

# **Energy Opportunities Capital Management, LLC**

## **Form ADV: Part 2A**

Uniform Application for Investment Advisor Registration  
March 29, 2019

### **Item 1: Cover Page**

Part 2A of Form ADV: Firm Brochure  
Submitted March 29, 2019

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**This brochure provides information about the qualifications and business practices of Energy Opportunities Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 512-477-0900. 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 Energy Opportunities Capital Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2: Material Changes**

Our last update was March 29, 2018. The material changes to the content of this brochure include the updating of assets under management, types of services provided, and updated ownership as well as disclosures related to soft dollars and proxy voting.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting us at (512) 477-0900.

Additional information about Energy Opportunities Capital Management, LLC is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for Energy Opportunities Capital Management, LLC is 148186. The SEC's web site also provides information about any persons affiliated with Energy Opportunities Capital Management, LLC who are registered, or are required to be registered, as Investment Adviser Representatives of Energy Opportunities Capital Management, LLC.

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#### **Item 4: Advisory Business**

**Business Description.** Energy Opportunities Capital Management, LLC (“EOCM”) manages investment advisory accounts not involving investment supervisory services. EOCM was formed on May 9, 2008 and became an SEC registered investment adviser on October 6, 2008. EOCM was formed to act as successor to the Energy Opportunities *Original* investment strategy and the Energy Opportunities *Energy Dynamics* investment strategy developed by Orleans Capital Management Corporation (“OCM”) in conjunction with Simmons & Company International (“SCI”). Inception of the *Original* strategy was October 25, 2000. Inception of the *Energy Dynamics* strategy was October 3, 2007. OCM is a privately held, SEC registered investment adviser formed in 1991 and provides primarily fixed income and equity asset management services to public pensions and retirement systems, foundations and endowments, corporations, and high net worth individuals. In February 2016, certain individuals affiliated with EOCM purchased SCI’s 50% ownership in the firm. The individuals include the two portfolio managers (who are also Managing Directors and Board Managers), a Board Manager, and a research analyst.

In October 2000, OCM launched its Energy Opportunities *Original* equity investment strategy designed to capitalize on the developing global energy supply and demand fundamentals. Pursuant to a Research and Sub-Advisory Agreement, SCI provided OCM with energy research and sub-advisory services used by OCM in the execution of the Energy Opportunities strategies.

During 2008, OCM and SCI formed EOCM as a separate entity to manage the Energy Opportunities *Original* as well as the Energy Opportunities *Energy Dynamics* investment strategies and to develop a broader platform to further these and other energy related investment strategies. In February 2016, SCI sold its ownership percentage to certain affiliated individuals. Resulting ownership of the firm is as follows: OCM (50%), L. Farrell Crane, Jr. (20%), Scott B. Gill (20%), Estate of Michael E. Frazier (5%), and John M. Crain (5%).

**Types of Services.** EOCM offers investment advisory services through three investment strategies focused on the energy industry. These are long-only, separately managed accounts and invest solely in publically traded equities. These strategies include the Energy Opportunities *Original* strategy, the Energy Opportunities *Energy Dynamics* strategy, and the Energy Opportunities *Tactical Growth* strategy. These services are offered on a percentage of assets under management basis and, to a lesser extent, on a performance basis.

Our discretionary investment advisory accounts do not involve “investment supervisory services” (i.e., giving the client continuous advice as to the investment of assets on the basis of that client’s overall needs.) EOCM offers three specific energy investment strategies and does not modify its investment strategy based on an individual client’s financial situation, investment experience or investment objective if it differs from the investment objective of EOCM’s strategies. EOCM does not offer tailored client advisory services.

EOCM also provides non-investment related, energy industry consulting services.

**Custodian.** It is not our policy to recommend specific custodians to you. If you do not already have a custodial relationship, we can provide you with the names of some custodians we do business with that you may use. The funds in your account will be held in a separate account, in your name, at a custodian, not with us. You will enter into a separate custodial agreement with the custodian. This agreement,

among other things, authorizes the custodian to take instructions from us regarding all investment decisions for your account. We will select the securities bought and sold and the amount to be bought and sold. The custodian will effect transactions, deliver securities, make payments and do what we instruct. You are notified of any purchases or sales through trade confirmations and quarterly statements that are provided by the custodian. These statements list the total value at the start of the period, itemize all transaction activity during the period, and list the types, amounts, and total value of securities held as of the end of the period. You will at all times maintain full and complete ownership rights to all assets held in your account, including the right to withdraw securities or cash.

**Wrap Fee Programs.** EOCM does not offer wrap fee programs.

**Client Assets under Management.** As of December 31, 2018, EOCM managed \$60,687,531 million in assets for 21 accounts on a discretionary basis and nothing on a non-discretionary basis.

## **Item 5: Fees and Compensation**

EOCM provides investment management services for a fee. Our Investment Advisory Agreement defines what fees are charged and their frequency. Our contract calls for us to provide you a statement for all fees that are due, which statement is due upon receipt. All fees are charged in arrears.

Either party may terminate their Investment Advisory Agreement at any time by providing a thirty (30) day written notice to the other party unless a different time frame is specified by the Agreement. You will incur charges for advisory services rendered up to the point of termination and any fees will be pro-rated, based on the time of cancellation. The termination of an Investment Management Agreement shall not affect any obligation or liability on the client's part for any transaction entered into or obligation on the client's behalf prior to the termination.

**Compensation.** In general, an annual fee of 1.00% (100 basis points) of the market value of the Account is calculated and paid quarterly. The fee is calculated at the rate of 0.25% of the Account's market value as of the close of business on the last business day of the calendar quarter for which the fee is due and is paid in arrears. However, fees may be negotiable under certain circumstances.

Certain clients have entered into performance fee arrangements based on portfolio performance. These are determined on a client-specific basis and the size of the Account to be managed. Please see "Item 6: Performance-Based Fees and Side-by-Side Management" for more information regarding our performance fees.

**Fees and Billing Information.** Clients are billed quarterly as described in the Compensation sub-item above.

**Other Fees and Expenses.** Our fees do not include brokerage charges, transaction fees, and other related costs and expenses. You may incur certain charges imposed by custodians and third party firms. These include fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. We do not receive any compensation from these fees. All of these fees are in addition to the fee you pay us. You should review all fees charged to fully understand the total amount of fees you will pay. Services similar to those offered by us might be available elsewhere for more or less than the amounts we charge.

**ERISA Accounts.** EOCM is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, EOCM does not receive any compensation other than our normal assets under management fee and any applicable performance fees.

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

As mentioned in Item 5, EOCM has entered into performance-based or incentive fee structures with certain clients. Performance fees are negotiable depending upon certain circumstances.

**Performance Fees.** Certain clients have elected to pay a reduced annual flat fee between 0.30% - 0.75% of assets under management paid quarterly with EOCM being eligible to receive the following performance fee:

- If the performance of the account exceeds an agreed upon hurdle index by a certain amount (e.g., 150 bps), EOCM will receive a performance fee of 0.15%-0.45% of the average balance of the assets under management for the year. This fee is paid annually.
- If the performance of the account exceeds the hurdle index by a certain amount (e.g., 300 bps), EOCM will receive a performance fee of 0.30%-0.60% of the average balance of the assets under management for the year. This is paid annually.
- Additionally there are performance fees that are based on a flat percentage (e.g. 20%) of the performance overage of a specified hurdle annualized rate of return.

EOCM does not provide side-by-side management.

## **Item 7: Types of Clients**

Types of clients include state and local pension systems; endowments, trusts, foundations; and high net worth individuals.

Effective January 1, 2012, the minimum requirement to open an account is \$3 million with the exception of the *Tactical Growth* strategy which has a \$2 million minimum. This amount may be negotiable under certain circumstances.

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

The Energy Opportunities strategies are designed to capitalize on existing and developing energy supply and demand fundamentals and their impact on various companies within the universe of publicly traded equity securities. EOCM has a Board of Directors that serves primarily in an advisory capacity and does not provide any input into the management of the Energy Opportunities strategies. Investment decisions are the product of the combined investment experience and expertise of EOCM's portfolio

managers and its internal research efforts coupled with input from OCM. Sources of information include inspections of corporate activities, company press releases, annual reports, prospectuses, filings with the Securities and Exchange Commission, financial newspapers and magazines, industry journals, and research materials prepared by others.

The primary thrust of the strategies is to capitalize on the ongoing positive supply and demand fundamentals that exist in energy markets. Among other things, we emphasize those sectors and companies that are beneficiaries of the increasing capital expenditures that will be necessary to generate the supply required to maintain and support increasing global energy demand and global economic growth. Accordingly, the long-only purchases of equities in these strategies tend to be long-term in nature, i.e., held for at least one year. That being said, purchases can also be held for less than one year and sometimes less than 30 days.

Given that the strategies involve long only purchase and sale of publicly traded securities, the strategy is not exposed to risks associated with hedging, short sales, leverage, or illiquidity. As a rule, risk management focuses primarily on insuring compliance with applicable guidelines associated with allowable securities and concentration. We provide portfolio diversification by limiting single positions to no more than 10% of the portfolio, as a general rule. Historically, the portfolio has also been diversified in terms of market capitalization and geographic exposure.

**Risks.** We cannot guarantee our analysis methods will yield a return. In fact, a loss of principal is always a risk. Investing in securities involves a risk of loss that you should be prepared to handle. The investment decisions we make will not always be profitable nor can we guarantee any level of performance.

An investment in our strategies should not be all inclusive. Our strategies should be one part of an overall portfolio.

A list of the risks associated with the strategies, products and methodology we offer are listed below:

#### 1. Fixed Income Risk

Fixed Income has risks including:

- Call Risk - The possibility that falling interest rates will cause a bond issuer to redeem—or call—its high-yielding bond before the bond's maturity date.
- Credit Risk — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bonds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.
- Interest Rate Risk — the risk that the market value of the bonds will go down when interest rates go up.
- Prepayment Risk — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate.

## 2. Analysis Risk

Any type of analysis, when used in isolation, has a number of risks:

- There are an infinite number of factors that can affect the earnings of a company, and its stock price, over time. These can include economic, political and social factors, in addition to the various company statistics.
- The data used by EOCM may be out of date.
- It is difficult to give appropriate weightings to the factors.
- It assumes that the analyst is competent.
- It ignores the influence of random events such as oil spills, product defects being exposed, and acts of God and so on.
- It assumes that there is no monopolistic power over markets.

## 3. Equity Risk

Overall "market risk" poses the greatest potential danger for investors in stocks. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy, demand for particular products or services and inflation.

## 4. Sector Concentration Risk

A portfolio that invests primarily in a particular industry or group of industries could experience greater volatility than funds investing in a broader range of industries.

## Item 9: Disciplinary Information

Registered Investment Advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. There have not been and presently are not any legal or disciplinary events associated with EOCM or its investment adviser representatives.

## Item 10: Other Financial Industry Activities and Affiliations

**Ownership.** As mentioned in Item 4, EOCM is owned by OCM, which is a registered investment advisor, and individuals associated with EOCM. This may present a conflict of interest since OCM is in the same industry and has control over the advisor. This control could permit OCM to dictate services and products to be offered, broker-dealer to be used, and fees to charge.

EOCM and OCM do conduct joint marketing efforts for their products and services. As disclosed below, marketing personnel are employees of both EOCM and OCM, and this is disclosed to the client. The ADV Part 2A Brochures for both EOCM and OCM are made available to clients and prospective clients.

### **Outsourced Back Office.**

We have entered into an outsourced back office relationship with our parent company, OCM, a registered investment adviser. OCM may provide any or all of the following services:



- trading,
- accounting,
- data entry,
- due diligence,
- reporting,
- retention of all client statements and trade confirms,
- portfolio analysis, and
- back office administration.

Ordinarily OCM does not have any direct contact with our clients except clarification of instructions. OCM provides services directly to us and we are solely responsible for client accounts.

Upon entering into an agreement for advisory services with us, clients authorize us to use OCM to service their account, including trading. Clients agree to allow us to share non-public, personal information with OCM for the purpose of administering and managing the client's account. We require OCM to execute a joint privacy agreement and not share client information with any unauthorized person or entity. The use of OCM will not cause the client to incur any additional fees.

The use of OCM does create a conflict of interest. In order to mitigate this conflict of interest, we conduct regular assessments to evaluate the continued use of OCM to provide these services. We are committed to fulfilling our continuing fiduciary duty obligation of placing the interests of our clients first.

**Dual Registration.** Certain of our Investment Adviser Representatives ("IARs") are also IARs of OCM, namely L. Farrell Crane, Jr., Scott B. Gill and John M. Crain. They are dually registered with OCM and EOCM. Farrell is an Officer, Director, and Portfolio Manager with OCM. Scott is a Portfolio Manager with OCM. John is an Assistant Portfolio Manager and Analyst with OCM. Farrell, Scott and John receive additional compensation for their roles at OCM that is in addition to the compensation they earn at EOCM.

When evaluating the needs of a client for services, individuals who are investment adviser representatives of both EOCM and OCM disclose to the client that services can be provided through either advisory firm and will work with the client to determine whether the services of EOCM or OCM are most appropriate to the client. As the fees charged by EOCM may be higher or lower than those charged by OCM, clients should be aware that in this situation, the possibility of receiving greater compensation by recommending one firm over the other presents a potential conflict of interest. The firm monitors the activities of each investment adviser representative to guard against actual conflicts and make certain the client's interests are protected. Scott B. Gill serves as the supervisor for L. Farrell Crane, Jr., and L. Farrell Crane, Jr. serves as the supervisor for Scott B. Gill for all transactions that occur through EOCM.

**Marketing Personnel.** Some marketing personnel of EOCM are also marketing personnel of OCM and are employed by both companies. Thus, these employees receive salaried compensation from both EOCM and OCM. Further, these employees can earn additional compensation from both EOCM and OCM based on a percentage of the fees received by EOCM and OCM.

When evaluating the needs of a client for services, individuals who are marketing personnel of both EOCM and OCM will disclose to the client that services can be provided through either advisory firm and will work with the client to determine whether the services of EOCM or OCM are most appropriate to the client. As the fees charged by EOCM may be higher or lower than those charged by OCM, clients should be aware that in this situation the possibility of receiving greater compensation by recommending one firm over the other presents a potential conflict of interest. As a matter of firm practice, the fees paid to us by clients are not increased as a result of any incentive paid to marketing personnel. The clients pay our standard advisory fee.

**Chief Compliance Officer.** In 2014, EOCM appointed Sandra L. Lai as its Chief Compliance Officer (CCO), replacing Scott B. Gill, who continues to serve as an officer, director and portfolio manager at EOCM. Ms. Lai also serves as the CCO of OCM, EOCM's affiliate, and is an employee of both EOCM and OCM.

**Board of Directors.** EOCM has a Board of Directors that serves primarily in an advisory capacity and does not provide any input into the management of the Energy Opportunities strategies. Investment decisions for EOCM are the product of the combined investment experience and expertise of EOCM's portfolio managers and its internal research efforts coupled with input from OCM. EOCM's portfolio managers decide which stocks to invest in and which ones to sell for EOCM's strategies.

**Conflicts.** We take the following steps to address conflicts:

- we disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from OCM in addition to our firm's advisory fees;
- we disclose to clients that they are not obligated to purchase recommended investment products from our employees or affiliated companies;
- we collect, maintain and document accurate, complete and relevant client information,
- we require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- we periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- we educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.
- we monitor employee trading to ensure no inappropriate trading occurs.

## **Item 11: Code of Ethics**

**Code of Ethics Summary.** EOCM maintains a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable federal securities laws, including rules and regulations promulgated by the Securities and Exchange Commission. EOCM's Code of Business Conduct and Ethics (as per its written Supervisory Procedures Manual) applies to each employee of the Company. It is designed to ensure compliance with legal requirements and the EOCM's standards of business conduct.

While this Code does not address every possible situation that may arise, every employee is responsible for exercising good judgment, applying ethical principles, and bringing potential violations of the Policy to the attention of the Chief Compliance Officer of EOCM, Sandra Lai. To this end, employees shall read and understand this Code and uphold the standards in the Code in their day-to-day activities at the Company.

A copy of EOCM's Code of Business Conduct and Ethics is available to any client or prospective client upon request.

**Potential for Conflicts of Interests.** EOCM and the employee have the responsibility at all times to place the interests of clients first, not to take advantage of client transactions, and to avoid any conflicts, or the appearance of conflicts, with the interests of clients. All conflicts of interest are reviewed by the CCO and either approved or denied. All approved conflicts of interest are fully disclosed to the clients and monitored to make certain that no client is harmed in any way from these conflicts. EOCM believes in transparency, as is required by SEC Regulations.

All employees understand that the following acts are prohibited:

- Employing any device, scheme or artifice to defraud
- Making any untrue statement of a material fact
- Omitting to state a material fact necessary in order to make a statement, in light of the circumstances under which it is made, not misleading
- Engaging in any fraudulent or deceitful act, practice or course of business
- Engaging in any manipulative practices
- Participating in client accounts

**Personal Trading.** The Policy on Personal Securities Transactions provides rules concerning personal transactions in Securities that must be followed in carrying out these responsibilities. The employee will also have a responsibility to act ethically, legally, and in the best interests of EOCM and its clients at all times. The Code of Business Conduct and Ethics sets forth rules regarding these obligations. Employees are expected not only to follow the specific rules, but also the spirit of them.

EOCM's policy on personal securities transactions is that no employee of the Company shall trade in equities owned or is likely to be owned within the portfolios managed by the Company, without the prior written consent of the CCO. Accordingly, any energy related equity security and its derivatives

(such as options) should be considered as needing pre-approval. Records of these trades will be maintained with our records. General exclusions to this provision include energy-related exchange traded funds, energy mutual funds and commodity related securities. It is the responsibility of the employee to seek clarification on this policy and potential transactions from the CCO prior to making any transaction.

The securities purchased and held by EOCM for client accounts are widely held and publicly traded. It is our policy that no person employed by our firm shall give preference to his or her own interest to that of the client. No person employed by EOCM may trade ahead of a client account.

It is further noted that our advisory business is, and shall continue to be, in total compliance with The Insider Trading and Securities Fraud Enforcement Act of 1988. Specifically, we have adopted a firm wide policy statement outlining insider-trading compliance by the Firm, its associated persons, and other employees.

We have established the following restrictions in order to ensure our fiduciary responsibilities:

1. Our associated persons shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her affiliation with our firm, unless the information is also available to the investing public on reasonable inquiry. No person shall prefer his or her own interest to that of the clients.
2. We emphasize the unrestricted right of the clients to decline to implement any advice rendered, except in situations where a client has granted discretionary authority.
3. We require that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to termination.

**Privacy Statement.** In accordance with Section 204-A of the Investment Advisers Act of 1940, EOCM also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Adviser or any person associated with the Adviser.

EOCM is committed to safeguarding its clients' confidential information and holds all personal information provided in the strictest confidence. These records include all personal information that EOCM collects from clients or receives from other firms in connection with any of the financial services provided. However, EOCM may share some client information with OCM, their parent company, for marketing purposes only.

EOCM also uses OCM for back office purposes as disclosed in "Item 10: Other Financial Industry Activities and Affiliations". In addition EOCM backs up their servers to OCM on a regular basis and OCM backs up their servers to EOCM. This provides both firms with access to the other firm's non-public information regarding their clients. The technology personnel may also be shared between OCM and EOCM. This provides these two firm's technology personnel with access to the non-public information of the clients of the other firms. OCM and EOCM are regulated entities who are required to keep all non-public information of clients private and safe. These firms do not share this information with any

other third parties except as allowed by law. Both firms have privacy policies in place as it relates to the protection of non-public client information. The CCOs of each entity monitor for any breaches in security.

EOCM also requires other firms with whom it deals to restrict the use of client information. EOCM's Privacy Policy is available upon request.

## **Item 12: Brokerage Practices**

**Brokerage Selection.** The Company has a fiduciary duty to achieve best execution when it places trades with broker-dealers. The Company will attempt to achieve best execution for a given client so that the client's total costs or proceeds in a transaction are the most favorable under the circumstances. Where multiple competing markets exist for listed stocks, the Company should make sure that the security is executed on the best market or best market maker. Factors considered when placing a trade for a client with a particular broker-dealer include:

- Quality of overall execution services provided by the broker-dealer;
- Promptness of execution;
- Provide dedicated telephone lines;
- Creditworthiness and business reputation of the broker-dealer;
- Research (if any) provided by the broker-dealer;
- Promptness and accuracy of oral, hard copy or electronic reports of execution;
- Ability and willingness to correct trade errors;
- Promptness and accuracy of confirmation statements;
- Ability to access various market centers;
- The broker-dealer's facilities, including any software or hardware provided to the adviser;
- The market where the security trades;
- Any expertise the broker-dealer may have in executing trades for the particular type of security;
- Commission charged by the broker-dealer;
- Historical commission rates of the broker-dealer;
- Reliability of the broker-dealer;
- Whether the broker-dealer gives Company clients access to IPOs; client referrals made by the broker-dealer to the Company;
- Ability of the broker-dealer to use ECNs (electronic communication network to gain liquidity, price improvement, lower commission rates and anonymity);
- Reputation of the broker-dealer;

- Soft dollar program of the broker-dealer;
- Execution and operational capabilities of the broker-dealer and its clearing firm;
- Financial condition of the broker-dealer; and
- Ability of the Broker Dealer provide for “step-out” transactions.

The determining factor in the selection of a broker-dealer/custodian to execute transactions for your accounts is not the lowest possible transaction cost, but whether they can provide what is in our view the best qualitative execution for your account.

However, if the client directs us to use a specific broker-dealer or custodian, we may not be able to negotiate and obtain best execution.

We are independently owned and operated and not affiliated with any custodian.

**Soft Dollars.** EOCM, on behalf of its discretionary clients, may receive from broker-dealers and third party providers certain products and services including research, referred to as “soft dollar” credits, based on transactions placed with those broker-dealers and providers. Currently we receive soft dollars solely from our relationship with Interstate Group (“Interstate”). Interstate provides us with certain brokerage and research products and services that qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934 ("Exchange Act"). These research products and/or services assist us in our investment decision making process.

Soft dollars and the research services provided generally will be used to service all of our clients. Therefore, brokerage commissions paid by one client may result in soft dollars that are used to pay for research for other clients’ accounts. Further, because (1) EOCM and its affiliate OCM share investment personnel who are employees of both firms and (2) OCM provides back office and trading support and personnel to EOCM, soft dollar credits received by EOCM can and does benefit both EOCM and OCM clients.

Interstate has also made available to us other products and services that benefit EOCM but may not benefit the client whose trades generated the soft dollars. Some of these products and services assist us in managing and administering our client accounts, such as software and other technology that:

- provide access to client account data (such as trade confirmations and account statements),
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts,
- provide research, pricing and other market data,
- provide access to Bloomberg and FactSet as well as other publications,
- assist with back-office functions and recordkeeping,
- furnish client reporting functions including performance reporting,
- offer contact management systems, and
- provide access to consultants and other third party service providers who provide a wide array of business related services and technology with whom we may contract directly.

Where a broker-dealer has a soft dollar program, a client transaction executed through that firm may incur a commission greater than might be charged by another qualified broker-dealer to execute the same transaction. In each trading instance, EOCM makes a determination in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. Because the amount of EOCM's soft dollar credits or the products or services we receive may vary depending on the custodian or broker-dealer used by our clients, we have a conflict of interest in making a recommendation to use a certain custodian/broker-dealer. Through soft dollars, EOCM receives a benefit to the extent that we do not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. This benefit may interfere with our duty of best execution. Therefore, EOCM generally does not select, suggest, or recommend broker-dealers for its clients.

Once a client ends its relationship with EOCM, any soft dollars generated during the relationship are retained by the firm. EOCM presently maintains soft dollar credits generated from former clients that are used for research that will benefit both EOCM and OCM clients.

**Directed Brokerage.** You may direct us to use a particular broker-dealer to execute some or all of the transactions for your account. If you do so, you are responsible for negotiating the terms and arrangements for the account with that broker-dealer since the broker-dealer provides services to you as the client rather than to EOCM. We may not be able to negotiate commissions, obtain volume discounts, aggregate trades, or obtain best execution. Under these circumstances, the client may pay a higher or lower rate of commission as compared to other clients who do not direct us to use a particular broker or dealer. Among other things, by directing trades through a specified broker-dealer, a client may not obtain the benefits of volume discounts or commission reductions resulting from combined orders placed by us.

It is also the trading policy of the firm to trade non-directed accounts on a client rotation basis ahead of directed accounts on a client rotation basis.

**Brokerage for Client Referrals.** EOCM does not pay for or receive payment for client referrals from broker-dealers or third parties for brokerage services.

**Aggregation of Transactions.** The Company may (but is not obligated to) aggregate orders when possible and when dealing with the same broker-dealer, in order to achieve best execution with sales and purchases of equity securities.

Under this procedure, transactions will be price-averaged and allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day.

In certain situations, we may determine to purchase or sell a particular security in different strategies. In this situation, we will allocate trades on a pro rata basis among clients in the various strategies. When placing these trades, we will aggregate on a strategy-by-strategy basis; in other words, we will place trades in one strategy before placing trades in another strategy. It is possible that clients in one strategy will receive more favorable prices than clients in other strategies. Other advisers may aggregate trades for clients in all strategies, assuring that all clients receive the same price. We may rotate the trading sequence among the various strategies so that no one strategy is consistently traded before or after another. We may rotate the order in which we trade non-directed brokers first over directed brokers.

If you direct us to use a specific broker-dealer, we may not be able to aggregate orders or achieve best execution.

**Principal and Cross Agency Transactions.** EOCM does not affect any principal or agency cross securities transactions for client accounts. EOCM also does not cross trade between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

**Trade Errors.** If a trade error results in a loss, EOCM will make the client whole. If a trade error results in a gain, EOCM will retain the gain and use it to offset losses from other trade errors.

### **Item 13: Review of Accounts**

Reviews of our portfolios will be conducted by us at least quarterly. Generally, we will monitor for changes and shifts in the economy, changes to the management and structure of a company in which assets are invested, and market shifts and corrections.

Because assets of the client are held by custodians, EOCM relies on the client's qualified custodian to send quarterly account statements directly to the client. You are obligated to notify us of any discrepancies in the account(s) or any concerns you have about the account(s).

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

The marketing personnel of EOCM are also marketing personnel of OCM and are employed by both firms. When these employees market products and services of both firms, the clients are fully informed of the dual employment and are offered the ADV Part 2A Brochures for both firms.

**Other Compensation.** EOCM does not receive any other compensation related to investment advisory services other than the management and performance fees previously disclosed.

### **Item 15: Custody**

We do not have physical custody of any accounts or assets. Your custodian and/or broker-dealer will be identified in your Investment Advisory Agreement with us. For taxable accounts, the custodian will provide you with consolidated year-end summary statements including IRS forms 1099 and other tax-related forms, as applicable.

We may have constructive custody of some accounts in that we can debit fees.



The Company, at the request of its clients, will send periodic statements of the client's account. In these instances, the Company recommends that its client compare these statements with those of its custodian.

#### **Item 16: Investment Discretion**

The Company has the discretionary authority to make sales and purchases of equity securities on the behalf of its clients. The terms and conditions for this authority are set forth in the client contracts with the Company.

We do not possess the discretionary authority to determine the broker or dealer to be used or the commission rates paid.

#### **Item 17: Voting Client Securities**

Beginning December 31, 2019, EOCM will no longer vote proxies related to securities held by any client, unless specifically agreed to by EOCM and client.

If the client has designated EOCM as the voting agent in the past, EOCM will retain all records of such votes as required by law. Clients can request our proxy voting record at any time by contacting EOCM at 512-477-0900 Monday through Friday between 8:00 AM and 4:30PM.

EOCM contracted with Broadridge Financial Solutions, Inc. to handle all Proxy Voting starting in 2013 through 2019.

#### **Item 18: Financial Information**

As an advisory firm that has discretionary authority, we are required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. We have no financial commitments that would impair our ability to meet any contractual or fiduciary commitments to you, our client.

Under no circumstances do we require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement. The Company has not been the subject of a bankruptcy petition at any time during the past ten years.