



Private Capital Management LLC Form ADV Part 2A: Firm Brochure

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This Brochure provides information about the qualifications and business practices of Private Capital Management, LLC ("PCM" or the "Investment Adviser"). The client should be aware that registration with the US Securities and Exchange Commission does not imply a certain level of skill or training. 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 PCM also is available on our website, www.pcm-inc.com, or on the SEC's website at www.adviserinfo.sec.gov

If the client has any questions about the contents of this Brochure, please contact our Chief Compliance Officer, Nathan Howard at (303) 370-0055 or email nhoward@pcm-inc.com.

Item 2 – Material Changes

The following summarize the material changes that have occurred herein since this Brochure was last subject to annual update on February 15, 2018.

On January 1, 2019, Private Capital Management became a wholly owned subsidiary of Independent Bank. Independent Bank is a wholly owned subsidiary of Independent Bank Group, Inc. Private Capital Management was previously a wholly owned subsidiary of Guaranty Bank and Trust Company, which was a wholly owned subsidiary of Guaranty Bancorp. On January 1, 2019, Guaranty Bancorp was merged with and into Independent Bank Group, Inc. and Guaranty Bank and Trust Company was merged with and into Independent Bank.

In addition, the following Items contain material updates have been made to this Brochure:

- Item 5 – Fees and Compensation. Includes updated information relative to PCM's fee billing practices and IRA rollover considerations.
- Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss. Includes updated information relative to PCM's methods of investment analysis, investment strategies and aspects relative to risk of loss and now contains a standard investment policy statement.
- Item 12 – Brokerage Practices. Includes updated information relative to PCM's utilization of third-party custodians and trade order procedures.
- Item 15 – Custody. Includes updated information relative to situations in which PCM will be deemed to have custody over a client's account.
- Item 19 – Privacy Policy. This Brochure now contains the PCM privacy policy.

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Item 4 – Advisory Business

Established in 2000, Private Capital Management, LLC (“PCM”) is a wholly owned subsidiary of Independent Bank. Independent Bank is a wholly owned subsidiary of Independent Bank Group, Inc. PCM is registered as an investment advisor with the United States Securities and Exchange Commission (“SEC”) (CRD#165306).

PCM provides fiduciary investment advisory and financial planning services to individuals, businesses, corporate pension and profit-sharing plans, charitable institutions, trusts, estates and foundations. As a result, PCM’s services, corporate structure and compliance are designed to ensure that we are serving our clients’ best interests. PCM provides investment management of diversified portfolios composed primarily of no-load mutual funds, exchange listed securities, foreign issuers, certificates of deposit, index funds, options, certain insurance products, structured notes, and exchange-traded funds (“ETFs”). PCM also advises qualified clients regarding private placement offerings. Advice and recommendations are tailored to the individual needs of our clients. Clients can impose restrictions on investing in certain securities or types of securities.

Client accounts are generally managed by the firm on a discretionary basis unless otherwise agreed to in writing. With respect to discretionary accounts, PCM has the authority to make trades within clients’ accounts without the client’s prior consent.

Based on the needs of each client determined on a case by case basis, and subject to the mutual agreement of PCM, PCM will offer financial planning services. Financial planning services generally include a review of material aspects of a client’s current financial situation as well as anticipated future needs. Due to the unique circumstances of each client, financial plans vary in length and scope, but will involve a review of the client’s risk tolerance, financial goals and objectives, and investment time horizon. In developing the plan, a variety of financial aspects will be addressed, which can include some or all of the following, or other factors not referenced but which are material to the particular clients financial circumstances: cash management, risk management, insurance, education funding, goal setting, retirement planning, estate and charitable giving planning, tax planning, and capital needs planning. Once the financial plan is mutually agreed upon by the applicable client and PCM, PCM will begin implementing the plan.

Financial planning services are based on the client’s financial situation at the time and are based on financial information disclosed by the client to PCM, current and anticipated market decisions, and each client’s stated financial goals. In connection with these services, certain assumptions must be made with respect to inflation rates and the use of past trends, future projections, and performance of various asset classes. PCM does not offer any guarantees or promises that its clients’ financial goals and objectives will be met.

Clients should notify PCM promptly of any changes to the client’s financial goals, objectives or financial situation. PCM will rely on the information provided by Clients to maintain and manage the account and provide financial planning services.

PCM is not affiliated with any of the securities or products recommended to clients.

Clients are allowed to hold or purchase certain assets in the same brokerage account as the account used by PCM to manage investments. Unless the client has expressly given PCM discretionary control over these

assets in writing, PCM will not manage these assets and will term them “Unmanaged Assets” on all communications. Additionally, at the request of the Client, PCM may also provide statements/reports on other accounts held by the Client over which PCM has no discretionary or decision-making authority (“Report Only Accounts”). The fact that such an asset or account appears on statements and reports does not mean that PCM is providing any advice or taking on any responsibility or discretionary authority regarding these Unmanaged Assets or Report Only Accounts. Unmanaged Assets and Report Only Accounts shall remain the sole and exclusive responsibility of the client. PCM will not provide updates, advice, recommendations or research of any kind regarding the Unmanaged Assets or Report Only Accounts. PCM will not determine if an Unmanaged Asset or Report Only Account is in conformity with a client’s stated goals, financial profile, or investment objectives; however, that PCM may take into consideration the existence of Client’s Unmanaged Assets and Report Only Accounts when making recommendation investment decisions with respect to the managed portion of a client’s account/portfolio in order to facilitate conformance with the Client’s stated goals, financial profile, and investment objectives. Unmanaged Assets and Report Only Accounts are the sole and exclusive responsibility of the client.

As of December 31, 2018, PCM reported discretionary regulatory assets under management (“AUM”) of \$1,001,371,294 and non-discretionary AUM of \$0. However, as of December 31, 2018, PCM had discretionary assets under advisement (“AUA”) of \$1,046,166,592 and non-discretionary AUA of \$228,050. PCM calculates its AUA based on assets included in its AUM calculations as well as assets not includable in AUM but which are subject to PCM’s fee billing practices.

Item 5 – Fees and Compensation

Methods of Compensation

PCM typically collects fees for advisory services by charging clients a percentage of the total value of assets under management/advisement in all client accounts. Fees are set forth in the client’s engagement agreement (“Agreement”) and are shown annualized unless otherwise specifically provided. Fees charged in this manner generally range from .50% to 1.00% but are negotiated on a client by client basis. When negotiating fees, a variety of factors will be considered by PCM, including, but not limited to: the services to be provided; the type of client; asset classes to be utilized; pre-existing relationship (e.g. friends and family); the size of the account (current or anticipated); and/or other related accounts and investments. As a result of negotiating client fees, clients with similar assets may have differing fee schedules and some existing clients may pay higher or lower fees than new clients. Clients with questions regarding PCM’s fees or what accounts and/or assets are subject to billing should contact their PCM advisor. In addition, clients should review their invoice or custodial account statements at least quarterly to ensure PCM billing practices are consistent with our Agreement.

Clients may also negotiate a flat fee. In such instances, a flat fee schedule could result in clients paying higher total fees than those who pay under a tiered fee schedule.

The specific manner in which fees are charged is established in the client’s Agreement with PCM and is negotiated on a client by client basis. PCM will group client accounts for the purposes of achieving the

minimum account size requirements (see Item 7 below) and/or subject to its management in order to determine the appropriate annualized fee rate applicable to a client's accounts. Fees are generally billed on a quarterly basis in advance unless otherwise agreed to within the Agreement. Clients generally authorize PCM to directly debit fees from their accounts at the custodian. Under certain circumstances, the client can elect to be billed directly. Quarters will begin on the first day of January, April, July, and October. Additional fees or credits associated with deposits into or withdrawals from accounts subject to billing shall be pro-rated commencing on the date of such deposit or withdrawal, and future fee invoices shall be adjusted to reflect such additional fees or credits subject to such arrangements. However, some clients are subject to fee schedules and billing practices (including proration practices) under legacy arrangements that are generally no longer available or only available to those clients. These terms are outlined in the Client's legacy agreement that was executed with either Private Capital Management or a prior firm.

If a Client is invoiced for the first time prior to the end of the quarterly period, fees shall be pro-rated based on the number of days remaining in the quarter after, and including, the date the assets are under management. The client's first invoice will be issued in accordance with the terms of the client's Agreement, which unless otherwise agreement will be after the date the client's assets are under management. Fees are payable on or before the fifteen (15) day of the first month of the applicable quarter in which the first invoice is issued. Additional information relating to PCM's billing practices are set forth in each client's Agreement.

Notwithstanding the foregoing, PCM will from time to time waive fees as an accommodation to clients for a variety of reasons. A determination of whether a fee will be waived is made on a case by case basis in light of the circumstances presented, but in all cases subject to Compliance preapproval. Because PCM reviews these situations on a case by case basis, fee waivers are only granted where deemed appropriate and/or necessary and are not available to all clients in all situations.

In connection with certain private funds, PCM does not rely on data it receives from clients' qualified custodians, but rather on data received directly from the private fund sponsor in order to increase the accuracy of our client reporting. This can, however, result in some variance between the value of clients' accounts reported by the client's qualified custodians and the value utilized for fee billing purposes. If you have any questions regarding the reporting on your private investment holdings, you should contact PCM.

IRA Rollover Considerations

When determined to be in the client's best interest, and appropriate in light of the relevant circumstances, available alternatives and options, PCM will recommend that a client withdraw assets from an employer sponsored retirement plan and roll the assets into an individual retirement account (an "IRA") subject to PCM's management and subject to PCM's invoicing/fee billing practices. This practice presents a potential conflict of interest in that, depending on the client's engagement with PCM, PCM may not have been receiving fees in conjunction with the employer sponsored retirement plan account, but will be charge a fee for services provided relative to the IRA. Clients should note that certain, low-expense investment options may now or in the future be available within an employer sponsored retirement plan that are not available within an IRA. Additional advantages and disadvantages to maintaining assets with an employer's (or former employer's) retirement plan should be considered before a rollover is authorized. Clients should speak with their advisor

regarding the advantages and disadvantages of maintaining assets with an employer's (or former employer's) retirement plan.

Other Fees

In addition to the firm's management fee, the client will incur certain charges, which could include but are not limited to, charges imposed by broker-dealers and custodians, such as brokerage commissions and/or transaction fees, transfer fees, wire transfer and electronic fund transfer fees, and other fees on the client brokerage accounts and securities transactions. Certain types of client brokerage accounts will be subject to taxes. Mutual funds and ETFs also charge internal management fees and other fees and expenses. These fees and expenses are described in the prospectuses of those funds, and are paid for by the funds, but are ultimately borne by the client.

When made available by client's chosen custodian, PCM will utilize no-load mutual funds without transaction charges and other no-load and load-waived funds at nominal transaction charges when determined to be in the client's best interest. The transaction charges and/or commission rates charged by the custodian are sometimes discounted from customary retail transaction charges and commissions. However, the commission and/or transaction fees charged by the custodian could be higher or lower than those charged by other broker-dealers.

Neither Private Capital Management nor any employee receives other compensation for selling securities or other investment products.

Termination

Either PCM or client can terminate their relationship at any time for any or no reason by providing written notice of termination to the other party. In the event the Agreement is terminated prior to the end of the quarterly period, any fees the client prepaid that PCM has not yet earned, shall be refunded on a prorated basis as of the date of termination (i.e., based on the number of days that have elapsed in the quarter in which termination occurs).

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

PCM does not charge any performance-based fees (i.e., fees based on a share of capital gains on, or capital appreciation of, the client's assets under management).

Item 7 – Types of Clients

PCM provides portfolio management and financial planning advisory services to individuals, businesses, corporate pension and profit-sharing plans, charitable institutions, trusts, estates and foundations. The firm generally requires a \$500,000 minimum in manageable assets to start or maintain an account. At PCM's discretion, the firm will approve exceptions to these minimum asset requirements.

Accounts that do not meet the minimum requirement of \$500,000 are unlikely to receive the full benefits of the firm's typical investment strategy due to certain limitations on diversification and other considerations such as transaction costs.

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

INVESTMENT POLICY STATEMENT

The following shall serve as PCM's standard investment policy statement ("IPS"). Your engagement of PCM, to the extent that PCM is providing investment related services to you, will deem you to have approved and agreed to the terms of this IPS, subject to any changes made hereto in accordance with the "IPS Amendment Process" subsection below.

Purpose of Investment Policy Statement

This IPS provides guidelines by which PCM will select and monitor investments. PCM is registered as an investment advisor with the SEC pursuant to the Investment Advisors Act of 1940 (the "Advisors Act"). As a result, PCM is required to act as a fiduciary to you with respect to our investment advice and, as such, is required to act in your best interest. PCM will also be deemed a fiduciary pursuant to other laws and regulations, including ERISA, with respect to certain types of other accounts. In all such cases, PCM performs its advisory duties in a manner reasonably designed to adhere to our fiduciary obligations.

Among other things, this IPS is intended to assist you in effectively supervising, monitoring and evaluating your investment portfolio by:

- Establish roles and responsibilities relative to PCM, you and your custodian
- Providing a written description of our investment philosophy and how we will apply that philosophy in light of your particular circumstances;
- Encouraging effective communication between you and your advisor;
- Establishing a formal criteria by we develop an investment plan, monitor and supervise investments, and rebalance your portfolio, and conduct investment analysis, selection and monitoring;
- Establishing your responsibilities relative to monitoring your investments;
- Setting forth information relative to certain risks of loss;
- Requiring our compliance with all applicable fiduciary, prudence and due diligence requirements, and with applicable laws, rules and regulations applicable to us; and
- The process by which this IPS may be amended.

If any portion of this IPS conflicts with any portion of your Agreement, or any financial or investment plan developed for you by PCM, the terms of the Agreement or financial or investment plan, as applicable, shall govern. Further, if any term or condition of this IPS conflicts with any of your trust or other estate documents, such documents shall control as long as such terms or conditions are consistent with the law.

Roles and Responsibilities

Investment Advisor (PCM). We serve as an objective, third-party professional to assist you in managing the overall investment process, which includes the following:

- Preparing and maintaining a financial and/or investment plan, which includes periodic portfolio and financial reviews;
- Prudently recommend investments with different and distinct risk/return profiles in an effort to create a diversified portfolio generally consistent with modern portfolio theory; and
- Monitoring and supervising investments and third-party vendors engaged by us on your behalf.

Client (You). You serve as the ultimate decision maker with respect to your portfolio of investments. As such, your obligations under this IPS are as follows:

- Provide direction or limitations to PCM regarding buying, selling, transferring or engaging in transactions in securities or assets within your account(s);
- Keeping PCM informed of any material changes to your goals, investment objectives and time horizon, financial circumstances, risk tolerance and other relevant information; and
- Monitor your investment portfolio (see “Client Monitoring of Investments” section below).

Qualified Custodian (e.g. Schwab, TD Ameritrade, etc.). Qualified Custodians are responsible for the safekeeping of your assets. The specific duties and responsibilities of your qualified custodian(s) include, but are not limited to, the following:

- Collecting all income and dividends owed to you;
- Valuing assets held by them;
- Settling all transactions (e.g. buy-sell orders, transfer requests, etc.); and
- Providing monthly or quarterly reports that detail transactions, cash flows, and securities held (and their value, as well as any changes in value since the previous report).

Third-Party Vendors. Third-party vendors are often responsible for a variety of services, from insurance sales to tax preparation to estate planning. The terms of the specific engagement and services to be provided will be determined on a case by case basis. In many instances, PCM can provide information to clients regarding particular kinds of service providers or vendors. Notwithstanding this, it is your responsibility, and at your discretion, to engage and monitor any such party.

Investment Strategy/Philosophy

General Objectives. PCM’s investment strategy generally involves the purchase of investments for the long-term based on an asset allocation appropriate for the client in light of the client’s investment objectives, risk tolerance, financial circumstances and goals, investment experience, and time horizon. PCM’s investment approach involves the following:

- Identifying an investment allocation that is generally consistent with your investment objectives, risk tolerance, financial circumstances and goals, investment experience and time horizon, and to maximize returns consistent with that level of risk;
- Maintaining a prudently diversified investment portfolio; and
- Monitoring and adjusting your portfolio when your circumstances so dictate.

Risk Tolerance. Your ability to tolerate the uncertainties, complexities and volatility inherent in the investment markets will be considered in the development of your initial asset allocation and will be reviewed periodically in order to make updates to your asset allocations as your circumstances and goals dictate. The main factors that influence your risk tolerance include, but are not limited to, the following: (i) your age; (ii) your present financial condition/circumstances; (iii) your current and future financial goals; (iv) your discretionary income and net worth; (v) your emotional reaction to market volatility; and (vi) your ability to withstand short- and intermediate-term market fluctuations.

Performance Expectations. Rates of return achieved by your portfolio will be in large part dictated by your investment objectives, risk tolerance, investment time horizon and, ultimately, your asset allocation mix. Projections of investment performance prepared by PCM assume certain long-term rates of return and, except as otherwise explicitly stated, are gross of any management fees applicable to PCM's services. Notwithstanding, market performance varies and no guarantees or assurances can or will be made regarding the likelihood that anticipated returns will be realized and, furthermore, actual performance results depend on circumstances beyond PCM's control. Investment performance will be monitored and reported to you on a quarterly basis.

Benchmarks. Your investments will be benchmarked against various indices corresponding to particular peer groups. A further discussion of benchmarks and peer groups utilized by PCM is below under the "Investment Selection and Monitoring" section.

Time Horizon. Our investment strategy generally involves the selection of investments based on an investment time horizon of at least five (5) years. The asset allocation utilized in conjunction with your portfolio takes a long-term strategic approach to investments and we will manage your investment assets accordingly.

**PCM will not apply any of its method of analysis or investment strategies to
Unmanaged Assets or Report Only Accounts (see Item 4 - Advisory Business).**

Investment Planning and Rebalancing

Develop a Plan. Based on your goals and objectives, time horizon, financial circumstances and risk tolerance, and subject to the terms of our Agreement, PCM will recommend an asset allocation consistent with our fiduciary obligations to you. The portfolio allocations identified by us will attempt to balance risk and reward, and allocations to each of the various asset classes/segments are intended to be maintained within an agreed upon range with an upper and lower limit. In formulating these recommendations we will take into consideration your current portfolio allocations and holdings, and will make specific recommendations in light of those holdings as well as the other factors referenced above.

Monitor and Supervise. In order to ensure that your portfolio and its allocations continue to be consistent with your investment objectives, PCM will reconfirm your objectives at least annually. In addition, PCM will review your investment accounts periodically ensure your allocations remain within the agreed target ranges (i.e. the agreed upon upper and lower limits) and to evaluate whether your investment allocations continue to be consistent with your investment objectives. Finally, unless otherwise agreed, we will discuss together at least annually your overall investment plan.

Rebalancing. In accordance with our monitoring obligations, we will generally rebalance your portfolio periodically where we determine, in accordance with our fiduciary obligations, when circumstances dictate (e.g. where a particular investment class category weighting is materially out of alignment with agreed upon targets and the market environment warrants rebalancing) or when the portfolio's allocations are outside of the upper or lower limit established between you and your advisor for your asset allocations. In addition, investment yields and net cash inflows will be invested in a manner intended to maintain your portfolio's alignment with your agreed upon asset allocations..

Investment Analysis, Selection and Monitoring

PCM's analysis of investments is fundamental. PCM relies on a combination of research materials from third parties and direct research with investment sponsors to conduct our analysis. When conducting due diligence on, or selecting, an investment, PCM's Investment Committee will review quantitative and qualitative aspects of the investment, which generally include a review of historical performance and performance relative to an appropriate benchmark, expense ratios, and portfolio management and practices. Security types considered for portfolio construction includes, but is not limited to, no-load mutual funds, exchange listed securities, foreign issuers, certificates of deposit, index funds, options, structured notes, and ETFs. PCM also advises qualified clients regarding private placement offerings.

Each investment selected will be monitored for continued consistency with its identified asset class/segment in an effort to monitor for philosophical consistency and against tracking error. In addition, PCM will also monitor change in management and expense ratios, and compare the performance of each product to an appropriate benchmark or similar investment where an appropriate benchmark is not readily identifiable. As deemed appropriate by PCM, we will remove a recommended manager from clients' portfolios and, if an alternative manager is identified, replace the recommended manager with the alternative manager.

Client Monitoring of Investments

Investment Portfolio. Fluctuating rates of return characterize the securities market, particularly during short-term periods. Recognizing that short-term fluctuations may cause variations in performance, it's your obligation to evaluate investment performance from a long-term perspective. Your ongoing review and analysis of your investments is necessary in order to maximize your likelihood of achieving your stated investment goals.

Costs and Fees. You should review with us or independently at least annually all costs associated with the management of your portfolio, including, but not limited to the following:

- Expense ratios of each mutual fund, ETF and other investment that carries a management fee that is independent of any fees charged by us;
- Administration fees (i.e. costs associated with the administration of your investment portfolio, including any transactions costs, custodial fees, trust servicing fees, etc.); and
- Our fees to ensure that amounts debited or otherwise paid by you are consistent with the terms of your Agreement.

Risk of Loss

PCM makes a number of assumptions when formulating recommendations regarding asset allocations for which it will make. The assumptions made involve a high degree of speculation and uncertainty and, as a result, your actual returns will often be more or less than anticipated. In general, investing provides for exposure to asset classes and/or investments that could result in the loss of principal due to economic downturns, world events, market fluctuations, inflation, and individual security performance, among other things. Thus, while PCM recommends a variety of investments, all investments are subject to risk of decline in value and not all investments are suitable for all investors. Below is a summary of potential risks:

Equity Investments. PCM clients generally invests in equities through the purchase of mutual funds and ETFs (see “Investment Companies and ETFs” below for a summary of risks associated with these types of securities) selected by PCM from various asset classes (e.g. large-, mid-, and small-capitalization companies). Regardless of how exposure to equities is achieved, equity investment valuations will generally increase or decrease based on factors directly relating to the performance of the companies invested in; however, equity investment valuations are also affected by other factors not immediately or directly affecting the companies, such as market conditions and technology/industry/cultural changes. Investments in small- and mid-capitalization companies are generally understood to be more economically vulnerable than investments in larger, more established organizations, and valuations for such investments will potentially be more volatile than investments in large-capitalization companies.

Investment Companies and ETFs.

Investment Companies. When achieving market exposure through the use of an Investment Company (e.g. open-end mutual funds and/or ETFs¹), careful consideration should be given to the investment objectives, risks, charges and expenses associated with such investments before investing. Clients invested in these securities will bear fund fees and expenses associated with the management thereof. Investments in these securities are subject to the same risks as the underlying securities (including those described in this section), in addition to manager and investment practices risks.

Exchange Traded Funds. ETFs, unlike mutual funds, are traded intraday, meaning the price can fluctuate throughout the day, and cannot be purchased directly from the issuer. ETFs are also subject to additional risks, including the risk that the market price of the ETF is above or below its net asset value. PCM does not invest in leveraged or inverse ETFs which can be higher risk for investors.

Fixed Income. In general, the bond market is volatile. In addition, fixed income securities (including individual bonds and fixed income oriented mutual funds and ETFs) are often subject to various types of risk, including, but not limited to: interest rate risk (e.g. bond prices rise when interest rates fall and *vice versa*, an effect that is usually pronounced for longer-term securities); credit risk (e.g. changes in credit rating); issuer risk (e.g. willingness of the issuer to make debt service payments); and tax advantaged status risks (e.g. losing preferential tax status/treatment). In addition to the foregoing risks, fixed income ETFs and mutual funds are generally subject to the same risks described above under “Investment Companies and ETFs”.

¹ Certain ETFs are organized as Unit Investment Trusts rather than Investment Companies; however, the general risks outlined herein are equally applicable to such funds.

International and Emerging Markets Investments. International investments subject portfolios to greater risks including, but not limited to, currency fluctuation, economic conditions and different governmental and accounting standards. Emerging markets investments involve heightened risks related to these same factors as well as increased volatility and could have lower trading volume.

Private Investments and Commodities. Private investments, such as private funds, non-registered pooled investments, private real estate funds and other non-exchange traded investments involve a high degree of risk, including loss of investment and liquidity risk, with less transparency and increased complexity. These investments often utilize strategies involving the use of derivatives and/or leverage to achieve returns. The use of these strategies involves multiple risks, including the risk that the strategy will not work as intended and result in significant losses to investors. Investing in the commodities markets through commodity-linked funds will subject a portfolio to potentially greater volatility than traditional securities.

IPS Amendment Process

This IPS can be amended or modified on a case by case basis in light of your investment or financial plan and such modifications should be documented accordingly.

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Item 9 – Disciplinary Information

Neither Private Capital Management, nor its management team, has been subject to legal or disciplinary actions that are material to a client or prospective client's evaluation of the firm.

Item 10 – Other Financial Industry Activities and Affiliations

No individual associated with PCM is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, as a futures commission merchant, commodity pool operator or a commodity trading advisor, or insurance agent.

PCM is a wholly owned subsidiary of Independent Bank. Independent Bank is a wholly owned subsidiary of Independent Bank Group, Inc. (NASDAQ: "IBTX"). IBTX occasionally refers prospective clients to PCM and will receive compensation for such referrals (see Item 14 – Client Referrals and Other Compensation for additional information).

PCM only receives compensation directly from advisory clients. PCM does not receive compensation from any outside source (e.g. Rule 12b-1 marketing fees or distribution or revenue sharing payments).

PCM is not a general partner or manager of any pooled investment vehicle.

Item 11 – Code of Ethics

PCM has adopted a Code of Ethics (the "Code") which describes the firm's standard of business conduct and fiduciary duty to PCM's clients. Some of the general principles of the Code include:

- PCM adheres to the highest standards of integrity, trustworthiness, and truthfulness.
- PCM puts client interests ahead of the firm's interests.
- PCM keeps client information confidential.
- PCM provides full disclosure of all material facts to clients.
- PCM ensures that the firm and its employee's personal securities transactions do not adversely affect the securities transactions of clients.
- PCM complies with all relevant Federal, State and local rules, regulations and laws.

PCM authorizes employees to trade, for their personal accounts, in the same securities that the firm recommends for our clients' accounts, including family related accounts, but specifically prohibit trading activity intended to benefit an employee at the expense of a client or leveraged off a client's activities. Employees may also invest in pooled investment vehicles that PCM recommends to clients.

Employee transactions in the same mutual funds recommended for PCM clients if traded on the same day, are executed at the same closing net asset value for all participants and no price impact is anticipated from either employee or client transactions. Consequently, clients are not adversely affected by these transactions. Employee transactions in ETFs can be executed at or around the same time as those transactions that are recommended or executed for clients. The firm has a personal trading policy (outlined below) in place to monitor and detect any potentially abusive practices.

Under the Code, employees must report all personal trading transactions, as defined in the Code and pre-clear all transactions concerning initial public offerings and private offerings. Employees are required to provide quarterly transaction reports and annual transaction holding reports. In addition, employees must report all personal accounts (as defined in the code) initially upon commencement of employment and no less than quarterly thereafter.

The client can obtain a copy of the Code of Ethics by contacting the Chief Compliance Officer.

Item 12 – Brokerage Practices

PCM does not maintain physical custody of any client accounts or any assets within them although PCM is deemed to have custody of your assets if, among other things, you give us authority to withdraw fees from your account (see Item 15 Custody, below for additional information regarding instances where PCM will be deemed to have custody of a client's account or assets). Except with respect to certain private investments where funds are held directly by the fund sponsor as a capital investment, clients are required to deposit assets at a broker-dealer, investment company, or another financial institution that meets the definition of a "qualified custodian" under the Advisors Act, through which PCM will monitor the managed assets in the account. As a result, clients are required to complete all documentation required by the applicable custodian for each account, including the appropriate new account documentation. While PCM does not open custodial accounts for its clients, it can assist them in doing so. The ultimate responsibility rests with the client for the accuracy of the account opening and the information supporting the account.

PCM will process all trades in the account through the broker-dealer/custodian selected by each client. Because clients direct which broker-dealer will be used to process trades in their accounts, this could impair PCM's ability to achieve best execution of transactions. This could result in clients paying higher commissions and other transaction costs or receiving less favorable net prices on transactions. Clients should understand that not all advisors require their clients to direct their brokerage. While clients designate the custodian, PCM seeks to limit the number of custodians which hold client assets due to the complexity associated with managing accounts on multiple custodial platforms. PCM clients generally use Charles Schwab & Co. or TD Ameritrade to serve as custodian based upon the quality of their service, the types of services these firms offer, their overall capabilities, execution quality, competitiveness of transaction costs, the investment research they make available to PCM and PCM's clients, and the firms' reputation and financial stability, among other things.

PCM seeks to recommend custodians/brokers who will hold your assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. PCM considers a wide range of factors, including, among others, the following:

- Combination of transaction execution services along with asset custody services (generally without a separate fee for custody);
- Capability to execute, clear and settle trades (buy and sell securities for your account);
- Capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.);

- Breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds (ETFs), etc.);
- Availability of investment research and tools that assist PCM in making investment decisions;
- Quality of services;
- Competitiveness of the prices of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them;
- Reputation, financial strength and stability of the provider;
- Financial responsibility; and
- Their prior service to PCM and its clients, including their responsiveness to requests and inquiries.

Charles Schwab & Co. and TD Ameritrade provide products and services to PCM that provides an economic benefit to PCM, but may not benefit its client's accounts. Some of these other products and services assist PCM in managing and administering clients' accounts, including, but not limited to:

- Receipt of duplicate client confirmations and bundled client statements;
- Access to a trading desk exclusively for Schwab Institutional participants;
- The ability to have advisory fees deducted directly from a client's account;
- Receipt of compliance publications; and
- Access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors.

Charles Schwab & Co. and TD Ameritrade also make available to PCM other services intended to help PCM manage and further develop its business enterprise. Services available to PCM include consulting, publications and conferences on practice management, research reports, information technology, business succession and marketing. PCM also receives client referrals from Charles Schwab & Co. through PCM's participation in the Schwab Advisor Network (detailed in Item 14 below).

PCM's receipt of these benefits creates a potential conflict of interest because it relieves the firm from fully paying for these items or producing them itself. As result, the receipt of these benefits make it more likely that PCM will generally recommend these companies as the custodian for its clients' accounts. However, PCM believes that clients' use of these companies to serve as the custodians and brokers on clients' accounts is in the best interests of the firm's clients, based on the scope, quality, and price of services all of which benefit clients as opposed to PCM.

PCM has the ability to bunch orders of various discretionary clients for execution but is not required to, and client portfolios are in most cases traded independently of one another. Thus, client accounts will likely receive pricing that is different from one another.

Item 13 – Review of Accounts

PCM reviews client accounts each calendar quarter, which includes, but is not limited to, an analysis of asset allocations, significant cash flows, and current investments. Investment portfolios are reviewed periodically with the client as circumstances may dictate but generally no less than annually. When deemed appropriate, portfolio actions are taken. Such circumstances might include changes in capital market conditions,

economic changes, tax changes, and/or a change in the client's investment objectives, financial profile, investment horizon or risk tolerance. PCM attempts to ensure conformity with the client's stated goals, financial profile, risk tolerance, investment horizon and investment objectives. Clients should, however, inform PCM promptly of changes in the client's investment objectives, risk tolerance, investment horizon or financial situation in order to allow PCM to analyze the continued suitability of clients' investments and, as necessary, make appropriate adjustments thereto as the circumstances dictate..

The client will be sent statements by the client's broker-dealer/custodian no less frequently than on a quarterly basis. In addition, PCM prepares supplementary reports for the client on the status of the client's account, usually on a quarterly basis.

PCM will have no responsibility for Unmanaged Assets and Report Only Accounts. See Item 4 – Advisory Business for additional information regarding Unmanaged Assets and Report Only Accounts.

Item 14 – Client Referrals and Other Compensation

As noted in Item 12, above, PCM receive certain benefits from third-party custodians in the form of support, products, and services made available to PCM. However, these offers of products and services are not based on the willingness of PCM or its investment advisor representatives to provide any particular investment advice to their clients, such as recommendations to purchase any particular securities products.

PCM has a solicitor agreement with Independent Bank whereby PCM will compensate Independent Bank employees through a bonus system that rewards employees for referring clients to PCM upon the successful engagement of such clients. Payment of a fee, if any, will not result in any additional management fees or charges paid by our clients. This solicitor agreement is structured to comply with applicable securities laws, which include the existence of a formal contract between PCM and the solicitor. Pursuant to that contract, Independent Bank is required to provide each potential client with a disclosure statement, which describes the specific relationship between PCM and Independent Bank – prior to or at the time the client enters into an investment advisory or management relationship with PCM.

PCM receives client referrals from Schwab through PCM's participation in the Schwab Advisor Network pursuant to a solicitor agreement ("the Service"). This solicitor agreement is similar to that described above relative to Independent Bank. The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent and unaffiliated with PCM. Schwab does not supervise PCM and has no responsibility for PCM's management of client portfolios or PCM's other advice or services. PCM pays Schwab fees in conjunction with client referrals through the Service. PCM's participation in the Service may raise potential conflicts of interest described below.

PCM pays Schwab a "Participation Fee" on all accounts of clients who were referred to PCM by Schwab if and to the extent that such accounts are maintained in custody at Schwab. On all accounts that are maintained at, or transferred to, another custodian, PCM pays Schwab a "Non-Schwab Custody Fee". The Participation Fee paid by PCM is a percentage of the value of the assets in the client's account. PCM pays Schwab the Participation Fee for as long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to PCM quarterly and may be increased, decreased or waived by Schwab from

time to time. The Participation Fee is paid by PCM and not by the client. PCM has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs PCM charges clients with similar portfolios who were not referred through the Service.

PCM generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from, Schwab. The Non-Schwab Custody Fee will not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees PCM generally would pay in a single year. Thus, a conflict exists in that PCM has an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of PCM's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, a conflict exists in that PCM has an incentive to encourage household member of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit PCM's fees directly from the accounts.

For accounts of PCM's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than applicable commissions on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Trades for client accounts held in custody at Schwab are executed through a different broker-dealer than trades for PCM's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

Item 15 – Custody

PCM requires clients to designate an unaffiliated qualified custodian to hold assets in their accounts. PCM has custody under the custody rules in the following ways:

- 1) Clients may authorize PCM to debit fees directly from the client's account. In that case, the client must provide written authorization permitting the custodian to debit fees from the client's account on behalf of PCM. Clients will receive account statements directly from the account's custodian at least quarterly, which will detail all activity and list any fee deductions. These reports will be sent to the email or mailing address the client provided. Each time a fee is directly deducted from a client's account, PCM will concurrently (i) send an invoice to the custodian specifying the amount of the fee and (ii) send an invoice to the client specifying and itemizing the fee, including the formula used to calculate the fee, the amount of assets under management upon which the fee is based, and the time period covered by the fee. Clients should carefully review the account statements they receive from the custodian to ensure they accurately reflect the assets the client believes are in the account

and fees assessed by PCM. If any inconsistencies are found, clients should contact PCM immediately.

- 2) Clients have named PCM or a PCM related person as a trustee, co-trustee or successor trustee, or as full power of attorney.
- 3) Clients can authorize PCM, under terms of a letter of instruction, to instruct the custodian to disburse funds or securities from the client's account at the custodian. Terms of the letter of instruction are provided by the client.
- 4) Clients provide client login credentials to an account that provides the person with those credentials the ability to disburse funds from the account without additional client authorization (e.g. neither the client's signature nor verbal authorization is required to withdraw funds from the account).
- 5) Clients provide PCM with check writing or similar authority over an account such that PCM has the ability to issue checks to third-parties.

PCM obtains an annual surprise custody examination, as required, of PCM's custody accounts.

Item 16 – Investment Discretion

For most client accounts, PCM has discretionary authority to manage the investments within the accounts. The Agreement provided to clients will include a limited power of attorney that outlines the specific authority PCM will have to initiate investment transactions in the client's accounts and whether such authority is of a discretionary or non-discretionary nature. That document also permits PCM to notify the account's custodian and/or broker-dealer of its authority (although these entities may require clients to execute separate forms to confirm PCM's discretionary authority over each account).

Specifically, PCM will have the authority to:

- Buy, sell, and trade securities;
- Place, withdraw, or change transaction orders or instructions with the account's custodian and;
- Instruct the custodian as to which cost basis formula to apply to each account.

PCM will strive to manage each client's account consistent with the client's investment objectives, which are established at the opening of the account but are subject to change at any time at the client's direction. Certain investments require additional written client consent, including private investments.

In addition, clients have the right to designate specific restrictions on investments held, or to be held, in their accounts (e.g. Unmanaged Assets) and the right to limit PCM's discretionary or decision-making authority over an account even where such an account is included in PCM's periodic reporting to the Client (e.g. Report Only Accounts). Unmanaged Assets and Report Only Accounts are subject to the limitations in Items 4, 8 and 13 above.

The client agrees to accept sole responsibility for any *Unmanaged Assets and Report Only Accounts* that the client has chosen to maintain in the clients account(s).

Item 17 – Voting Client Securities

Clients select when opening an account whether the client or PCM will vote proxies for the client's securities. If the client chooses to have PCM vote the proxies, PCM will do so in the client's best interest, without regard to PCM's interest and will generally utilize a third-party proxy voting firm for this purpose. Clients can obtain information on how their proxies were voted by making an oral or written request to PCM. A copy of PCM's proxy voting policies and procedures is available upon request.

Item 18 – Financial Information

Registered investment advisors are required, in some cases, to provide certain financial information and or disclosures about the firm's financial condition. For example, if PCM required clients to prepay advisory fees six months or more in advance, had a financial condition that was reasonably likely to impair its ability to meet its contractual commitments to its clients, or had been the subject of a bankruptcy petition during the past ten (10) years, it would be required to include certain financial information and make disclosures. However, none of these factors are applicable to PCM, so no such disclosures are necessary.

Item 19 – Privacy Policy

FACTS

WHAT DOES PRIVATE CAPITAL MANAGEMENT DO WITH YOUR PERSONAL INFORMATION?

Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number and income
- account balances and account transactions
- risk tolerance and investment experience

When you are *no longer* our customer, we continue to share your information as described in this notice and will retain that information for at least as long applicable regulations so require.

How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Private Capital Management chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Private Capital Management share?	Can you limit this sharing?
For our everyday business purposes— such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes— to offer our products and services to you	Yes	No
For joint marketing with other financial companies	No	We don't share
For our affiliates' everyday business purposes— information about your transactions and experiences	Yes	No
For our affiliates' everyday business purposes— information about your creditworthiness	No	We don't share
For our affiliates to market to you	No	We don't share
For nonaffiliates to market to you	No	We don't share

Questions?

Call 303.370.0055 or go to www.pcm-inc.com

What we do

How does Private Capital Management protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
How does Private Capital Management collect my personal information?	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> open an account or seek advice about your investments provide account information or enter into an advisory contract tell us about your investment or retirement portfolio <p>We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> sharing for affiliates' everyday business purposes—information about your creditworthiness affiliates from using your information to market to you sharing for non-affiliates to market to you <p>State laws and individual companies may give you additional rights to limit sharing.</p>

Definitions

Affiliates	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <p>Our affiliates include financial companies such as banks.</p>
Nonaffiliates	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <p>Private Capital Management does not share with non-affiliates so they can market to you</p>
Joint marketing	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <p>Private Capital Management does not jointly market</p>