default of the issuer. The Advisor could apply reasonable research prior to purchasing such a bond for clients, only to find at some point in the future, that the value of the bond has declined because the issuer has become imperiled. The other significant risk is inflation and rising interest rates. Both factors could cause a loss if the securities are sold before maturity. The Advisor, attempting to find the proper balance between reasonable yield and reasonable maturity could purchase a bond or bond fund that, if sold prior to maturity, would see a decline in value were interest rates to rise. Clients may also obtain a measure of balance through the purchase of selected annuity or insurance products which have some type of rider that provides living income guarantees or living benefits. Balanced portfolios usually include a portion of portfolio assets in some type of growth security discussed in the following paragraph.

**Growth securities** whether as a part of a balanced, growth, or aggressive growth portfolio have a variety of risks. The notion of growth securities, or assets with fluctuating growth characteristics, can be expanded to include stocks, stock mutual funds, ETFs investing in growth securities, structured products, and derivative securities. The Advisor also purchases ETFs which invest in commodities. Certain ETFs are structured to increase in value if prices of their underlying assets decline; these are sometimes referred to as “short securities.” Stocks and stock mutual funds have several risks including a failure of the company to achieve its stated goals, internal fraud at the company, changes in regulation that adversely impacts the company, a lack of interest and lack of bids on the auction-oriented stock exchanges, adverse changes in the economy, and gross external factors such as 9/11. Mutual funds have the risk that their investment advisor fails to properly interpret the economy, the markets, and/or makes poor choices of investments for the mutual fund. ETFs are traded routinely on stock exchanges. They are designed to represent the movement of an index, such as the Standard and Poor’s 500 Stock Index, or one or more companies or commodity(s). They have the inherent risks of stocks, but also have a risk that they may not operate as expected due to internal problems/mechanics. Such problems could limit their ability to properly move up and down in response to movements of the underlying asset(s). Structured products are constructed by an entity, such as a bank. They are based on another asset such as a stock, an index, or commodity. These securities can move in price given the change of several variables, such as the difference between 30 year interest rates and 2 year interest rates. Risks of these securities focus largely on the strength of the issuer and the performance of the underlying reference security or



security relationship. On occasion, and subject to prior written approval of the client, the Advisor uses listed derivatives, also known as listed options, traded daily on organized exchanges. These strategies are largely focused on the use of covered calls which generate income and partially reduce risk. The Advisor may also purchase puts, which are also designed to reduce risk.

**Aggressive portfolios** often include the same securities held in growth portfolios or in the growth section of balanced portfolios. However, these shares may be held in much higher concentrations, they may be traded more frequently for comparatively small percentage price moves, and they may employ leverage (margin). These portfolios are often traded more actively than less aggressive portfolios. The Advisor naturally treats the block trades of these clients somewhat differently and uses a different trading rotation when deciding when and how to individually trade these accounts. The risks associated with these portfolios are similar to growth securities previously discussed, but the risks are greater. When an aggressive growth portfolio declines due to its own merits, or due to overall market and economic conditions, the decline is often greater due to the use of borrowed monies.

It is notable that two identical portfolios with the same strategy may have different returns. While the Advisor may make a single block trade, simultaneously buying selling the same security for all accounts, this is not always possible and it is not always desirable. Often the Advisor uses a rotating system, reviewing a particular client's portfolio, trading a particular security, and then moving on to the next alphabetical client. As markets constantly change, two clients, even with portfolios that are identical in size and

with identical objectives may receive slightly different prices. The Advisor believes this is a minor issue compared to the close security portfolios receive.

The hedge fund is aggressive and non-diversified. It tends to have high turnover and is not tax efficient. The Advisor may overweight positions or sectors in the market. The Advisor may construct partial hedges against loss through the use of one or more derivative strategies. Strategies may include holding securities as long positions or selling securities as short positions. Holding both long and short securities positions may tend to hedge risk. The Advisor may use multi-speed securities to generate return and potentially offset risk. The Advisor may purchase structured products in an effort to generate return and manage risk.

The Advisor provides investment advice regarding retirement plans including 401(k)s. This advisor works with plan sponsors (corporations) in establishing and maintaining any 401(k)s. Service extends to meeting with employees eligible to participate in a 401(k) to help them understand and invest in available 401(k) sub-accounts. In other cases, The Advisor manages the specific retirement plan investment portfolios for the benefit of one or more such employees.

**Prospectuses** are disclosure documents describing the function, objectives, fees and expenses of mutual funds. They can be requested from The Advisor, the respective mutual fund company, or in many cases found on-line. Options are further described in a standardized booklet called **Characteristics and Risks of Standardized Options**. The Advisor will provide this booklet upon request without charge.

## **ITEM 9: DISCIPLINARY INFORMATION**

There are not now and have never been any disciplinary actions against The Advisor. There have never been any disciplinary actions against any of the personnel of The Advisor.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

### **A. General Disclosure**

- i. The Advisor has not registered or applied to register as a broker dealer, futures commission merchant (FCM), commodity trading advisor (CTA), or commodity pool operator (CPO).

The Advisor is the General Partner and advisor to Sterlingworth Capital Partners, L.P., a hedge fund.

- ii. Tom Portz, the president of the Advisor, also owns Sterling Financial, Inc., a financial services company previously identified in Item 5, Section D. iv. This company sells mutual funds, annuities, insurance products, and receives commission assignments from personnel of the Advisor, acting in their capacity of registered representatives. It may be construed as a conflict that this firm, or its personnel, sells products and services to advisory clients which result in additional income to personnel of the Advisor. This product placement and trade execution also requires time. The Advisor believes these conflicts are mitigated and more than offset by the comprehensive and seamless assistance in easily acquiring and servicing specific

investment products. Tom Portz has also been awarded 10 U.S. patents and 6 Canadian Industrial Design Certificates (patents). Mr. Portz has also formed a corporation called Luminex Corporation to further develop such patents. To date, there are no revenues and no conflicts exist.

Under Item 5: FEES AND COMPENSATION of this disclosure, the Advisor discusses the nature, conflicts, and the handling of the conflicts associated with being a registered representative of a broker-dealer.

- B.** The Advisor does not have outside owners or directors that would otherwise might raise questions of conflict of interest.

The Advisor does not have compensation arrangements with other advisory firms, other than the brokerage division of Moloney Securities. Moloney Securities is a broker-dealer. Individuals affiliated with the Advisor also have securities licenses held by Moloney. In the context of maintaining (trading and servicing) advisory and non-advisory clients, these individuals receive compensation on various investment products from Moloney.

**ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONNEL TRADING**

- A.** In accordance with the Advisors Act Rule 204AQ-1, the Advisor has a written Code of Ethics (the “Code”) which is available to anyone upon request. The Code largely focuses on the personal trading protocols of the personnel of the Advisor. Certain critical rules must be followed, such as not trading the same security immediately ahead (same day) as clients, and not shorting a security that has otherwise been

purchased in discretionary accounts as a long position for other clients. The Chief Compliance Officer monitors personnel trades daily.

- B.** Other than in the maintenance of family accounts, the Advisor does not share an interest in any clients' accounts.

Occasionally a security, normally an income security, is traded through a brokerage firm in which a mark-up or a mark-down is added to the net price of the security at the time of the purchase or sale. When personnel of the Advisor, acting in their capacity of registered representatives, are handling this trade, this is incidental compensation to the Advisor. Any amount, no matter how large or how small, can be construed as presenting a conflict of interest. The Advisor, at the time of trade, seeks mark-ups and mark-downs that are comparable with normal mark-up and mark-downs in the marketplace. Such levels are often dictated by the maturity of the security. The Advisor is well aware that net returns to the clients, including mark-ups or mark-downs, are relevant. As earlier stated, the Advisor seeks best execution which is an aggregate of factors and does not represent that clients will necessarily receive the lowest cost on any particular transaction. The Advisor does not provide advice to any other investment company.

The fund may be suitable for some of the SMA clients of the Advisor. The fund is a pooled investment account. As such, monies of the Advisor who is the general partner, and of Tom Portz and Tim Portz who are Limited Partners in the fund, share a common financial interest. The Advisor, and Tom Portz and Tim Portz, portfolio managers of the fund, have a financial interest in the success of the fund as they share in the profits of the fund.

- C. The Advisor believes in its recommendations and personnel of the Advisor often invest in the same securities as those chosen for clients. As noted, personnel may not invest on the same day as the clients ahead of the clients. Personnel may simultaneously trade, meaning join a block trade in the purchase or sale of securities, obtaining the same average price as clients. Personnel may not short a security that it has purchased on a discretionary basis for clients. As personnel of the Advisor may have much larger concentrations than clients in a particular security, or may be pursuing a more aggressive trading strategy, they may sell securities otherwise held as a longer term investments for most, if not all clients. The CCO shall oversee all personnel trades and ascertain if trades by employees have any adverse material impact on shares otherwise held for longer periods in managed client accounts.

#### **ITEM 12: BROKERAGE PRACTICES**

All discretionary accounts are traded through Moloney Securities. Non-discretionary accounts may be maintained at any brokerage firm the client chooses.

For the hedge fund, the Advisor may execute trades at various firms, with coordinated clearing through its Prime Broker, Interactive Brokers.

Personnel of the Advisor are licensed with Moloney Securities and direct all discretionary trades through Moloney. While it is anticipated that most, if not all trades, for the hedge fund will be directed through Interactive Brokers, it is possible to trade the hedge fund elsewhere and clear those trades through Interactive Brokers.

**A. Research and Other Soft Dollar Benefits.**

Prior to the establishment of the hedge fund, the Advisor had not received research or other benefits, known as "soft- dollars." However, brokerage and research firms aggressively solicit hedge fund businesses. Were a firm to provide useful research, and if that firm could offer competitive (not the lowest price), commissions, the hedge fund could trade through that dealer.

- i. With respect to the hedge fund only, credible research coupled with a "competitive" trading fees, permits the fund to trade away from Interactive Brokers and clear through Interactive Brokers.
- ii. The soft-dollar arrangement described in i. above pertains only to research. Such a "competitive trading fee" would be higher commission, and would only apply to trades made within the hedge fund.
- iv. Not applicable.
- v. Though separately managed accounts traded through Moloney would indirectly benefit from such research/knowledge, they would not pay any premium or be traded away from Moloney.
- vi. By definition, the Advisor may only trade away from Interactive Brokers (at what might be a higher commission) if the Advisor believes research provided by the firm has a material value and may add to the net return of the fund.

- vii. The Advisor believes the Advisor's interest and the clients interest are both served if a research firm offering competitive execution can add to the value and insight of a particular investment or overall sector.

**B. Brokerage for Client Referrals.**

- i. The Advisor has not, and has no anticipation, of receiving referrals from the broker-dealer it directs brokerage through. The validity of this point is underscored by the fact that the broker-dealer also owns a registered investment advisor.
- ii. The Advisor benefits from the practice of directing client transactions through a broker dealer. The Advisor believes the clients of the firm also benefit. Moloney, the Advisor's current broker dealer, offers very competitive pricing, but is not the low cost producer. Moloney has extensive support services including stock and bond trading assistance. They have product knowledge and investment experience which support the Advisor and therefore clients of The Advisor. Moloney also has a compliance department which provides the Advisor additional support and insight in the continuing effort to comply with prevailing rules.

As all discretionary trades, for separately managed accounts, are directed through Moloney, the Advisor believes it receives better overall price execution than were it to have to direct trades to multiple, even dozens, of custodians. The Advisor has reviewed other brokerage alternatives and is convinced that it receives excellent overall support service after the trade, including good



support digitally, good direct (human) response, good paperwork, and good back office support from Moloney. Comparison is generally a balance of these and other factors, not price alone.

For the hedge fund, trades will be directed primarily, if not entirely through Interactive Brokers, the Prime Broker. Trades may also be executed at other firms and cleared through Interactive Brokers.

Advisor believes this additional exposure to other firms provides additional data and market views to the Advisor. Rather than pose a conflict of interest, it is viewed by the Advisor as a positive condition as it would tend to give the Advisor a deeper view of the markets and available investment opportunities.

iii. The Advisor derives no trading fees or trailing commissions, direct or indirect, from the hedge fund. Hedge fund compensation is limited to the annual advisory fees and the participation fee.

**C. Directed Brokerage.**

i. For separately managed discretionary accounts, the Advisor only offers Moloney Securities as the broker clients may use.

For separately managed non-discretionary clients may maintain part or all of their accounts at Moloney or another firm of their choosing.

The Advisor does not permit client directed brokerage for the fund. While most, if not all of trading, is likely to be routed through Interactive Brokers, The Advisor does

retain authority to direct brokerage to another firm if it is felt that the firm provides research that is of value to fund participants. It is possible that when the Advisor so directs brokerage, participants in the fund may pay a higher commission than customarily charged by Interactive Brokers.

ii. Some investment advisors permit clients to maintain accounts at one or more brokerage firms with which the Advisor has no direct or indirect association. This is not an option at SCM at this time. Sterling believes continuity and efficiencies are improved by maintaining discretionary business at one brokerage firm.

iii. The Advisor does seek the lowest price execution and there will always be a firm that provides lower trading costs on one or more types of trades. It can be argued that in physically directing trades to more than one firm may result in clients obtaining better pricing at one firm, at one moment in time, than at another firm. It can be argued that in some instances routing all transactions through one firm, Moloney Securities, might cost more than through other firms on certain trades, or may result in occasional transaction having somewhat less efficiency. However, the Advisor believes best execution is not based on price alone, but is the composite of various issues. As previously indicated these include personal contact and handling of transactions before and after the trade, overall speed and trade efficiency for all clients, price, and the depth/responsiveness of all support departments.

iv. Employees of the Advisor have brokerage licenses to transact brokerage business. These licenses are held/maintained through Moloney Securities. These individuals are personnel of the Advisor, and while acting in

the capacity of registered representatives, may receive compensation when they direct trades through Moloney Securities. Compensation may be earned from transactions such as stock trades, bond trades, initial public offering, mark-ups and mark-downs on income securities, insurance and annuity purchases and trailing fees paid on mutual fund and insurance products. This additional compensation may be construed as a conflict of interest. It could be argued that fees/commissions involved with these transactions influence the selection of investments by the Advisor.

The Advisor again affirms previous comments that these fees are on products and services well-presented and serviced by Moloney. They are further serviced and supported by those vendors that support Moloney. This allows the Advisor to have accuracy and depth in assessing product quality and overall brokerage speed and service. When non-discretionary clients select their own broker, the Advisor makes no representation that any effort is made to obtain best execution. This notably includes an inability to assure reasonable speed of trade, speed of service, or any other composite of issues comprising best execution.

- D. The Advisor often makes an aggregate (block) trade. In doing so, the Advisor examines all accounts and makes a single purchase or sale, allocating specific shares/bonds to each respective account.

The Advisor does not always make block trades. In situations where the Advisor does not make a block trade, the Advisor rotates its examination and account trading. A system has been developed which begins each examination with clients at different points in the alphabet.

Systematically reviewing accounts and systematically

trading may result in different prices for different clients. These differences tend to be small and the Advisor believes it has no material impact on comparative returns between similar clients.

The Advisor regularly obtains new accounts, or has additional assets transferred into existing client accounts. Until these accounts are fully invested or rebalanced into securities followed by the Advisor, they may differ from those otherwise managed by the Advisor. During the initial transition period and until these accounts generally match the rest of the Advisor accounts, trades may be more frequent and may not necessarily follow the Advisors alphabetic trading system.

### **ITEM 13: REVIEW OF ACCOUNTS**

The Advisor conducts a formal account review each quarter. However, the continuous stream of global news (wars, inflation, sovereign debt concerns, etc.), as well as company specific events causes the Advisor to review accounts, or investment positions in accounts as frequently as every 10 days and spot/sample check returns every few days. The Advisor also meets with and calls clients from time-to-time to discuss specific portfolio issues or their overall financial plan. Portfolios are reviewed to confirm that they reasonably match the objectives or the client. Performance is evaluated and the attendant risk that is being taken to achieve that performance is considered. Tom Portz and Tim Portz conduct these reviews and are titled as *Portfolio Managers*.

Separately managed clients receive written account summaries quarterly. Hedge fund clients also receive a written quarterly report.

#### **ITEM 14: PAYMENT FOR CLIENT REFERRALS**

The Advisor does not pay for client referrals in SMA's. For the hedge fund, the Memorandum discloses under the section labeled Selling Commissions: *"A portion of the Management Fee and/or Performance Allocation may be remitted to third parties introducing Limited Partners to the Partnership, or the General Partner may use its own resources to compensate third parties for such introductions."*

#### **ITEM 15: CUSTODY**

The Advisor does not have physical custody of any SMA client assets. Personnel of the Advisor, when acting in their capacity as a registered representative, may route checks to the clients' broker or custodian. These checks may not be made payable to Sterling Capital Management, Inc., Sterling Financial, Inc., or any personnel of either of these firms.

Clients receive account statements directly from the broker-dealer, bank or other qualified custodian and the Advisor reminds clients to carefully review those statements. The Advisor also prepares an in-house summary which the Advisor generally sends/reviews with clients quarterly in an effort to stress the importance of reviewing both statements accurately for any discrepancies.

SMA clients of the Advisor sign authorizations for the Advisor to draw fees from the client accounts. As the Advisor calculates this fee and requests this withdrawal from the custodian, the Advisor does have technical custody of the account. This is the only circumstance under which the Advisor takes custody.

The Advisor is not a trustee on any accounts, another technical aspect under which the Advisor would have custody.

The Advisor has custody of the hedge fund because it has the ability to deduct advisory fees payable to it, and has a general power of attorney over the fund's account. Additionally, the Advisor has custody of the fund's assets as it has the ability to pay bills charged to the fund.

Interactive Brokers is the fund's Prime Broker. Execution and clearing services are provided by Interactive Brokers. The physical assets of the fund are also held in an account with Interactive Brokers. Interactive Brokers is a member of Financial Industry Regulatory Authority, Inc. ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

#### **ITEM 16: INVESTMENT DISCRETION**

The majority of clients authorize the Advisor to exercise **discretionary authority** over their accounts. Prior to acting upon this authority, clients must review and sign an advisory agreement, which includes language allowing discretionary authority, a limited power of attorney form, a fee agreement, and fee authorization (allowing funds to be withdrawn from their account). Clients may place restrictions on the account such as a desire to avoid certain securities, certain sectors of the market, and maintain approximate guidelines as to the amount and relative quality of the securities to be purchased. These directives need to be provided to the Advisor in writing and need to be updated by the client if their preferences change.

Discretionary authority will allow the Advisor to purchase and sell securities, switch funds/portfolios within variable annuities, variable life, or mutual fund products. Mutual funds, ETF's, and variable annuities/variable life products have an advisor that directs the purchase and sale of securities in their respective portfolios. In directing the purchase of these types of investments, it could be construed that the manager is selecting other advisors for the clients of Sterling Capital Management, Inc.

The Advisor provides advice to non-discretionary account clients. Upon evaluation of those remarks, non-discretionary clients may or may not take actions based upon the Advisor's comments.

SCM is not limited in its authority to purchase or sell securities for the fund. SCM has full discretion and authority to make all investment decisions with respect to the types of securities to be bought or sold or the amount of securities to be bought or sold.

For the fund, discretionary authority does not give authority to take or have possession of any assets in your account or to direct delivery of any securities or payment of any funds held in the account to our firm. Furthermore, our authority by agreement does not allow us to direct the disposition of such securities or funds to anyone except the account owner.

#### **ITEM 17: VOTING CLIENT SECURITIES**

A. For SMA clients, the Advisor chooses not to vote proxies. Custodians and transfer agents may send proxies directly to clients. Often clients indicate a desire to suppress these mailings and the Advisor may attempt

to do so if it is allowed. Some proxy data can be sent electronically and the Advisor may assist the client in an effort to receive materials (if they wish) in their preferred format.

B. Clients may vote proxies on their own if they so choose. Clients are welcome to call the Advisor to discuss their interest in voting proxies.

C. The Advisor will determine how to vote proxies of the fund.

#### **ITEM 18: FINANCIAL INFORMATION**

As an advisory firm that maintains discretionary authority for client accounts, SCM is also required to disclose any financial condition that is reasonably likely to impair its ability to meet its contractual obligations. The Advisor has no additional financial circumstances to report. SCM undergoes a full annual financial audit of its business on an annual basis. The Advisor 's fiscal year ends on December 31st annually.

The Advisor has not been the subject of a bankruptcy petition at any time during the past ten years.



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