

# STONECASTLE CASH MANAGEMENT, LLC

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## Form ADV Part 2A BROCHURE

This Brochure provides information about the qualifications and business practices of StoneCastle Cash Management, LLC (“StoneCastle” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at **212-354-6500**. 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.

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

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

## **Item 2 – Material Changes**

This Form ADV Part 2 (“Brochure”) dated March 31, 2019, replaces StoneCastle’s prior brochure, dated October 30, 2018. The following material changes were made to this Brochure since the last annual update on March 30, 2018:

- Item 4 was revised to update StoneCastle’s discretionary assets under supervision and update the principal owners of StoneCastle.
- Item 10 was revised to update the list of StoneCastle’s related persons.

At any time, the current Disclosure Brochure may be viewed on-line at the SEC’s Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). A copy of this Disclosure Brochure may be obtained by contacting StoneCastle’s Chief Compliance Officer, Rachel Schatten (“CCO”) at (212) 354-6500 or [rschatten@stonecastle.com](mailto:rschatten@stonecastle.com).

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## Item 4 – Advisory Business

StoneCastle Cash Management, LLC was formed in 2009 and is principally owned by StoneCastle Holdings, LLC. StoneCastle Holdings, LLC is a wholly-owned subsidiary of StoneCastle Partners, LLC.

StoneCastle provides cash management services only with respect to limited types of investments.

The Federally Insured Cash Account, FICA® (“FICA®”) is StoneCastle’s proprietary cash management vehicle offering a high level of FDIC or NCUSIF insurance, daily deposit availability, next day liquidity and a competitive yield compared to money market mutual funds, treasury securities and non-insured bank deposits. FICA® provides institutional depositors (and financial intermediaries through its FICA® | For Advisors solution, which is the FICA® program branded to appeal to financial intermediary firms) with access to hundreds of carefully screened, participating banks or credit unions<sup>1</sup> (“Depository Institutions”) via a single account. Through its FICA® Program, large client deposits are allocated across the Depository Institutions striving to ensure full FDIC insurance. StoneCastle uses discretionary authority to select the Depository Institutions into which client funds are deposited. StoneCastle may add and remove Depository Institutions in the FICA® Program at its sole discretion.

The Institutional Cash Account (“ICA®”) is StoneCastle’s cash management vehicle offering daily deposit availability, six at-will withdrawals per month, and a competitive yield when compared to money market funds, treasury securities and non-insured bank deposits. ICA® offers no term requirement on large, US dollar denominated deposits. ICA® provides institutional depositors with access to highly rated banks via a single account. Through the ICA® program, clients can select, or remove banks at their discretion.

*1 Credit unions are not utilized for public entity clients.*

FICA®| For Banks enables participating banks to enhance their relationship with commercial, non-profit, individual, and local government customers by allowing banks to provide FDIC insurance on large balances. FICA®| For Banks allocates a bank customer's large deposits across its Depository Institution network, striving to ensure full FDIC insurance on all deposits.

StoneCastle uses its financial expertise to monitor and carefully screen the Depository Institutions on an ongoing basis. StoneCastle is not a member of the FDIC or National Credit Union Administration (NCUA), but the depository banks/institutions where client funds are placed are FDIC and/or NCUA members. FDIC and NCUA are independent agencies of the U.S. government that protects the funds depositors place in FDIC and NCUA insured institutions. FDIC and NCUA deposit insurance is backed by the full faith and credit of the U.S. government.

StoneCastle clients may impose restrictions or exclusions on deposits in specific Depository Institutions. All such features and exclusions would be set forth in a client's written agreement with StoneCastle.

StoneCastle does not participate in wrap fee programs.

As of December 31, 2018, StoneCastle had discretionary assets under supervision of approximately \$6,128,459,363.

As of December 31, 2018, StoneCastle had non-discretionary assets under management of approximately \$0.

## **Item 5 – Fees and Compensation**

Generally, StoneCastle will charge a fee, based on assets under management. StoneCastle's fees may be negotiated on a case by case basis as are the termination provisions.

### **FICA®|For Banks and ICA® Programs**

The fees charged by StoneCastle are a percentage of the amount of gross interest earned on client deposits at each insured institution. The amount of the gross interest earned at each institution is determined at the discretion of the institutions based on prevailing economic and business conditions and, as such, varies between institutions. Each institution may also adjust the amount of gross interest it pays on deposits on a monthly basis. The interest rate earned by each client may vary within a particular program (e.g., FICA®, FICA®| For Advisors, FICA®| For Banks and ICA®) based on the size of the account balance and the introducing party. The percentage of the gross interest that StoneCastle

retains as its fee will also vary between institution and over time. However, the fees charged by StoneCastle will never exceed the interest earned by a client from the institutions.

The fees are deducted from the insured institutions' omnibus accounts at the same time interest is paid to client accounts.

In addition, with prior notice the custodian may charge a client for specific costs incurred in processing transactions as well as certain other administrative fees and expenses for unusual transactions including, but not limited to, wire requests, copies of statements and special research services as stated in the account custody agreement. Such amounts may be deducted by the custodian from the client account.

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

StoneCastle does not charge a performance-based fee.

## **Item 7 – Types of Clients**

StoneCastle provides cash management services and generally imposes a minimum dollar commitment, but such minimum commitment is negotiated on a case by case basis. StoneCastle may lower such minimum at its discretion.

The minimum initial deposit into a FICA® account is \$1,000,000. The maximum deposit into a FICA® account is \$125,000,000; however, this is subject to change.

The minimum initial deposit into an ICA® account is \$20,000,000. There is no maximum deposit into ICA®; however, this is subject to change.

The minimum initial deposit into a FICA® For Advisors account is \$1,000,000. The maximum deposit into a FICA® For Advisors account is \$100,000,000; however, this is subject to change.

There is no minimum amount required for subsequent deposits. StoneCastle may change such minimum and maximum at its discretion.

StoneCastle currently provides investment management services primarily to: high net worth individuals, institutional depositors, banking or thrift institutions, investment companies, financial intermediaries, family offices, pooled investment vehicles, pension

and profit-sharing plans, charitable organizations, colleges and universities, corporations or business entities, state or municipal entities and insurance companies.

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

### **Analysis**

As part of its focus on maintaining a large and diverse bank network, StoneCastle maintains an extensive network of carefully selected and screened participating deposit institutions. StoneCastle has developed its own proprietary credit system for rating banks. Bank ratings are based on an evaluation of several factors, including but not limited to, credit quality, and diversification, as well as management strength and operational capabilities.

All Depository Institutions within the FICA<sup>®</sup> programs are screened by StoneCastle to ensure that each meets the strict credit standards of the program. This process provides an additional layer of security, supplementing the complete insurance coverage provided on all deposits.

StoneCastle utilizes its proprietary quantitative algorithm for grading the financial condition of each potential and current program bank. This grading system is largely based on the CAMELS methodology used by regulators.

Potential deposit taking institutions must meet initial capital adequacy and asset quality baselines. In order to meet these initial standards, banks must be classified as “Well Capitalized” as defined by the FDIC or the NCUA at the time the institution is brought onto the program.

In determining capitalization status, three main ratios are taken into account: Leverage, Tier 1 and Total Risk-Based Capital. Together, StoneCastle believes these ratios provide insight into an insured institution’s ability to withstand economic adversity.

StoneCastle also uses other public data bases (such as those available through FDIC, OTS, OCC and the Federal Reserve) to conduct its review. Although StoneCastle may use research provided by third parties when available, primary emphasis is placed on proprietary monitoring and models conducted and maintained by its investment professionals.

### **Investment Strategies**

StoneCastle may utilize transaction, savings, money market deposit and CD accounts at banks all of which have pass-through deposit insurance coverage through the FDIC.

## **FICA®, FICA® | For Advisors and FICA® | For Banks**

StoneCastle's strategy strives to ensure that a client's cash deposit has full federal insurance coverage from an extensive proprietary network of carefully-screened, participating federally insured institutions.

### **ICA® Program**

Through its processes, StoneCastle grants institutional investors the ability to review and select banks which meet a client's investment criteria.

StoneCastle may pay third parties for information on or for introductions to potential network banks.

### **Risk of Loss**

Investing in deposit accounts involves certain risks that clients should be prepared to bear. It is possible to lose money by investing in these programs. For example, a client could lose money if one or more of the Depository Institutions fails. However, this loss would only pertain to the portion of the client's allocation that was in a failed Depository Institution in excess of the FDIC insured maximum.

Deposits up to the FICA® Program Depository Institution maximums, carry no principal risk as those deposits are federally insured/backed by the full faith and credit of the US government. Depository Institutions in the FICA® network are FDIC-insured "banks" and "savings associations" as those terms are defined in the Federal Deposit Insurance Act.

If a Client has cash at any Depository Institution independently from the FICA® Program that is in the FICA® network, then full FDIC insurance coverage on deposits at those institutions may not be received. In addition, ratings are subject to change and do not remove market risk.

StoneCastle will do its best in the administration of client assets; however, it cannot guarantee any level of performance or that a client will not experience a loss of account assets.

## **Item 9 – Disciplinary Information**

StoneCastle does not have any legal, financial or other disciplinary item to report that would impact the evaluation by a client, or prospective client, of its advisory business or the integrity of its management.



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

StoneCastle is part of a group of affiliated companies owned by StoneCastle Partners, LLC that engage in the financial services business. In some cases, StoneCastle has business arrangements with its related companies that are material to StoneCastle's business or to its clients. StoneCastle shares certain officers, supervised persons and physical location with the other StoneCastle affiliates. These arrangements may cause StoneCastle or a related person's interests to diverge from the best interests of a client.

StoneCastle's compliance department and legal department oversee its conflict-resolution system. This system emphasizes the principle of fair and equitable allocation of appropriate opportunities to StoneCastle's clients over time.

StoneCastle refers to advisory affiliates and any person or company that is under common control with StoneCastle as "related persons."

StoneCastle is a related person of the following other entities:

- StoneCastle Partners, LLC
- StoneCastle Holdings, LLC
- StoneCastle Administration, LLC
- StoneCastle Advisory Services, LLC
- StoneCastle Advisors, LLC
- StoneCastle Asset Management LLC
- StoneCastle Digital Solutions, LLC
- StoneCastle Financial Corp.
- StoneCastle Insured Sweep, LLC
- StoneCastle Investment Management, LLC
- StoneCastle Loan Management, LLC
- StoneCastle Ventures, LLC

StoneCastle provides various cash management products to its clients that involve depositary relationships with community banks and services to community banks with respect to their cash management products. StoneCastle receives fees from these clients and/or community banks in connection with these cash management services, which may include community banks in which StoneCastle Financial Corp. invests.

### **Related Broker Dealer**

StoneCastle is a related person of the following broker dealer:

- StoneCastle Securities, LLC

The following officers of StoneCastle are a registered representative of StoneCastle Securities, LLC: Joshua Siegel and Rachel Schatten.

Neither StoneCastle, nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

StoneCastle's Code of Ethics described in Item 11 below addresses these potential conflicts of interest.

## **Item 11 – Code of Ethics**

StoneCastle has adopted a Code of Ethics for all supervised persons of the Firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at StoneCastle must acknowledge the terms of the Code of Ethics annually, or as amended.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of StoneCastle will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

To supervise compliance with its Code of Ethics, StoneCastle requires that all access persons provide copies of their personal securities holdings and transaction reports to the Firm's CCO for review. Transactions are reported to the CCO in accordance with the reporting requirements outlined in the Code of Ethics and personal trading is continually monitored in order to reasonably prevent conflicts of interest between StoneCastle and its clients. In addition, any individual not in observance of the above may be subject to disciplinary action.

Failure to comply with the Firm's Code of Ethics may result in disciplinary action, up to and including termination of employment.

## **Conflicts of Interest**

StoneCastle is subject to certain conflicts of interest in management. The members of the credit/investment committee may also act as the investment committee for other investment vehicles managed by StoneCastle affiliates. These conflicts will arise primarily from the involvement of StoneCastle and its affiliates in other activities that may conflict with StoneCastle activities. StoneCastle and its affiliates engage in a broad spectrum of activities. In the ordinary course of their business activities, they may engage in activities where their interests or the interests of their clients may conflict with StoneCastle's interests. Other present and future activities of StoneCastle and its affiliates may give rise to additional conflicts of interest which may have a negative impact on StoneCastle and its clients.

In addition, StoneCastle or its affiliates may have deposit accounts or other interests at the same Depository Institutions that it recommends to its clients. As noted above, StoneCastle's Code of Ethics requires all personnel to act in the best interests of clients and avoid any conflicts of interest.

As outlined in StoneCastle's Code of Ethics, the interests of client accounts will at all times be placed first and all employee personal securities transactions will be conducted in such a manner as to avoid any actual or potential conflicts of interest.

StoneCastle will provide a copy of its Code of Ethics to clients or prospective clients upon request. Contact information appears on the cover page of this Brochure.

## **Item 12 – Brokerage Practices**

This section is currently not applicable.

## **Item 13 – Review of Accounts**

### **Reviews**

Depository Institutions are reviewed and screened at least once per quarter to ensure they continue to meet the program's credit standards. If at any time a bank falls below these standards, StoneCastle will take action which may include: reduction of funding levels, ceasing additional funding or the complete withdrawal of funds and removal from the program. There is no formal committee that reviews and monitors Depository Institutions.

Monthly statements, reports and confirms are provided electronically to participants on such periodic dates, and with such content, as is negotiated on a case by case basis.

### **FICA® and ICA® Account Statements**

Clients have direct online access to their monthly statements through a secure website. Client consent is given to electronic delivery of account information. StoneCastle sends clients an e-mail as notification when the account statement is available for viewing. All activity with respect to the client's account, including account balance at each bank and the net interest earned in the account during the prior period appears on the account statement.

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

In certain situations, StoneCastle compensates third parties for referrals to the cash management program, FICA.® Such compensation may take the form of a portion of StoneCastle's fees on the account or a decreased yield to the client.

Currently, StoneCastle has entered into agreements with various unrelated third parties to introduce clients to the FICA® Program in exchange for a fee. The amount of the fee varies and is agreed upon by the client, the third party and StoneCastle.

In some cases, the referral fee will be deducted from a client's account in addition to the FICA® fee. In this arrangement, a prospective client introduced by a third party and who deposits money in a FICA® account may earn a different monthly account yield, which will generally be less than the account yield earned by an institution depositing money directly with the FICA® custodian.

In other cases, StoneCastle will pay the referral fee to the third party and the client will not be charged a referral fee. In this arrangement, a prospective client will receive the same yield as an institution depositing money directly with the FICA® custodian.

## **Item 15 – Custody**

StoneCastle does not maintain custody of clients' funds and/or securities.

## **Item 16 – Investment Discretion**

The limitations on StoneCastle’s authority to determine, without obtaining specific consent, the securities to be bought or sold, or the amount of the securities to be bought or sold, are set forth in the applicable FICA®, or ICA® Application, which includes Terms and Conditions that are negotiated with each client.

For FICA® accounts, StoneCastle uses discretionary authority to select the Depository Institutions into which client funds are deposited.

## **Item 17 – Voting Client Securities (i.e., Proxy Voting)**

Proxy voting is currently not applicable to StoneCastle given the type of cash management solutions it offers. However, StoneCastle has adopted Proxy Voting Policies and Procedures should it have proxy voting responsibilities at any time in the future.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide certain financial information or disclosures about StoneCastle’s financial condition. StoneCastle has no financial condition that impairs its ability to meet contractual commitments to clients and has not been the subject of a bankruptcy petition. StoneCastle does not require prepayment of advisory fees; therefore the Firm is not required to provide an audited financial statement.

## **Item 19 – Requirements for State-Registered Advisers**

Not Applicable.