

# Round Hill Asset Management

180 S. Lake Avenue  
Pasadena, CA 91101  
626-431-2685  
[www.rhill.com](http://www.rhill.com)

This brochure provides information about the qualifications and business practices of Round Hill Asset Management (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at 626-431-2685. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about Round Hill Asset Management also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Being a registered investment adviser does not imply a certain level of skill or training.

March 31, 2017

## Item 2. Material Changes

N.A.

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## Item 4. Advisory Business

- A. Round Hill Asset Management has been in business since 1986. Our principal owner is Channing T. Lushbough.
- B. We invest for our clients primarily in stocks we consider undervalued, pursuant to our appraisal of the issuing company's intrinsic value. We define "intrinsic value" as the estimated value a company's shareholders would receive if a company were acquired, merged or liquidated in a friendly, negotiated transaction.

"Intrinsic value" and "margin of safety" are concepts popularized by the late Benjamin Graham. The margin of safety in a stock, if any, is the amount by which the issuer's intrinsic value exceeds its stock price. While adhering closely to our value oriented investment approach, our principal investment objective is to achieve the highest rate of return which is consistent with preservation of capital.

Although our investments are predominantly in stocks we consider undervalued, we also hold some bonds for many clients, and may occasionally invest or trade in other types of securities, including, but not limited to, options, warrants, rights, and other instruments. We may also occasionally pursue opportunities in arbitrage, junk bonds, short sales, or any situation in which we perceive the potential for an attractive return.

- C. Although we may occasionally tailor a portfolio in response to a specific request from a client, we generally do not treat our clients differently. We believe an attractive opportunity should be available to all clients, to the extent possible. Clients may impose restrictions on investing in certain securities or types of securities.
- D. We participate in certain wrap fee programs. We do not manage wrap fee accounts any differently than we manage other accounts. Our wrap fee clients pay us our standard investment advisory fee, and pay an additional fee to their sponsoring broker-dealer.
- E. As of December 31, 2016 we managed client assets on a discretionary basis totaling about \$269,300,000. We do not manage client assets on a non-discretionary basis.

#### Item 5. Fees and Compensation

- A. Our advisory fees range from 1.50% of assets per annum for “equity” accounts to 0.75% of assets per annum for certain “balanced” accounts. An alternative advisory fee schedule offered only to qualified clients is based on account performance. Qualified clients who choose this fee schedule pay a lower flat fee quarterly, and pay an additional fee each year which is based on the performance of their account(s). Advisory fees are not negotiable.
- B. Advisory fees are billed quarterly at the beginning of each calendar quarter, and are deducted from each client’s account. A few clients ask to make alternative payment arrangements, which we generally attempt to accommodate.
- C. We do not charge any other fees to clients, although clients may incur fees charged by custodians, brokerage firms, and money market funds. Clients will incur brokerage and other transactions costs. Our brokerage arrangements are discussed more fully in Item 12. We do not invest in mutual funds for our clients, other than money market funds.
- D. Advisory fees are charged quarterly at the beginning of each calendar quarter. If an advisory contract is terminated, the quarterly fee is prorated over the portion of the calendar quarter for which the contract was in effect.

- E. Neither our firm nor any supervised person receives compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Our firm receives performance-based fees from certain clients. We also receive asset-based fees. In theory, we can face a conflict of interest by managing these accounts at the same time, because we can, in theory, have an incentive to favor accounts for which we or our supervised persons receive a performance-based fee. In practice, we manage all our accounts similarly, whether they pay a fee based on performance or based on assets. Our investment approach typically entails buying and holding securities for months or years. It is not possible to predict the performance of any security in the future, so it would be difficult for us to favor one account over another.

#### Item 7. Types of Clients

We have a variety of clients, including individuals, trusts, and pension plans. We do not have a fixed minimum account size, but we prefer accounts larger than \$100,000.

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

- A. Our investment analysis typically entails a review of a company's publicly available financial statements, including its annual report, proxy statement, and SEC forms 10-K, 10-Q, 8-K and others. We attempt to assess a company's intrinsic value, as opposed to its stock market value. We look for investments where we believe the issuer's intrinsic value significantly exceeds its stock market capitalization. Although our investments are predominantly in stocks we consider undervalued, we also hold some bonds for many clients, and may occasionally invest or trade in other types of securities, including, but not limited to, options, warrants, rights, and other instruments. We may also occasionally pursue opportunities in arbitrage, junk bonds, short sales, or any situation in which we perceive the potential for an attractive return. Although we attempt to avoid losses, investing in securities involves risk of loss that clients should be prepared to bear.
- B. Investing in securities or other instruments entails significant risks, including but not limited to the following:
- Stocks and bonds can lose all their value if a company's fortunes decline significantly.

- Bonds issued by government entities (federal, state, local, or foreign) face permanent losses when the issuing government cannot repay its debts.
  - Although we rarely trade in options, warrants, or other derivative instruments, they can lose all their value in a short period of time.
  - Although we rarely sell securities short, a short sale can subject the seller to the risk of unlimited loss.
  - Although we rarely participate in merger arbitrage or other risk arbitrage, these trading strategies entail significant risk of loss.
- C. As noted previously, stocks and bonds issued by business enterprises can lose all their value if a company's fortunes decline significantly. Bonds issued by government entities (federal, state, local, or foreign) can suffer permanent losses when the issuing government cannot repay its debts. Stocks and bonds can also be affected by local, national, and international political events, economic and business developments, interest rates, and other factors.

#### Item 9. Disciplinary Information

Neither our firm nor any management person has any disciplinary history.

#### Item 10. Other financial industry activities and information

We do not have any other financial industry affiliations, so we do not face the conflicts of interest inherent in such affiliations.

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

A. The Adviser's code of ethics emphasizes, among other things:

- the duty to place client interests ahead of the interests of the Adviser or its management or employees
- the duty to comply with applicable Federal securities laws
- confidentiality of client records
- prohibition from trading based on material non-public information

The Adviser will provide a copy of its code of ethics to any client or prospective client upon request.

- B. We act as general partner in a partnership in which some clients are solicited to invest. As general partner, we can earn a percent of partnership profits exceeding a minimum annual return. The potential to earn a share of profits could conceivably lead us to invite clients to join the partnership, even if it means the client might pay us more for managing her/his investment in the partnership than we would be paid for managing a separate account. The potential for us to earn more from investors in the partnership would only be realized, however if the partnership earns an annual return exceeding the minimum annual return required for us to begin sharing in partnership profits.
- C. Our employees often invest in the same securities purchased for clients. Although this can create a potential conflict of interest, in practice it rarely does, because in most cases orders placed for our clients and orders placed by employees for their own accounts are small in relation to a security's trading volume. We do not typically trade in and out of securities, or attempt to profit from short term swings in security prices.
- D. See C. above.

#### Item 12. Brokerage Practices

- A. In determining which broker or dealer to use and the reasonableness of its commissions, the way in which orders are handled and trades reported, and the value of products, research, and services provided to us for the benefit of clients may be factors.
  - 1. We receive soft dollar benefits from brokerage firms in the form of their proprietary research and/or third party research.
    - a. When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for the research, products or services.
    - b. Because certain brokers may provide us certain research services, we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution.
    - c. Because certain brokers may provide us certain research services, we may cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for research services.
    - d. We use soft dollar benefits to service all of our clients' accounts, and not just the accounts of the clients who may pay for the benefits. We do not

seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate.

- e. A portion of the brokerage commissions paid by some clients over our last fiscal year was credited toward research services, market data, and financial databases, all of which aided our own research, trading, and decision making.
- f. The procedure used to direct a client's brokerage to a particular broker in exchange for research products and services is to open a brokerage account for the client with the broker. When a client opens an account at a broker, all the client's commissions are generally paid to that broker.

2. Brokerage for Client Referrals. Although we have received client referrals from brokers, we do not view this as a material consideration in choosing a brokerage firm for our clients.

- a. We may have an incentive to select or recommend a broker-dealer based on our interest in receiving client referrals, rather than on our clients' interest in receiving most favorable execution.
- b. In our last fiscal year, we did not direct any new clients to brokers in exchange for client referrals. We do execute trades for some clients with a broker who has referred clients to us in the past.

3. Directed Brokerage

- a. We do not routinely recommend, request or require that any client direct us to execute transactions through a specified broker-dealer.
- b. In theory, we could permit a client to direct brokerage, but in practice we do not.

B. We often aggregate client orders by placing a "block" order with a brokerage firm.

Item 13. Review of Accounts

- A. Each day some client accounts are reviewed, primarily with a focus on specific holdings which may have attracted our attention. We also review client accounts periodically, often quarterly but also more frequently, for their composition by asset class, concentrations in specific industries, and holdings of individual securities. All personnel participate in these reviews.
- B. Client accounts can be reviewed at any time, typically with a focus on specific holdings. Reviews of specific holdings on a given day can be inspired by

developing news relating to a holding, or by the proximity of a security price to a price at which we would consider buying or selling the security.

- C. Clients receive written quarterly reports listing their holdings and showing the calculation of their advisory fee. Sometimes additional reports are distributed, including data relating to realized gains, performance, and dividend or interest income.

#### Item 14. Client Referrals and Other Compensation

- A. Certain brokers, investment advisers, and financial planners occasionally refer clients to us. Some financial executives have referred clients to us by having us manage accounts enlisted in their firm's "wrap fee" programs, or similar arrangements. Other investment advisers and financial planners have referred clients to us also. We do not compensate these parties for client referrals, so conflicts of interest are minimized.
- B. We do not typically compensate anyone for client referrals. We have in the past described an arrangement with another investment adviser as such a compensation arrangement, but the other adviser provides its own services to its clients, such as financial planning, asset allocation advice, tax services, etc. This adviser refers some of its clients to us for portfolio management services.

#### Item 15. Custody

Clients typically receive account statements monthly from the broker-dealer or bank that acts as their custodian. Clients should carefully review those statements. Clients also receive account statements from us. We urge clients to compare the account statements received from their custodian with those they receive from us.

#### Item 16. Investment Discretion

We have investment discretion over client accounts. Clients assign us this discretion in our advisory agreement. Clients may indicate to us whether they prefer to invest their accounts predominantly in stocks, or in a mix of stocks and bonds. Some clients may impose restrictions on the investments they are willing to own, for example by avoiding certain companies or industries; these restrictions, however, are imposed only infrequently.



Item 17. Voting Client Securities

We have accepted authority from some (but not all) clients to vote their securities. We attempt to vote client securities in what we believe are the best interests of our clients. We may decline to vote on certain issues, if we believe not voting is in our clients' interest or will have no negative effect on our clients' interests. Clients may obtain a copy of our proxy voting policies and procedures upon request.

Some clients have retained their own voting authority. Those clients receive their proxy statements directly from their custodian or transfer agent. Clients who have not delegated voting authority to us are welcome to contact us any time to ask advice about any particular proxy solicitation.

Item 18. Financial Information

A. NA

B. There is no financial condition which we currently expect could impair our ability to meet contractual commitments to clients.

C. NA

Item 19. Requirements for State-Registered Advisers

A. NA

B. NA

C. We receive performance-based fees from certain clients. The calculation of fees is described in the client's contract with us. Performance-based compensation may, in theory, create an incentive for us to choose investments that may carry a higher degree of risk to the client.

D. NA

E. NA