

# **Monarch Capital Management Inc**

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## **FORM ADV PART 2A BROCHURE**

**February 26, 2024**

This brochure provides information about the qualifications and business practices of Monarch Capital Management Inc. If you have any questions about the contents of this brochure, contact us at 260-422-2765, 800-893-3547 or [monarch@monarchcapitalmgmt.com](mailto:monarch@monarchcapitalmgmt.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Monarch Capital Management Inc (IARD/CRD #106244) is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Monarch Capital Management Inc is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## Item 2 Summary of Material Changes

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since our last annual updating amendment, dated March 14, 2023, we have made the following changes to our Form ADV, although the changes may not be material to every client.

- We have amended the *Client Referrals and Other Compensation* section to disclose our new equity incentive plan that enables employees to receive Monarch Capital Management, Inc. stock as an award based on employee performance and company profitability. The equity incentive plan and the bonus compensation paid to our principals and employees involves a conflict of interest because they have a financial incentive to refer clients to our firm.
- The disclosure related to familial trustee relationships has been removed from the *Custody* section. There are no Monarch employees acting in a trustee capacity over client accounts.
- Charles Schwab announced in 2019 that they were purchasing TD Ameritrade. As part of the merger, our client accounts that are custodied at TD Ameritrade are scheduled to transition to Schwab's platform in September 2023. We have amended the disclosure under the *Brokerage Practices* section to include Charles Schwab as a recommended custodian and broker-dealer. The disclosure has been updated to address the services and economic benefits provided by Schwab and how these services benefit clients and our firm. Please refer to Item 12 for additional information.

### Item 3 Table of Contents

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

## Item 4 Advisory Business

Monarch Capital Management Inc ("Monarch") provides **investment advisory services** to investors. Services consist of the management of client portfolios through the use of equity (stocks) and debt (bonds) securities. Monarch has been in business since August 16, 1994. Its principal owners are members of the Meyer family: David M. Meyer, John D. Meyer and Katherine K. Moenter.

Monarch's primary business is to invest our clients' portfolios directly into stocks and bonds. We assess our clients' needs and customize an investment strategy and action plan that best helps them meet their objectives. We also consider their income needs, time horizon, their income and estate tax considerations and their tolerance for volatility.

Our advice is limited to the types of investments named above. For a more detailed description of these investments, see Item 8 "*Methods of Analysis, Investment Strategies, and Risk of Loss.*"

All of Monarch's clients' assets are managed on a discretionary basis with courtesy consultation if a client requests. A client grants investment discretion to Monarch by executing a limited power of attorney with the custodian at the time the account is opened. Our clients may impose restrictions on investing in certain securities or types of securities.

We also offer **financial advisory services** on personal and family financial matters that include:

- creating a personal balance sheet or net worth statement that details all financial assets and liabilities (debts);
- analyzing financial holdings including holdings' proportions and investment sector allocations;
- discussing a wealth transfer plan analysis that outlines the workings of a client's estate plan;
- creating a personal budget with estimated income and expenses;
- creating and implementing a financial action plan which includes the compilation of a list of decisions to consider and actions to take; and
- analyzing and discussing financial decisions such as whether to use cash or a loan for a purchase and how and when to make gifts.

Since our investment strategies and advice are based on each client's specific financial situation, the investment advice we provide to you may be different or conflicting with the advice we give to other clients regarding the same security or investment.

### **Rollover Recommendations**

Effective February 1, 2022, for purposes of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, we are providing the following acknowledgment to you.

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;

- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

We benefit financially from the rollover of your assets from a retirement account to an account that we manage or provide investment advice, because the assets increase our assets under management and, in turn, our advisory fees. As a fiduciary, we only recommend a rollover when we believe it is in your best interest.

### **Assets Under Management**

As of December 31, 2023, we provide continuous management services for \$414,170,690 in client assets on a discretionary basis and \$0 on a non-discretionary basis.

## **Item 5 Fees and Compensation**

Fees for discretionary **investment advisory services** are payable quarterly in advance and are based on the market value of assets under management at the end of the previous billing period. For example, fees for the 1<sup>st</sup> quarter are charged based on the year end market value and are paid during the first part of the 1<sup>st</sup> quarter. Clients have the option of having fees deducted from their account or billed directly to them. Fees are calculated at the following annual rates:

### **Annual Fee Schedule Balanced or Equity Accounts**

<b>Assets Under Management</b>	<b>Annual Fee</b>
First \$3,000,000	1.00%
Next \$7,000,000	0.75%
Over \$10,000,000	0.50%

For example, a client with a \$15 million Equity Account pays 1% on the first \$3 million, .75% on the next \$7 million, and .5% on the remaining \$5 million. If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. In some special circumstances, the investment management fee may be negotiable such as in cases where account maintenance is the goal because low cost basis securities prevent active management of the account to minimize capital gains and tax liability.

At our discretion, we may combine the account values of family members to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee based on the available breakpoints in our fee schedule stated above.

We will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

Deducting advisory fees from client accounts causes Monarch to have limited custody, therefore, Monarch reconciles its assets held with the qualified custodians. On occasion, there can be a minor discrepancy, which oftentimes is the difference in timing in the posting of a dividend or interest on the custodian's books versus the date Monarch anticipates the dividend or interest to be posted. Monarch bills fees on a quarterly basis using an automated billing system. Provided the impact of this discrepancy to the client's fees is less than \$1, Monarch for efficiency purposes will bill based on its automated billing system.

In limited circumstances, some clients may choose our non-discretionary **financial advisory services**, which are managed on a non-continuous basis. In such cases a negotiated, but fixed, engagement fee applies. This fee is billed at the time the service is performed or may be billed quarterly, if the service is ongoing, not to exceed \$5,000 annually.

The client may terminate services at any time by writing and delivering the request to Monarch, by verbal instructions or by notification by the custodian. Upon notification all active management of the account stops. If the client communicates this information verbally to Monarch a letter or email is sent to the customer acknowledging the client's desire to terminate, the date of termination and fee reimbursement information. Fees are refunded promptly on a pro-rata basis from the date of termination. Since fees are charged in advance, termination of our services on any date other than on the 1st day of a calendar quarter would require a refund. For example, if a client terminates our services on February 1, he or she would receive a refund of fees from February 1 through March 31.

Monarch may resign as investment manager by giving written notification. Monarch's investment management contract states that the contract may be terminated without penalty within five (5) business days after entering into the contract. "Without penalty" means that no management fee will be charged. The fees described above are the only fees Monarch charges. It receives no other compensation.

Additional fees (not fees payable to Monarch) may be incurred. Examples are trustee fees, commissions billed by the broker for purchases and sales, and trade-done-away fees when assets are purchased or sold through another broker.

If mutual funds or exchange traded funds ("ETFs") are held in a client's account, Monarch may include these funds in the assets subject to management fees. When this occurs, the client will pay two levels of advisory fees for the management of their mutual fund or ETF assets, both directly to Monarch and indirectly through the fees charged to the mutual fund or ETF by its manager or other fund expenses. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, refer to the *Brokerage Practices* section of this brochure.

If you elect to roll the assets out of your former employer's retirement plan to an IRA that is subject to our management, we will charge you an asset based fee as set forth in the agreement you execute with our firm. This practice presents a conflict of interest because Monarch will benefit from the fees charged when an option may be to leave the assets with your former employer's plan at a lesser or no charge. Many employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs.

In determining whether to complete the rollover to an IRA, and to the extent the following options are available, you should consider the costs and benefits of:

1. Leaving the funds in your employer's (former employer's) plan.
2. Moving the funds to a new employer's retirement plan.
3. Cashing out and taking a taxable distribution from the plan.
4. Rolling the funds into an IRA rollover account.

Each of these options has advantages and disadvantages and before making a change we encourage you to speak with your CPA and/or tax attorney.

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

Monarch does not charge performance-based fees (fees based on a share of capital gains or capital appreciation of managed assets).

## Item 7 Types of Clients

Monarch provides investment advisory services to individuals, trusts, foundations, corporations and other businesses and pension plans. Monarch also provides financial advisory services to similar client types as the investment advisory services.

In general, we do not require a minimum dollar amount to open and maintain an advisory account; however, we have the right to terminate your Account if it falls below a minimum size which, in our sole opinion, is too small to manage effectively.

Monarch's investment advice regarding the same security or investment may be different. Investment strategies and advice may vary depending upon each client's specific financial situation.

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

Securities within clients' accounts are reviewed on an ongoing basis by the portfolio managers, whose daily activities include reading and analyzing research and financial reports, monitoring price performance, and studying economic trends.

Accounts are formally measured monthly and reviewed quarterly for performance of the portfolio and, if appropriate, can be measured by asset class (stocks, bonds, cash). The review compares account performance to appropriate market indexes, such as the Standard & Poors 500 or fixed income indexes, to determine the effectiveness of the account management during the quarter.

We categorize stocks in our clients' portfolios as:

1. **Core stocks:** the highest-quality growth companies, which form the "core" of most of our portfolios.
2. **Income stocks:** high-quality companies which pay out a much higher share of their earnings in the form of dividends, giving them high dividend yields. While they offer less stability than bonds, their dividend growth should allow income to grow whereas income from bonds and CDs does not grow. This is an important distinction when considering the impact of inflation on the cost of living in the long term.
3. **Small – Mid Cap stocks:** smaller capitalized companies with many of the same characteristics of our core stocks, but whose growth prospects are more open-ended than those of large



- companies. These are valuable only for clients whose risk tolerance supports their inclusion.
4. **International stocks:** companies domiciled outside the United States.
  5. **Special Situation stocks:** equity investments which don't fit into any other category. These could include growth companies with higher risk or companies of a more cyclical nature.
  6. **Client-directed stocks:** companies to which a client has a personal connection, a special interest, or tax issues (such as a low cost basis).
  7. **Preferred stocks:** securities that have elements of both bonds (high yields, fixed coupon, and are callable) and stocks (less protection of principal, trading volatility). While yields are generally attractive, interest rate risk is significant, because they have long lives to maturity or have no maturity. Combined with the lack of principal protection, preferreds are only for clients with a high tolerance for risk.
  8. **Index funds and ETFs (exchange traded funds):** where appropriate we might gain exposure to certain asset classes, such as emerging market stocks, through passively- managed index funds.

In many of our portfolios, Monarch also invests in bonds. Our main objective with bonds is **safety of principal**, plus a satisfactory return. Following are criteria we use:

- **Credit quality** is the primary consideration. We understand the source of funds from every bond issuer and only buy a bond if return of principal is a certainty or near certainty. We do not "reach for yield" by taking chances on credit quality.
- **Credit ratings** are something of a guide but cannot be relied upon as any guarantee of an issuer's solvency. Likewise, bond insurance has been found to offer little protection for bond investors in times of serious trouble. The portfolio manager must do his best to choose bonds that are well funded by the issuer – a difficult judgment call sometimes.
- Generally we buy **high-quality bonds** with the intention of **holding until maturity**. We may sell a bond early if circumstances change, and there appears a possibility that the issuer may default.
- We do not view bonds as candidates for short-term trading and **we do not generally make large bets on the direction of interest rates**. To hedge against interest rate risk (the ups and downs of interest rates over time), we employ a simple "ladder of maturities" strategy (a series of bonds with a range of maturities) for our bonds, which levels out fluctuations for the overall portfolio.
- Interest rate risk (the danger of bond prices falling as rates rise) is greatest for long-term bonds. Therefore, we operate mainly in the **short-to-medium** range (duration of less than ten years), and are wary of longer maturities, especially in a low-rate environment where the risk is highest. In a high-rate environment, we may be willing to extend maturities somewhat.
- When Monarch buys **callable bonds** (bonds that can be redeemed by the issuer before maturity), we invest on both a yield-to-call and a yield-to-maturity basis. Callable bonds must still fit in with a laddered maturity strategy and adhere to our quality criteria.
- For clients whose risk tolerance supports it, we occasionally may recommend the purchase of high yield bonds.

Monarch's typical portfolio is a collection of individual stocks and bonds held long (owned outright) with no leverage (borrowing to invest). Occasional deviations (options, mutual funds) may occur at the client's request, but exotic investment methods are not Monarch's style, as we strive to keep things simple.

Investing in marketable securities carries with it risk of loss that clients should be prepared to bear. Monarch's clients understand that financial markets fluctuate and can produce losses. That said, however, it is Monarch's job to minimize such risk.



Monarch's basic strategy is to own individual stocks and bonds in portfolios held for many years with minimum turnover. Monarch attempts to minimize risk of loss by

- Investing only in securities of profitable and established companies with which we are familiar,
- Seeking to avoid overpaying,
- Diversifying portfolios to avoid risk of large losses from exposure to a single security,
- Avoiding margin or leverage, which might exaggerate volatility.

Despite Monarch's best efforts, markets sometimes bring humbling setbacks. Monarch attempts to mitigate the impact of bear markets by generally steering clear of lower-grade securities bearing "significant or unusual" risks. They are not appropriate for our clients. Even so-called high-grade securities have their hazards, which we address above.

## **Item 9 Disciplinary Information**

There are no legal or disciplinary matters past or present for Monarch or for any individual working at Monarch.

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

Monarch has no affiliations with any other industry group. For example, no one at Monarch is a broker or an insurance agent.

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

### **Description of Our Code of Ethics**

Monarch affirms our duty of fiduciary care and requires that all employees conduct themselves with integrity and loyalty, and in good faith to always act in the best interest of our clients. We pledge to avoid or disclose immediately any actual or potential conflict of interest and commit to safeguard clients' nonpublic personal information. A full copy of Monarch's Code of Ethics is available upon request.

The principals or employees of Monarch may own a security that is owned by our clients. Strict procedures are followed that prohibit any principal or employee transaction from conflicting with the best interest of our clients. Specifically, in purchasing or selling any security for our own accounts our purchases or sales may be aggregated with other clients in "bunched trades" for the purpose of seeking the best execution (which includes the duty to seek best price). No advisory client or principal or employee of Monarch is favored over any other; each that participates in an aggregated order will participate at the average share price for all Monarch's transactions in that security in that aggregated order.

If a principal or employee of Monarch wishes to buy or sell a security that is owned by any of our clients, and there are no client trades with which it can be aggregated, the trade is held until the later of 3:30 p.m. or after all other client trades have been placed that day. Each of these trades is reviewed in advance by either the President and Chief Investment Officer, Vice President and Chief Financial Officer, or the Chief Compliance Officer to be certain there is no conflict with any client transaction.

### **Participation or Interest in Client Transactions**

Neither our firm nor any persons associated with our firm has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

## Item 12 Brokerage Practices

Clients of Monarch may hold their assets in custody at any qualified custodian. There are currently three types of brokerage arrangements among its clients: **Recommended**, **Discretionary** and **Directed** which are determined by where a client's assets are held in custody. Following is an explanation of each.

### **Pershing, Charles Schwab or TD Ameritrade Custody ("Recommended Brokerage")**

Monarch recommends that clients establish brokerage accounts with Pershing Advisor Solutions LLC ("Pershing") Jersey City, New Jersey, TD Ameritrade Institutional, San Diego, California, or Charles Schwab & Co., Inc. ("Schwab"), FINRA registered broker-dealers, members SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although Monarch recommends that clients establish accounts at Pershing, TD Ameritrade or Schwab, it is the client's decision to custody assets with either firm. Monarch is independently owned and operated and not affiliated with Pershing, TD Ameritrade or Schwab.

For Monarch's client accounts maintained in its custody, Pershing, TD Ameritrade and Schwab generally do not charge separately for custody services but are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Pershing, TD Ameritrade and Schwab or that settle into Pershing, TD Ameritrade and Schwab accounts.

Pershing, TD Ameritrade and Schwab also make available to Monarch other products and services that benefit Monarch but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of Monarch's accounts, including accounts not maintained at Pershing, TD Ameritrade and Schwab.

Pershing, TD Ameritrade and Schwab's products and services that assist Monarch in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) provide research, pricing and other market data; (iii) facilitate payment of Monarch's fees from its clients' accounts; and (iv) assist with back-office functions, recordkeeping and client reporting.

Pershing, TD Ameritrade and Schwab also offer other services intended to help Monarch manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Pershing, TD Ameritrade and Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to Monarch. Pershing, TD Ameritrade and Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Monarch. Pershing, TD Ameritrade and Schwab may also provide other benefits such as educational events or occasional business entertainment of Monarch's personnel. In evaluating whether to recommend that clients custody their assets at Pershing, TD Ameritrade and Schwab, Monarch may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Pershing, TD Ameritrade and Schwab, which may create a potential conflict of interest. Monarch's selection of custodian is based on many factors, including the level of services provided, the custodian's financial stability, and the cost of services provided by the custodian to our clients, which includes the yield on cash sweep choices, commissions, custody fees and other fees or expenses. Not all investment advisers recommend a particular broker to their clients.

### **Charles Schwab**

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to their institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. However, certain retail investors may be able to get institutional brokerage services from Schwab without going through us. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us.

For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Certain trades (for example, many mutual funds and ETFs) may not incur Schwab commissions or transaction fees. Schwab is also compensated by earning interest on the uninvested cash in your account in Schwab's Cash Features Program.

### **TD Ameritrade Institutional**

We participate in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade Holding Corporation is a wholly owned subsidiary of The Charles Schwab Corporation. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. We receive some benefits from TD Ameritrade through our participation in the Program.

As disclosed above, we participate in TD Ameritrade's institutional customer program and we may recommend TD Ameritrade to you for custody and brokerage services. There is no direct link between our participation in the Program and the investment advice we give you, although we receive economic benefits through our participation in the Program that are typically not available to TD Ameritrade retail investors. These benefits include products and services as disclosed above. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by us or our personnel through participation in the Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of our fiduciary duties to you, we endeavor at all times to put your interests first. You should be aware, however, that the receipt of economic benefits by us or our related persons in and of itself creates a conflict of interest and indirectly influences our choice of TD Ameritrade for custody and brokerage services.

### **Institutional (Bank) Custody Where Monarch has the Discretion to Select the Broker for Each Trade ("Discretionary Brokerage")**

Clients may hold their assets in custody at a financial institution, usually a bank. In those cases Monarch places brokerage transactions with securities brokers that Monarch believes will provide the best value in brokerage and research services for our clients.

It is important for Monarch in performing its responsibility to the client, to receive and evaluate the broad spectrum of economic and financial information, which many securities brokers have customarily furnished in connection with brokerage transactions. In compensating brokers for these services through commissions on trades, it continues to be in the interest of the client to take into account the value of the information received.

The research information received from any broker is used to benefit all clients.

In valuing brokerage services for institutional portfolios, Monarch makes a judgment as to which brokers are capable of providing a favorable net price (not necessarily the lowest commission considered alone) and a reasonable execution in a particular transaction. Reasonable execution means not only general competence and reliability, but specific expertise and effort of a broker in overcoming the anticipated difficulties in fulfilling the requirements of particular transactions.

It is possible that a client whose assets are held in custody at a financial institution may want to direct trades to a particular broker or brokers. Although a rare occurrence, it will be treated the same as a "directed brokerage" account as described below with respect to commissions, aggregated trades and potential conflicts.

### **Soft Dollar Arrangement**

Monarch currently places trades for its **Discretionary Brokerage** clients at Strategas in order to receive research from Strategas Research Partners, LLC, an investment strategy, macro-economic and policy research firm. The commissions from trades executed by Strategas help pay for its research service. Commissions are \$0.04 per share.

Monarch saves money in paying for the Strategas research with commissions from trades. The commissions go directly to pay for the research. If commissions do not cover the cost of the research, Monarch pays the balance due. This is reviewed and paid annually. Use of the Strategas research benefits all of Monarch's clients.

Because Monarch wants to receive Strategas research, we have an incentive to place trades there. This may create a conflict of interest if our clients do not receive favorable execution. Execution prices are monitored. See "Other Brokerage Practices" below.

### **Custody at Other Brokers ("Directed Brokerage")**

In Directed Brokerage, Monarch will place all or almost all of the transactions with the broker and brokerage firm which the client designates and where the client's assets are held in custody. The client makes this designation on the investment management contract executed prior to the beginning of the management process.

With Directed Brokerage clients, Monarch does not negotiate commission rates with the brokerage firm or its registered representative selected by the client. Clients may negotiate commission rates with the registered representative of the firm they designate. The factors involved in such negotiation may include the size of the client's account, the brokerage firm's policy with respect to discounts, the client's relationship with the firm's representative and other factors. Monarch's Directed Brokerage clients may negotiate for and receive commission discounts in varying amounts. Unless a lower rate has been negotiated on his or her own behalf, the client should expect that the designated brokerage firm will charge commissions based upon the firm's established non-discounted commission schedule.

For Directed Brokerage clients, Monarch does not negotiate volume commission discounts. If a designated broker is allowed a commission in excess of that which another broker may have charged for executing the same transaction, it is done in recognition of the acknowledged commission level agreed to in advance between the client and the designated broker. Directed Brokerage clients will not necessarily obtain commission rates as favorable as those that might be obtained if Monarch did undertake to select the brokerage firm and to negotiate commission rates with that firm, and that may cost clients more money in trading costs.

Therefore, a potential conflict exists between the interest of Monarch's Directed Brokerage clients in obtaining the lowest commission and Monarch's receipt of future referrals from the client's broker. However, in the history of Monarch there have been fewer than 10 accounts referred to us by a broker and none in over 10 years.

When Monarch Capital Management has, at the same time, orders involving all three types of brokerage arrangements, Monarch enters all orders simultaneously, if the trades are sent electronically. If a directed brokerage account's transaction cannot be sent electronically at the same time as the others, it is typically executed last.

Occasionally, Monarch will be required to execute an order with a brokerage firm other than the firm where the Recommended and Directed Brokerage accounts are held. In this instance, the Recommended and Directed Brokerage client should expect to be charged a commission or mark-up by the non-designated broker as well as the designated broker. Specifically, Pershing charges a \$12 trade-done-away fee; TD Ameritrade charges \$15; and Schwab charges \$15.

### **Aggregated Trades**

Monarch frequently makes aggregated trades at Pershing, TD Ameritrade and Strategas and may do so at other brokers, if feasible. These trades, where client trade orders are "bunched," may include both Discretionary Brokerage and Recommended Brokerage accounts and Directed Brokerage accounts, when applicable. Clients participating in an aggregated trade receive an average execution price. In instances where multiple trades are required to fill an aggregated order, the broker provides Monarch with an average price for all trades. In the case where only a part of a trade is filled, Monarch's trading software randomly allocates the available shares to clients and those clients receive an average execution price. It is possible to have more than one aggregated trade on a given day. If this happens, each aggregated trade is treated independently, and the above procedures will apply to clients for the aggregated trade in which they participate. Aggregated trades at Strategas occur only if the same custodian is involved. Clients participating in aggregated trades pay the same commission rate as non-aggregated trades.

### **Other Brokerage Practices**

Discussed above are many factors that make up "**best execution**," which is Monarch's duty to seek the most favorable terms reasonably available in executing its clients' securities transactions. Some of the criteria in evaluating "best execution" are subjective. However, in evaluating whether the broker achieves best price execution, Monarch systematically evaluates the execution performance of brokers executing client trades. For all equity trades executed, the price at the time the order is placed is recorded and compared to the price at which the order is filled. Monarch evaluates the quality and cost of services received from broker/dealers on a periodic basis (as least annually). As a part of the evaluations, Monarch considers the quality and cost of services available from alternative broker/dealers.

When Monarch makes trades in **over-the-counter securities**, the trades may sometimes not be placed with the market-making broker. When this happens, the client, in addition to the commissions assessed by their custodian broker, will incur a transaction cost. Normally, best price and execution are obtained for over-the-counter securities transactions by executing directly with the market-maker on a principal basis. To the extent that this does not happen, Monarch's ability to obtain best price and execution is limited or eliminated.

Generally, Monarch buys **high-quality bonds** for clients with the intention of **holding until maturity**; however, we may sell a bond early if circumstances change. Occasionally when this happens Monarch may desire to purchase this same bond back for another client's portfolio. Monarch does not cross



trade between client accounts internally, rather Monarch always places the trades through a broker. The client selling the bond will receive a market price for the bond set by the broker. The client purchasing the bond will also receive a market price, but may benefit from a reduced commission.

Monarch does not, as a general rule, participate in **initial public offerings** ("IPOs") of equity investments. However, in the event Monarch does participate certain procedures will apply:

- Monarch principals or employees may not acquire any Beneficial Ownership in any security in an initial public offering without first seeking written approval from the Chief Compliance Officer.
- Monarch will not selectively allocate IPO shares in response to individual client requests or on the basis of subjective criteria.
- IPO shares will be offered to all accounts whose investment objective allows for purchase of equities. Each client who qualifies will be contacted, but only those who affirmatively elect to participate will be included in the allocation.
- A Monarch client may participate in an IPO through another relationship, but wish to purchase the security in the Monarch account. If this happens, Monarch will follow the direction of the client.

### **Mutual Fund Share Classes**

Mutual funds are sold with different share classes, which carry different cost structures. Each available share class is described in the mutual fund's prospectus. When we purchase, or recommend the purchase of, mutual funds for a client, we select the share class that is deemed to be in the client's best interest, taking into consideration the availability of advisory, institutional or retirement plan share classes, initial and ongoing share class costs, transaction costs (if any), tax implications, cost basis and other factors. We also review the mutual funds held in accounts that come under our management to determine whether a more beneficial share class is available, considering cost, tax implications, and the impact of contingent or deferred sales charges.

## **Item 13 Review of Accounts**

### **Investment Advisory Services**

The portfolio managers, David Meyer, George Donner and John Meyer, review all investment advisory accounts on an ongoing basis. This is necessary to keep the accounts consistent with the major trends in the financial markets. Of particular importance in these reviews is asset mix as well as the specific securities within the asset mix. Annual investment reviews may be conducted by phone or video call in addition to in-person reviews.

In addition to the monthly statements supplied by the custodian, clients also receive the following written quarterly reports from Monarch:

- Asset list with cost basis and quarter-end market values
- Performance report for the quarter, year to date and inception to date

At the time customers receive their first full quarterly report, they also receive an explanation of how to compare our reports to the ones received from the custodian. Clients also receive or have access to confirmation of every securities transaction and a brokerage statement at least quarterly.

A formal review is conducted at least annually to review the underlying portfolio assets, current market conditions, investment results and asset allocation to ensure investment strategy and expectations remain aligned with the client's stated goals and objectives.

Updates to financial advisory services are provided as needed and based on the client's request.

## Item 14 Client Referrals and Other Compensation

Monarch has entered into cash bonus agreements with its principals and employees where the principal or employee is paid 25% of the first year's fee for any new business brought to Monarch or significant deposit to an existing account for which the principal or employee is responsible. A pool of 25% of the first year's fee for these same accounts is created to be shared equally by all other principals and employees. The remaining 50% of the fee remains with Monarch. After the first year, Monarch retains the entire fee. Additionally, Monarch executed an equity incentive plan enabling employees to receive Monarch Capital Management, Inc. stock as an award based on employee performance and company profitability. The equity incentive plan and the bonus compensation paid to our principals and employees involves a conflict of interest because they have a financial incentive to refer clients to our firm.

Monarch pays no compensation to any outside person for referring clients to it.

Refer to the *Brokerage Practices* section above for disclosures on research and other benefits we receive resulting from our relationship with your account custodian.

## Item 15 Custody

Your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other qualified custodian. You will receive account statements from the qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy.

### **Standing Letters of Authorization**

We may assist clients with the transfer of their assets between two or more of a client's accounts maintained at the client's custodian, or maintained with multiple custodians. This ability to transfer a client's assets between the client's accounts, provided the client has authorized the adviser in writing to make such transfers, causes our firm to exercise limited custody over your funds or securities. Pursuant to Rule 206(4)-2 (the "Custody Rule"), we have taken steps to have controls and oversight in place to support the no-action letter issued by the SEC on February 21, 2017, (the "SEC no-action letter"). With respect to third party standing letters of authorization ("SLOA"), where a client may grant Monarch Capital Management, Inc. the authority to direct custodians to disburse funds to one or more third party accounts, we are deemed to have limited custody. However, we are not required to comply with the surprise examination requirement of the Custody Rule if we are otherwise in compliance with the seven representations noted in the February 21, 2017 no-action letter.

Where the Adviser acts pursuant to a SLOA, we believe we are making a good faith effort to comply with the representations noted in the SEC's no-action letter. Additionally, since many of those representations involve the qualified custodian's operations, we will collaborate closely with our custodians to ensure that the representations are being met.

## Item 16 Investment Discretion

See Item 4, "*Advisory Business*".



## Item 17 Voting Client Securities

Monarch will vote shareholder proxies for clients if the client requests it in writing. Monarch has adopted written policies and procedures reasonably designed to ensure it votes proxies in the best interest of clients.

If the Chief Compliance Officer determines that a material conflict of interest exists, the following procedures shall be followed:

1. Monarch may disclose the existence and nature of the conflict to the client(s) owning the Client Securities, and seek directions on how to vote the proxies;
2. Monarch may abstain from voting, particularly if there are conflicting client interests (for example, where client accounts hold different Client Securities in a competitive merger situation); or
3. Monarch may follow the recommendations of an independent proxy voting service in voting the proxies.

Available on request are details of how Monarch votes any proxy and a copy of the Proxy Voting Policy and Procedures.

Clients retaining their right to vote proxies will receive their proxy statements from the custodian of their assets. Clients can contact Monarch by telephone or email with any questions about a particular solicitation.

## Item 18 Financial Information

Our firm does not have any financial condition or impairment that would prevent us from meeting our contractual commitments to you.

We have not filed a bankruptcy petition at any time in the past ten years.

## Item 19 Requirements for State-Registered Advisers

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## Item 20 Additional Information

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any non-public personal information about you to any non-affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to non-public personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your non-public personal information and to

ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you as required under applicable federal or state law. Contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy. If you decide to close your account(s) we will adhere to our privacy policies, which may be amended from time to time.

If we make any substantive changes in our privacy policy that would further permit or require disclosures of your private information, we will provide written notice to you. Where the change is based on permitted disclosures, you will be given an opportunity to direct us as to whether such disclosure is acceptable. Where the change is based on required disclosures, you will only receive written notice of the change. You may not opt out of the required disclosures. If you have questions about our privacy policies contact our main office at the telephone number on the cover page of this brochure and ask to speak to the Chief Compliance Officer.

### **Trade Errors**

In the event a trading error occurs in your account, it is Monarch's policy to correct trading errors as soon as they are discovered. We never try to "play" the market to see if the trade can be corrected with no damage to us. It is our policy to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. Our policy is to correct the trade error in our Trade Error Account held with the Custodian when possible. In the event a trade error results in a gain, the handling of the gain will depend on the custodian and whether or not the trade has settled. Different custodians have different practices when dealing with trade errors that result in a gain, including donating the gain to a charitable organization. If Monarch has the ability to determine how the gain is handled, generally, we will permit the client to keep the gain if the trade has settled. If the trade has not settled, the resulting gain will remain in Monarch's Trade Error Account with the Custodian to offset future potential trade error losses.

### **Class Action Lawsuits**

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. Clients will receive information related to any such class action lawsuits directly from their account custodian(s). When securities held by the client are the subject of a class action lawsuit, the decision to participate in the lawsuit (or to refrain from participation) is a matter left solely to the discretion of the client. Notwithstanding the foregoing, the Company may, upon client request, assist clients in an administrative capacity in the completion of any claim forms, notices, and other materials related to participation in any class action lawsuits. The Company does not under any circumstances render any legal services and shall advise clients seeking such guidance to consult with their independent legal counsel.

Where the Company receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials, to the client. Electronic mail is acceptable where appropriate if the client has authorized contact in this manner.