

## Item 1: Cover Page

### **Part 2A of Form ADV Firm Brochure**

February 16, 2024

**Poehling Capital Management, Inc.**  
SEC File No. 801-63189

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This brochure provides information about the qualifications and business practices of Poehling Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at [trpoehling@poehlingcapital.com](mailto:trpoehling@poehlingcapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State securities authority. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

Additional information about Poehling Capital Management, Inc., is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary. There are no material changes since the last annual update of this disclosure issued on February 16, 2024.

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## Item 4: Advisory Business

### A. Description of Your Advisory Firm

Poehling Capital Management, Inc. ("PCM" and/or "the firm"), a Wisconsin corporation, is headquartered in Madison, Wisconsin, with a branch office located in La Crosse, Wisconsin. PCM was formed in May of 2004 and is principally owned by Thomas Poehling. PCM is an investment adviser providing financial planning, estate planning, and discretionary and non-discretionary investment management services to its clients.

### B. Description of Advisory Services Offered

PCM is an independent investment advisory and financial planning firm offering a variety of financial services to individuals and high-net-worth individuals, trusts, pension and profit sharing plans, and charitable organizations. Advisory services may include investment strategy, portfolio management, financial planning, and estate planning, as well as selection of separate account managers.

For its discretionary asset management services, PCM receives a limited power of attorney to effect securities transactions on behalf of its clients that include securities and strategies as described in Item 8 of this Brochure. In addition, PCM will remind clients of their obligation to inform the firm of any changes to their personal financial circumstances, investment objectives or risk tolerance, and modifications or restrictions that should be imposed on the management of their accounts. PCM will also contact clients at least annually to determine whether there have been any changes in a client's personal financial circumstances, investment objectives, and tolerance for risk.

#### B.1. Financial Planning Services

PCM's professionals interview each client at length to determine the client's goals, objectives, investment time horizon, and risk tolerance. PCM reviews documents supplied by the client such as wills, insurance policies, and income tax returns.

Generally, any of the service categories listed below, on a stand-alone basis, require a minimum of ten (10) hours to compile the necessary data to provide the requested service. In the event the client selects an additional service category, each additional service category would add approximately two (2) to five (5) hours of additional time to complete; for example, the selection of two service categories would require twelve (12) to fifteen (15) hours. Please note these are good faith estimates. Factors that could drive the amount of time and cost higher are the number and complexity of assets, number of securities accounts, number of trusts, number and complexity of corporate entities, client-imposed requirements, complexity of tax situation, and related factors. Based on the client's needs, financial planning services may include (but are not limited to) the following:

- **Personal Financial Planning** This includes an analysis of family records, budgeting, evaluation of liability issues, estate planning, and determination of financial goals.

- **Cash Flow and Tax Planning** This includes spending analyses and income tax planning. PCM counsels clients concerning the current and future tax effects of various investment vehicles.
- **Retirement Planning** PCM helps clients determine their retirement goals and formulates investment strategies to assist in reaching those goals.
- **Investment Planning** PCM evaluates investment alternatives and their effect on a client's portfolio.

PCM recommends that all clients work closely with their attorney, accountant, insurance agent, and investment advisor to implement a financial plan.

## **B.2. Investment Management Services**

For discretionary investment management services to clients with assets generally greater than \$250,000, PCM offers its value-oriented investment methodology through a series of model portfolios that span each of the risk tolerance categories across the risk spectrum. PCM invests in securities of large capitalization companies that are selling at significant discounts to their intrinsic value, with additional investments in non-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of quality companies with strong financials run by experienced, shareholder-friendly management teams that are selling at significant discounts to historical valuation metrics and can be acquired at attractive prices. PCM's primary focus will be on publicly traded equities (common and preferred stocks), exchange-traded funds, open end mutual funds, fixed income (taxable and tax-free), and option contracts. Please refer to Item 8 of this Brochure for a complete listing of the types of securities for which PCM provides advice.

Client portfolios are managed on an individual customized basis, taking into account the client's investment goals, objectives, risk tolerance, and other financial circumstances. PCM reserves the right to offer investment management program strategies in the future whereby, if appropriate, clients will elect to invest in a PCM-offered discretionary investment management program strategy.

In the majority of instances, PCM will evaluate a host of risk management factors (client account size, investment allocation parameters, withdrawal rate, etc.), which may result in the recommendation of one or more third-party separate account managers to manage one or more asset classes that fall outside the scope of PCM's core investment management competency and/or in order to achieve proper diversification. Please be advised that in such instances, PCM acts in the capacity of an investment consultant and provides advice as to the most appropriate separate account manager in light of the client's personal and financial circumstances. PCM's fees for this service are the same as if it were managing the portfolio assets on a proprietary basis. In addition to fees charged by PCM, the client will incur charges from the separate account manager.

Although PCM places its clients' interests first by recommending the most appropriate separate account manager for one or more asset classes outside of its core investment management competency, there is the potential for conflicts in that the client's fees will always be less if the client utilizes PCM as an investment manager rather than as an investment consultant and

allocating all or a portion of the portfolio assets to a third-party separate account manager. As a result, PCM may have an economic incentive to recommend its proprietary managed product over that of the third-party separate account manager. Clients should be aware that they will incur fees from PCM and any third-party money manager utilized. Such additional fees will detract from any increase in portfolio return as a result of hiring the third-party money manager. Please note, though, that PCM would only consider recommending a third-party money manager for those asset classes that fall outside the scope of PCM's core investment management competency and/or in order to achieve proper diversification based on a host of client-specific risk management factors that are detailed above. In this regard, PCM believes it is placing its clients' interests first and fulfilling its fiduciary obligation to clients.

For clients with assets generally less than \$250,000, PCM offers its value-oriented investment methodology through mutual fund models that span each of the risk tolerance categories across the risk spectrum. PCM invests in mutual funds whose portfolio securities consist of small- to large-capitalization companies that the mutual fund manager believes are selling at significant discounts to their intrinsic value, with additional investments in mutual fund securities that consist of lower-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of mutual funds consisting of quality companies with strong financials run by experienced, shareholder-friendly management teams.

### **B.3. Outside Assets – 401(k) Plans and Related Assets**

PCM may also provide investment advisory services to retirement plans ("Plan") or retirement plan participants ("Participants"). PCM may prepare personal asset allocation targets after obtaining and evaluating information concerning individual client circumstances provided by each Participant in response to a risk profiling questionnaire. PCM may provide recommendations as to an appropriate asset class structure and/or securities from a list of securities approved by the plan sponsor ("Sponsor").

The asset allocation and mutual fund recommendations made to such clients may differ from those made by PCM to high-net-worth and affluent individuals and institutions for one or both of the following reasons:

- A Participant's asset allocation target typically consists of a smaller number of asset categories to reflect the relatively smaller size of the Participant's investment assets.
- The Sponsor has constrained the investment alternatives from which PCM may make recommendations. In such cases, PCM may be required to observe quantitative criteria established by the Sponsor in preparing Participant-oriented lists of mutual funds, or to confine the advice given to choices among a relatively narrow set of investment alternatives established by the Sponsor. Participants are informed when the Sponsor of the group imposes constraints on PCM's ability to recommend mutual funds or other securities.

## **C. Client-Tailored Services and Client-Imposed Restrictions**

Clients' accounts will be managed on the basis of their financial situation and investment objectives and in accordance with any reasonable restrictions they have imposed on the

management of their accounts—for example, restricting the type or amount of security to be purchased in the portfolio.

#### **D. Wrap Fee Programs**

PCM does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

#### **E. Client Assets Under Management**

As of December 31, 2023, PCM had \$411,371,663 of discretionary assets under management, and \$4,719,410 of non-discretionary assets.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Asset-Based Fee Schedule

Asset-based fees are calculated based upon the actual days in the quarter divided by 365 multiplied by the annual percentage fee. PCM's fee schedule, which is negotiable, is as follows:

<u>Assets Under Management</u>	<u>Annual Fee Rate</u>
First \$500,000	1.25%
Next \$500,000	1.10%
Next \$1,000,000	1.00%
Next \$3,000,000	0.85%
Next \$5,000,000	0.70%
Above \$10,000,000	0.50%

PCM generally requires a minimum account size of \$250,000 for its core discretionary investment management services. For clients with less than \$250,000 in portfolio assets, PCM will recommend a diversified portfolio of no-load or load-waived mutual funds that serve as a proxy of its core value philosophy, with an overlay of non-correlated assets; PCM will not deliver performance reports to such clients and will be available to discuss the portfolio no less frequently than annually or as otherwise mutually agreed upon with the client. PCM may, in its sole discretion, waive the required minimum.

Asset-based fees are always subject to the investment advisory agreement between the client and PCM. Such fees are paid quarterly in arrears. The client and the client's custodian or broker-dealer will be invoiced at the end of each calendar quarter, based upon the market value (market value plus any credit balance or minus any debit balance) of the client's account at the end of such quarter, as mutually agreed upon by the client and PCM. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to or withdrawals from a client's portfolio are prorated for the quarter in which the change occurs. Since the firm bills in arrears, the quarterly fee will be adjusted downward for any deposits or upward for any withdrawals from the date of such deposit or withdrawal.

The client authorizes the qualified custodian to automatically deduct the fee and all other charges payable hereunder from the assets in the account when due, with such payments to be reflected on the next account statement sent to the client. If insufficient cash is available to pay such fees, securities in an amount equal to the balance of unpaid fees will be liquidated to pay for the unpaid balance. PCM may modify the fee at any time upon 60 days' written notice to the client. In the event the client has an ERISA-governed plan, fee modifications must be approved in writing by the client.

A client investment advisory agreement may be terminated by either party with 30 days' prior written notice to the other. Upon termination, any earned, unpaid fees will be due and payable.



The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

## **A.2. Financial Planning Fees**

PCM charges hourly rates when there are no investment assets to supervise on an ongoing basis. Financial planning hourly fees will be billed at the rate of \$250 per hour. PCM will provide an estimate of hours necessary to provide services prior to entering into an advisory relationship with the client. Fees are negotiable.

Generally, any of the service categories listed below, on a stand-alone basis, require a minimum of ten (10) hours to compile the necessary data to provide the requested service. This would equate to a minimum fee of \$2,500. In the event the client selects an additional service category, each additional service category would add approximately two (2) to five (5) hours of additional time to complete; for example, the selection of two service categories would require twelve (12) to fifteen (15) hours at an hourly rate of \$250 per hour. Please note these are good faith estimates. Factors that could drive the amount of time and cost higher are the number and complexity of assets, number of securities accounts, number of trusts, number and complexity of corporate entities, client-imposed requirements, complexity of tax situation, and related factors. Based on the client's needs, financial planning services may include (but are not limited to) the following:

- **Personal Financial Planning** This includes an analysis of family records, budgeting, evaluation of liability issues, estate planning, and determination of financial goals.
- **Cash Flow and Tax Planning** This includes spending analyses and income tax planning. PCM counsels clients concerning the current and future tax effects of various investment vehicles.
- **Retirement Planning** PCM helps clients determine their retirement goals and formulates investment strategies to assist in reaching those goals.
- **Investment Planning** PCM evaluates investment alternatives and their effect on a client's portfolio.

PCM recommends that all clients work closely with their attorney, accountant, insurance agent, and investment advisor to implement a financial plan.

Invoices will be mailed out on a periodic basis reflecting completed work performed. A financial planning agreement may be terminated by either party with 30 days' prior written notice to the other. Upon termination, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

## **B. Client Payment of Fees**

### **B.1. Payment of Asset-Based Fees**

PCM will deduct advisory fees directly from the client's account, provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends the client a statement, at least quarterly, indicating all amounts disbursed from the account.

The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

### **B.2. Payment of Financial Planning Fees**

In the event of financial planning fees, PCM will invoice the balance due from the client upon completion of the work, provided such balance exceeds the advance payment of \$500.

## **C. Additional Client Fees Charged**

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, separate account managers, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each separate account manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using PCM may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

## **D. Prepayment of Client Fees**

PCM does not require the prepayment of its advisory fees. PCM's fees will either be paid directly by the client or disbursed to PCM by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be terminated by either party with 30 days' prior written notice to the other. A financial planning agreement may be terminated by either party for any reason upon receipt of written notice. Upon termination of any account, any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

## **E. External Compensation for the Sale of Securities to Clients**

PCM's advisory professionals are compensated primarily through a salary and bonus structure. PCM's advisory professionals may receive commission-based compensation for the sale of insurance products. Please see Item 10.C. for detailed information and conflicts of interest.

## **F. Important Disclosure – Custodian Investment Programs**

Please be advised that the firm utilizes certain custodians/broker-dealers. Under these arrangements we can access certain investment programs offered through such custodian(s) that offer certain compensation and fee structures that create conflicts of interest of which clients need to be aware. Please note the following:

***Limitation on Mutual Fund Universe for Custodian Investment Programs:*** There are certain programs in which we participate where a client's investment options may be limited in certain of these programs to those mutual funds and/or mutual fund share classes that pay 12b-1 fees and other revenue sharing fee payments, and the client should be aware that the firm is not selecting from among all mutual funds available in the marketplace when recommending mutual funds to the client.

***Conflict Between Revenue Share Class (12b-1) and Non-Revenue Share Class Mutual Funds:*** Revenue share class/12b-1 fees are deducted from the net asset value of the mutual fund and generally, all things being equal, cause the fund to earn lower rates of return than those mutual funds that do not pay revenue sharing fees. The client is under no obligation to utilize such programs or mutual funds. Although many factors will influence the type of fund to be used, the client should discuss with their investment adviser representative whether a share class from a comparable mutual fund with a more favorable return to investors is available that does not include the payment of any 12b-1 or revenue sharing fees given the client's individual needs and priorities and anticipated transaction costs. In addition, the receipt of such fees can create conflicts of interest in instances where the custodian receives the entirety of the 12b-1 and/or revenue sharing fees and takes the receipt of such fees into consideration in terms of benefits it may elect to provide to the firm, even though such benefits may or may not benefit some or all of the firm clients.

***Additional Disclosure Concerning Wrap Programs:*** To the extent that we either sponsor or recommend wrap fee programs, please be advised that certain wrap fee programs may (i) allow our investment adviser representatives to select mutual fund classes that either have no transaction fee costs associated with them but include embedded 12b-1 fees that lower the investor's return ("sometimes referred to as "A-Shares," depending on the mutual fund issuer), or (ii) allow the use of mutual fund classes that have transaction fees associated with them but do not carry embedded 12b-1 fees (sometimes referred to as "I-Shares," depending on the mutual fund sponsor). Wrap fee programs offer investment services and related transaction services for one all-inclusive fee (except as may be described in the applicable wrap fee program brochure). The trading costs are typically absorbed by the firm and/or the investment representative. If a client's account holds A-Shares within a wrap fee program, the firm and/or its investment adviser representative avoids paying the transaction fees charged by other mutual

fund classes, which in effect decreases the firm's costs and increases its revenues from the account. Effectively, the cost is transferred to the client from the firm in the form of a lower rate of return on the specific mutual fund. This creates an incentive for the firm or investment adviser representative to utilize such funds as opposed to those funds that may be equally appropriate for a client but do not carry the additional cost of 12b-1 fees. As a policy matter, the firm does not allow funds that impose 12b-1 or revenue sharing fees on the client's investment within its wrap fee programs. Clients should understand and discuss with their investment adviser representative the types of mutual fund share classes available in the wrap fee program and the basis for using one share class over another in accordance with their individual circumstances and priorities.

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

PCM does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## Item 7: Types of Clients

PCM offers its investment services to various types of clients, including individuals and high-net-worth individuals, trusts, pension and profit sharing plans, and charitable organizations.

Although PCM provides investment services to the various types of clients mentioned, the services are conditioned upon meeting certain minimum criteria established by the firm for each of the investment programs it offers.

PCM generally requires a minimum account size of \$250,000 for its core discretionary investment management services. For clients with less than \$250,000 in portfolio assets, PCM will recommend a diversified portfolio of no-load or load-waived mutual funds that serve as a proxy of its core value philosophy, with an overlay of non-correlated assets; PCM will not deliver performance reports to such clients and will be available to discuss the portfolio no less frequently than annually or as otherwise mutually agreed upon with the client. PCM may, in its sole discretion, waive the required minimums discussed above.

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

### **A. Methods of Analysis and Investment Strategies**

PCM uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

PCM and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to attempt the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, PCM reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. PCM may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

#### **A.1. Mutual Funds, Exchange Traded Funds, Separate Account Managers, Individual Equity and Fixed Income Securities**

PCM may recommend (i) separate account managers to manage client assets, and (ii) no-load and load-waived funds and individual securities (including fixed income instruments). Such management styles will include, among others, large-, mid-, and small-cap value, growth, and core; emerging markets; and alternative investments. PCM may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that PCM will take into account when recommending managers to clients. A description of the criteria to be used in formulating an

investment recommendation for funds, exchange-traded funds, individual securities (including fixed income securities), and managers is set forth below.

PCM has or may form relationships with third-party vendors that

- provide a technological platform for separate account management
- prepare performance reports
- perform due diligence monitoring of funds and managers
- perform billing and certain other administrative tasks

PCM may utilize additional independent third parties to assist in recommending and monitoring funds and managers to clients as appropriate under the circumstances.

PCM reviews certain quantitative and qualitative criteria related to individual securities, funds, and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in selecting/recommending funds or managers include the investment objectives and/or management style and philosophy of a fund or manager, a fund or manager's consistency of investment style, employee turnover, efficiency, and capacity.

Quantitative and qualitative criteria related to funds and managers are reviewed by PCM on a quarterly basis or such other interval as appropriate under the circumstances. In addition, funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the fund or manager by PCM (both of which are negative factors in implementing an asset allocation structure).

PCM may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. PCM will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment. PCM will regularly review the activities of funds and managers it has selected.



## **A.2. Material Risks of Investment Instruments**

PCM typically invests in equity securities, corporate debt instruments, municipal fixed income instruments, government securities including asset-backed securities, and options on securities as detailed below:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities
- U.S. government securities
- Structured products
- Government and agency mortgage-backed securities
- Corporate debt obligations
- Mortgage-backed securities
- Collateralized obligations
- Option contracts on securities
- Option contracts on indices
- Option contracts on futures
- Option contracts on commodities
- Futures contracts and index contracts

### **A.2.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

### **A.2.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends, and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.2.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.2.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.2.e. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S. or foreign) and currency risk. If bonds have maturities of 10 years or greater, they will likely have greater price swings when interest rates move up or down. The

shorter the maturity the less volatile the price swings. Foreign bonds also have liquidity and currency risk.

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.2.f. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax-free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.2.g. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.2.h. Structured Products**

Structured products are designed to facilitate highly customized risk-return objectives. While structured products come in many different forms, they typically consist of a debt security that is structured to make interest and principal payments based upon various assets, rates or formulas. Many structured products include an embedded derivative component. Structured products may be structured in the form of a security, in which case these products may receive benefits provided under federal securities law, or they may be cast as derivatives, in which case they are offered in the over-the-counter market and are subject to no regulation.

Investment in structured products includes significant risks, including valuation, liquidity, price, credit and market risks. One common risk associated with structured products is a relative lack of liquidity due to the highly customized nature of the investment. Moreover, the full extent of returns from the complex performance features is often not realized until maturity. As such, structured products tend to be more of a buy-and-hold investment decision rather than a means of getting in and out of a position with speed and efficiency.

Another risk with structured products is the credit quality of the issuer. Although the cash flows are derived from other sources, the products themselves are legally considered to be the issuing financial institution's liabilities. The vast majority of structured products are from high-investment-grade issuers only. Also, there is a lack of pricing transparency. There is no uniform standard for pricing, making it harder to compare the net-of-pricing attractiveness of alternative structured product offerings than it is, for instance, to compare the net expense ratios of different mutual funds or commissions among broker-dealers.

#### **A.2.i. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the secretary of HUD, and FHLMC, a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. government.

#### **A.2.j. Corporate Debt Obligations**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. PCM may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **A.2.k. Mortgage-Backed Securities**

Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations, and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities, or by non-governmental entities such as special-purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, PCM may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts, with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled prepayments as loans in the underlying mortgage pool are paid off by the borrowers. Additional prepayments to holders of these securities are caused by prepayments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As prepayment rates of individual pools of mortgage loans vary widely, it is not possible to accurately predict the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **A.2.I. Collateralized Obligations**

Collateralized mortgage obligations ("CMOs") are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as "tranches") of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

Collateralized debt obligations ("CDOs") include collateralized bond obligations ("CBOs"), collateralized loan obligations ("CLOs") and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

#### **A.2.m. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based

upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **A.1.n. Options Contracts on Indices**

An index assigns relative values to the securities included in the index, and the index fluctuates with changes in the market values of the securities included in the index. Index cash options operate in the same way as the more traditional options on securities, except that index options are settled exclusively in cash and do not involve delivery of securities. Thus, upon exercise of index options, the purchaser will realize and the writer will pay an amount based on the differences between the exercise price and the closing price of the index.

#### **A.1.o. Options Contracts on Futures**

Options on futures contracts are similar to options on securities, except that an option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract rather than to purchase or sell a security at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position to the holder of the option will be accompanied by transfer to the holder of an accumulated balance representing the amount by which the market price of the futures contract exceeds in the case of a call, or is less than in the case of a put, the exercise price of the option on the future.

#### **A.2.p. Option Contracts on Commodities**

Physical commodities include soft assets such as crops and coffee that are generally extracted from the ground, as well as hard assets such as minerals and metals that are mined. Investing in commodities carries significant risks, including price, credit and market risk. Many physical commodities, as well as intangible commodities (such as security or fixed income indices), serve as the underlier to commodity futures contracts.

#### **A.1.q. Futures Contracts and Index Futures Contracts**

A futures contract is a bilateral agreement where one party agrees to accept and the other party agrees to make delivery of cash for an underlying debt security, as called for in the contract, at a specified date and at an agreed-upon price. An index futures contract involves the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the close of trading of the contract and the price at which the futures contract is originally struck. No physical delivery of the securities comprising the index is made. Generally, these futures contracts are closed out prior to the expiration date of the contracts.

## **B. Investment Strategy and Method of Analysis Material Risks**

### **B.1. Model Portfolios**

For discretionary investment management services to clients with assets generally greater than \$250,000, PCM offers its value-oriented investment methodology through a series of model portfolios that span each of the risk tolerance categories across the risk spectrum. PCM invests in securities of large-capitalization companies that are selling at significant discounts to their intrinsic value, with additional investments in non-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of quality companies with strong financials run by experienced, shareholder-friendly management teams that are selling at significant discounts to historical valuation metrics and can be acquired at attractive prices. PCM's primary focus will be on publicly traded equities (common and preferred stocks), exchange-traded funds, open end mutual funds, fixed income (taxable and tax-free), and option contracts.

For clients with assets generally less than \$250,000, PCM offers its value-oriented investment methodology through mutual fund models that span each of the risk tolerance categories across the risk spectrum. PCM invests in mutual funds whose portfolio securities consist of small- to large-capitalization companies that the mutual fund manager believes are selling at significant discounts to their intrinsic value, with additional investments in mutual fund securities that consist of lower-correlated securities that serve to reduce overall portfolio risk and volatility. This strategy involves the utilization of mutual funds consisting of quality companies with strong financials run by experienced, shareholder-friendly management teams.

The mutual fund models generally entail the use of no transaction fee funds and therefore would tend to have lower transaction costs associated with the ongoing maintenance of the model portfolios. Models that contain individual company securities incur transaction fees when the security is purchased or sold and may involve slightly higher turnover. As a result, models that utilize individual company securities may incur higher overall transaction costs.

### **B.2. Leverage**

Although PCM, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, PCM will utilize leverage. In this regard, please review the following:

The use of leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment. The use of leverage entails borrowing, which results in additional interest costs to the investor. In addition, the use of leverage enhances the price volatility of the collateral securities which can result in significant loss.

Broker-dealers that carry customer accounts have a minimum equity requirement when clients utilize leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the



price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to satisfy a required margin deposit or withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.3. Short-Term Trading**

Although PCM, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-velocity trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.4. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

PCM as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases
- Option spreading
- Short call option strategy
- Short put option strategy
- Equity collars
- Long straddles



#### **B.4.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.4.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or "put" the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, then the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.d. Option Spreading**

Option spreading usually involves the purchase of a call option and the sale of a call option at a higher contract strike price, both having the same expiration month. The purpose of this type of transaction is to allow the holder to be exposed to the general market characteristics of a security without the outlay of capital to own the security, and to offset the cost by selling the call option with a higher contract strike price. In this type of transaction, the spread holder "locks in" a maximum profit, defined as the difference in contract prices reduced by the net cost of implementing the spread. There are many variations of option spreading strategies; clients may contact the Options Clearing Corporation for a current Options Risk Disclosure Statement that discusses each of these strategies.

#### **B.4.e. Short Call Option Strategy**

Short call option strategy is highly speculative and has theoretical potential for unlimited loss. The seller (writer) of the call option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain below the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security increase above the contract strike price, then the option writer can either purchase the call option at a loss, or through a process of exercise and assignment be forced to sell the stock at the contract strike price. If this happens, the option writer will have to go in the open market and

buy an equivalent amount of stock to cover the sale at prices that can be materially higher than the amount received from the sale.

#### **B.4.f. Short Put Option Strategy**

Short put option strategy is highly speculative and has theoretical potential for significant loss. The seller (writer) of the put option receives proceeds (premium) from the sale of the option. The expectation is that the value of the underlying security will remain above the contract strike price and the option will expire worthless, allowing the option writer to keep the entire amount of the sale proceeds (premium). Should the value of the underlying security decrease below the contract strike price, the option writer can either purchase the put option at a loss, or through a process of exercise and assignment be forced to buy the stock at the contract strike price. If this happens, the option writer will be purchasing the underlying security at a price potentially well above its then-current market value, exposing the investor to potential loss.

#### **B.4.g. Equity Collar**

A collar combines both a cap and a floor. A cap gives the purchaser of the cap the right (for a premium payment), but not the obligation, to receive the difference in the cost on some amount when a specified index rises above the specified "cap rate." A floor is the opposite of a cap—it gives the purchaser of the floor the right (for a premium payment), but not the obligation, to receive the difference in interest payable on an amount when a specified index falls below the specified "floor rate." A collar involving stock is called an "equity collar." In a collar transaction, the buyer of the collar purchases a cap while selling a floor indexed to the same rate or asset. A zero-cost collar results when the premium earned by selling a floor exactly offsets the cap premium.

#### **B.4.h. Long Straddle**

A long straddle is the purchase of a long call and a long put with the same underlying security, expiration date and strike price. This is a speculative trade that may be profitable when volatility is high and will result in a loss when prices of the underlying security are relatively stable.

### **C. Concentration Risks**

There is an inherent risk for clients whose investment portfolios lack diversification—that is, they have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

PCM has nothing to disclose for this item.

### **B. Administrative Enforcement Proceedings**

PCM has nothing to disclose for this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

PCM has nothing to disclose for this item.

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

### **A. Broker-Dealer or Representative Registration**

PCM is not registered as broker-dealer and does not have an application to register pending.

### **B. Futures or Commodity Registration**

PCM is not registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and does not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Insurance Activities**

Certain managers, members, and registered employees of PCM are licensed insurance agents. With respect to the provision of financial planning services, PCM professionals may recommend insurance products and receive a commission for doing so. Please be advised that there is a potential conflict of interest in that there is an economic incentive to recommend insurance products in which the firm or its professionals receive a commission. Please also be advised that PCM strives to put its clients' interests first and foremost, and clients may utilize any insurance carrier or insurance agency they desire.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

PCM does not recommend separate account managers or other investment products in which it receives any form of compensation from the separate account manager or investment product sponsor.

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

### **A. Code of Ethics Description**

In accordance with the Advisers Act, PCM has adopted policies and procedures designed to detect and prevent insider trading. In addition, PCM has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of the firm's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of the firm. PCM will send clients a copy of its Code of Ethics upon written request.

PCM has policies and procedures in place to ensure that the interests of its clients are given preference over those of the firm, its affiliates, and its employees. For example, there are policies in place to prevent the misappropriation of material nonpublic information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

PCM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, PCM does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

PCM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which PCM specifically prohibits. PCM has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account

- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow PCM's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

PCM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other of the firm's clients. PCM will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee, or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of PCM to place the clients' interests above those of the firm and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

PCM may recommend that clients establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although PCM may recommend that clients establish brokerage accounts with Schwab, PCM is independently owned and operated and not affiliated with Schwab. Schwab does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through or that settle into Schwab accounts.

In certain instances and subject to approval by the firm, PCM will recommend to clients certain broker-dealers and/or custodians based on the needs of the individual client, taking into consideration the nature of the services required, the experience of the broker-dealer or custodian, the cost and quality of the services, and the reputation of the broker-dealer or custodian. The final determination to engage a broker-dealer or custodian recommended by PCM will be made by and in the sole discretion of the client. The client recognizes that broker-dealers and/or custodians have different cost and fee structures and trade execution capabilities. As a result, there may be disparities with respect to the cost of services and/or the transaction prices for securities transactions executed on behalf of the client. Clients are responsible for assessing the commissions and other costs charged by broker-dealers and/or custodians.

##### A.1.a. How We Select Brokers/Custodians to Recommend

PCM seeks to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider 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 client accounts)
- 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 us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength, and stability of the provider

- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below

#### **A.1.b. Client's Custody and Brokerage Costs**

For client accounts that the firm maintains, the custodian generally does not charge clients separately for custody services but is compensated by charging commissions or other fees on trades that it executes or that settle into the custodian's accounts. The custodian's commission rates applicable to the firm's client accounts were negotiated based on the firm's commitment to maintain a certain minimum amount of client assets at the custodian. This commitment benefits the client because the overall commission rates paid are lower than they would be if the firm had not made the commitment. In addition to commissions, the custodian charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the client's custodian account. These fees are in addition to the commissions or other compensation the client pays the executing broker-dealer. Because of this, in order to minimize the client's trading costs, the firm has the custodian execute most trades for the account.

#### **A.1.c. Soft Dollar Arrangements**

PCM does not utilize soft dollar arrangements. PCM does not direct brokerage transactions to executing brokers for research and brokerage services.

#### **A.1.d. Institutional Trading and Custody Services**

Schwab provides PCM with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisers on an unsolicited basis, at no charge to them so long as a certain minimum amount of the adviser's clients' assets are maintained in accounts at Schwab. Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or that would require a significantly higher minimum initial investment.

#### **A.1.e. Other Products and Services**

Schwab also makes available to PCM other products and services that benefit PCM 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 PCM's accounts, including accounts not maintained at Schwab. Schwab also makes available to PCM its managing and administering software and other technology that

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts



- provide research, pricing, and other market data
- facilitate payment of PCM's fees from its clients' accounts
- assist with back-office functions, recordkeeping, and client reporting

Schwab also offers other services intended to help PCM manage and further develop its business enterprise. These services may include

- compliance, legal, and business consulting
- publications and conferences on practice management and business succession
- access to employee benefits providers, human capital consultants, and insurance providers

Schwab may also provide other benefits, such as educational events or occasional business entertainment of PCM personnel. In evaluating whether to recommend that clients custody their assets at Schwab, PCM 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 the nature, cost, or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

#### **A.1.f. Independent Third Parties**

Schwab may make available, arrange, and/or pay third-party vendors for the types of services rendered to PCM. Schwab may discount or waive fees it would otherwise charge for some of these services or all or a part of the fees of a third party providing these services to PCM.

#### **A.1.g. Additional Compensation Received from Custodians**

PCM may participate in institutional customer programs sponsored by broker-dealers or custodians. PCM may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between PCM's participation in such programs and the investment advice it gives to its clients, although PCM receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving PCM participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers

- Discounts on compliance, marketing, research, technology, and practice management products or services provided to PCM by third-party vendors

The custodian may also pay for business consulting and professional services received by PCM's related persons, and may pay or reimburse expenses (including client transition services, travel, lodging, meals and entertainment expenses for PCM's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit PCM but may not benefit its client accounts. These products or services may assist PCM in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help PCM manage and further develop its business enterprise. The benefits received by PCM or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

PCM also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require PCM to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, PCM will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by PCM's related persons, and reimbursement of expenses (including travel, lodging, meals and entertainment expenses for PCM's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, PCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by PCM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence PCM's recommendation of broker-dealers such as Schwab for custody and brokerage services.

#### **A.1.h. The Firm's Interest in Schwab's Services**

The availability of these services from the custodian benefits the firm because the firm does not have to produce or purchase them. The firm does not have to pay for the custodian's services so long as a certain minimum of client assets is kept in accounts at the custodian. This minimum of client assets may give the firm an incentive to recommend that clients maintain their accounts with the custodian based on the firm's interest in receiving the custodian's services that benefit the firm's business rather than based on the client's interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. The firm believes, however, that the selection of the custodian as custodian and broker is in the best interest of clients. It is primarily supported by the scope, quality, and price of the custodian's services and not the custodian's services that benefit only the firm.

## **A.2. Brokerage for Client Referrals**

PCM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **A.3. Directed Brokerage**

### **A.3.a. PCM Recommendations**

PCM typically recommends Schwab as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct PCM to use a particular broker-dealer to execute portfolio transactions for their accounts or request that certain types of securities not be purchased for their accounts. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage PCM derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. PCM loses the ability to aggregate trades with other PCM advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

PCM may recommend that clients establish brokerage accounts with Schwab, a FINRA-registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Such accounts will be prime broker eligible so that if and when the need arises to effect securities transactions at broker-dealers ("executing brokers") other than with the client's current custodian, such custodian will accept delivery or deliver the applicable security from/to the executing broker. Schwab charges a "trade away" fee which is charged against the client account for each trade away occurrence. Other custodians have their own policies concerning prime broker accounts and trade away fees. Clients are directed to consult their current custodian for their policies and fees.

PCM, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker, and the commission rates to be paid to effect such transactions. PCM recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. PCM will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected

- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, PCM seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of PCM's knowledge, these custodians provide high-quality execution, and PCM's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, PCM believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Security Allocation**

Since PCM may be managing accounts with similar investment objectives, PCM may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by PCM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

PCM's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. PCM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

PCM's advice to certain clients and entities and the action of the firm for those and other clients are frequently premised not only on the merits of a particular investment but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of PCM with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of PCM to or on behalf of other clients.

### **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if PCM believes that a larger size block trade would lead to best overall price for the security being transacted.

### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs, and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

PCM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if it determines that such arrangements are no longer in the best interests of its clients.

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

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

The review of accounts of high-net-worth and affluent clients, including corporations, partnerships, and trusts, is conducted in the first instance by the PCM investment advisor representative servicing the client relationship. Such professionals are subject to the general authority of PCM's President and Chief Compliance Officer. The President or his designee(s) must review and approve the opening of each new advisory relationship and oversee reviews of client accounts. The President or his designee(s) is also responsible for ensuring that any significant change in a client's investment strategy or in the concentration of a client's assets is appropriate for and has been reviewed with the client. Such reviews are performed no less frequently than quarterly.

### **B. Review of Client Accounts on Non-Periodic Basis**

PCM may perform ad hoc reviews on an as-needed basis if there have been material changes in the client's investment objectives or risk tolerance, or a material change in how PCM formulates investment advice.

### **C. Content of Client-Provided Reports and Frequency**

PCM issues quarterly performance reports to investment advisory clients with a minimum portfolio value of \$250,000, reflecting a current market appraisal of the client's account(s) as well as a year-end report showing realized gains, dividends, and interest. For clients with less than \$250,000 in portfolio assets, PCM will not deliver performance reports to such clients and will be available to discuss the portfolio no less frequently than annually or as otherwise mutually agreed upon with the client.

PCM investment advisory clients also receive monthly account statements from their custodian (no less frequently than quarterly). Clients are urged to compare the reports issued by PCM against the reports issued by the custodian and notify PCM of any discrepancies. The custodian's report is the official record of the client's account.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

#### **A.1. Expense Reimbursements**

The firm may from time to time receive expense reimbursement for travel and/or marketing expenses from distributors of investment and/or insurance products. Travel expense reimbursements are typically a result of attendance at due diligence and/or investment training events hosted by product sponsors. Marketing expense reimbursements are typically the result of informal expense sharing arrangements in which product sponsors may underwrite costs incurred for marketing, such as advertising, publishing, and seminar expenses. Although receipt of these travel and marketing expense reimbursements are not predicated upon specific sales quotas, the product sponsor reimbursements are typically made by those sponsors for whom sales have been made or it is anticipated sales will be made. This creates a conflict of interest in that there is an incentive to recommend certain products and investments based on the receipt of this compensation instead of what is in the best interest of our clients. We attempt to control for this conflict by always basing investment decisions on the individual needs of our clients.

### **B. Advisory Firm Payments for Client Referrals**

PCM does not pay for client referrals.

## Item 15: Custody

PCM is considered to have custody of client assets for purposes of the Advisers Act for the following reasons:

- The client authorizes us to instruct their custodian to deduct our advisory fees directly from the client's account. The custodian maintains actual custody of clients' assets.
- Our authority to direct client requests, utilizing standing instructions, for wire transfer of funds for first-party money movement and third-party money movement (checks and/or journals, ACH, Fed-wires). The firm has elected to meet the SEC's seven conditions to avoid the surprise custody exam, as outlined below:
  1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
  2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
  3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization and provides a transfer of funds notice to the client promptly after each transfer.
  4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
  5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
  6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
  7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.
- For certain accounts, where the SEC's seven conditions cannot be met or the firm has account access through a client's third-party account log in, the firm has elected to engage an independent public accountant to annually conduct a surprise custody exam audit.

Individual advisory clients will receive at least quarterly account statement directly from their securities custodian, and if applicable, bank custodian, containing a description of all activity, cash balances, and for securities accounts, portfolio holdings in their accounts. The custodian's statement is the official record of the account. Poehling strongly urges its clients to compare the account statements they receive from their custodian(s) with the statements they receive from Poehling Capital Management. Comparing statements will allow clients to confirm that account transactions, including deductions of advisory fees, are accurate and proper.



## Item 16: Investment Discretion

Clients may grant a limited power of attorney to PCM with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In such cases, PCM will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities for such transactions, the amount of commissions to be paid, and the executing broker to be used. Investment limitations may be designated by the client as outlined in the investment advisory agreement. In addition, subject to the terms of its investment advisory agreement, PCM may be granted discretionary authority for the retention of independent third-party investment management firms. Investment limitations may be designated by the client as outlined in the investment advisory agreement. Please see the applicable third-party manager's disclosure brochure for detailed information relating to discretionary authority.

## Item 17: Voting Client Securities

PCM does not take discretion with respect to voting proxies on behalf of its clients. PCM will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of PCM supervised and/or managed assets. In no event will PCM take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, PCM will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. PCM has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. PCM also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, PCM has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where PCM 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 and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

PCM does not require the prepayment of fees of \$1,200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

PCM does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There are no bankruptcy petitions to report.