

ADV PART 2 BROCHURE  
QUALIFICATIONS & BUSINESS PRACTICES

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This brochure provides information about the qualifications and business practices of Chesley, Taft & Associates, LLC. If you have any questions about the content of this brochure, please contact us at 312-873-1260. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Chesley, Taft & Associates, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## MATERIAL CHANGES

There have been no material updates since our last annual update on March 9, 2023.

**You can obtain a copy of the brochure at any time, without charge, by contacting Jeff Hinko at 312-873-1252.**

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## ADVISORY BUSINESS

**Chesley, Taft & Associates, LLC (“CTA”) is an independent employee-owned investment management firm dedicated to serving the individual investment needs of our clients.**

The firm was founded in January 2001, by Faris Chesley and A. Richard Taft. They have been subsequently joined by portfolio managers Gregory O’Leary (2001), Joan Giardina (2002), Michael Stoffregen (2006), Brian Zavalkoff (2009), William A. Goldstein (2012), John Sobel (2012), Matthew Szafranski (2018), and Taylor Champion (2023). Mr. Taft died in 2008. Our portfolio managers each bring their own investment experience and perspective to the investment process. Collectively we benefit from the variety of perspectives and individually we enjoy the flexibility to bring our unique point of view to our clients.

Mr. Chesley owns 27% of the firm and the balance is owned by ten other employees.

Our primary business is portfolio management. We have a direct, personal relationship with our clients and establish investment plans and portfolios tailored to their unique circumstances. We also offer personalized financial planning services and collaborate with our clients to achieve their long-term goals.

Our portfolios consist of a wide range of publicly traded investments including but not limited to domestic and international equities, domestic and international bonds, and pooled investments such as exchange traded funds and mutual funds (Funds).

Depending on the client’s needs and preferences, portfolios may be balanced or dedicated to a particular market segment such as domestic equity or taxable fixed income. We will work with clients who have portfolio, tax or risk management issues to design a portfolio tailored to their circumstances. Should clients choose, they can direct us to purchase, hold or avoid specific securities, industries, or asset classes.

The firm’s assets under management as of December 31, 2023 were \$2.404 billion. The firm provided discretionary portfolio management services over \$2.226 billion. In those cases, we managed the client’s assets at our own discretion. We provided non-discretionary investment advice to clients holding \$178 million. In those cases, we made recommendations to clients and implemented transactions only with the client’s approval or direction.

## FEES & COMPENSATION

CTA is compensated by the fees paid by our clients. Fees are based on the assets under management. Our standard annual fees are 1% on the first \$3 million of assets under management and  $\frac{3}{4}$  of 1% on the balance, payable quarterly.

Fees are normally deducted directly from accounts. At the client's request they may be billed and pay by check. Our fees are paid in the mid part of the quarter based on the account value on the last day of the previous quarter. Our fees cover the entire quarter.

If a client relationship is terminated at any part of the quarter, we will reimburse the fees pro rata based on the number of days we managed the account in the quarter. Clients will incur additional expenses related to their account which are charged by third parties. These expenses include, but are not limited to, brokerage fees paid directly to the brokers for specific transactions, custodial fees paid to the client's custodian, and mutual fund and exchange traded fund fees and expenses charged within the funds.

## PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

We do not charge performance-based fees. Therefore, we have no related conflicts of interest.

## TYPES OF CLIENTS

Our clients typically are high net worth individuals and their related entities. Related entities include personal trust, IRA, and retirement accounts. We also manage family limited partnerships, family foundations and employee benefit plans related to a client's business. Trust accounts include revocable trusts, irrevocable trusts, estates and guardianships.

We prefer each client relationship to have minimum assets under management of \$1 million. In certain circumstances, we will accept and/or maintain relationships below that threshold.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES & RISK OF LOSS

### ASSET ALLOCATION

CTA portfolio managers consult with clients to determine their risk tolerance and return objectives. We utilize economic data gathered from public and proprietary sources and analysis from brokers

and other public sources to develop short and long term economic and market outlooks. These outlooks may include several scenarios. We incorporate risk and return characteristics for U.S. and international equity, U.S. and international fixed income, money market, and a variety of alternative investments to develop risk and return assumptions. We use the combination of client driven objectives and constraints with those risk and return assumptions to develop a portfolio strategy and an asset allocation for each client.

**Primary Risks:** Market assumptions may be wrong. Returns may not meet client objectives and actual losses may exceed risk expectations.

## PORTFOLIO CONSTRUCTION

Portfolios are constructed using publicly traded securities across multiple asset classes to meet client objectives. Most managed portfolios consist of individual issues of publicly traded equities and fixed income securities augmented by mutual funds, exchange traded funds, real estate investment trusts, master limited partnerships and exchange traded notes (collectively referred to as “Funds”) to enhance diversification and return potential.

In some cases, a portfolio or portfolio segment may be constructed primarily or exclusively using Funds. This is done to maximize diversification and control transaction costs.

## EQUITY ANALYSIS

Our primary method of equity analysis is focused on company fundamentals including but not limited to:

- Competitive position based on factors such as barriers to entry and innovation
- Historical growth of revenues and earnings
- Expected future growth of revenues and earnings
- Profitability including profit margin and return of equity
- Financial strength
- Financial and operating stability
- Historical trading patterns (technical analysis)

The firm relies on its own analysis, third party research, as well as research provided by major Wall Street firms in evaluating specific stocks.

**Primary Risks:** The analysis of a company or stock may omit or deemphasize important factors that impact performance. Historical information may not be useful in evaluating future results. Expectations for company performance or economic conditions may be incorrect. Information provided by individual companies, data providers or analysts may be inaccurate either deliberately

or inadvertently. Companies with fundamental earnings, operating and financial strength may not provide superior returns in some market environments when lower quality, cyclical companies are being favored.

## **FIXED INCOME ANALYSIS**

We structure fixed income portfolios for our clients based on their tax situation and cash requirements. Portfolios are structured using individual bonds and/or Funds. Adjustments to the normal portfolio structure are made based on client considerations and market conditions including the interest rate outlook, relative valuations between security types and issuers, and credit evaluation. Other fixed income sectors such as high yield or international fixed income may be used to diversify and/or increase return potential. These judgments are based on our own analysis and analysis provided by brokers and credit rating agencies.

**Primary Risks:** Credit quality may not be assessed properly. Interest rate projections may be incorrect. Unusual relative valuation relationships may persist.

## **FUND ANALYSIS**

Funds are chosen to obtain exposure to a specific market segment, management style or asset class. They are evaluated on the Fund's risk/return characteristics and if applicable, how well they track their targeted asset class or market segment. Attention is paid to the reputation of the Fund sponsor, research and operational support provided by the Fund sponsor, reputation of the investment manager, trading efficiency and cost, and the embedded expense ratio.

**Primary Risks:** Historical risk and return characteristics may not persist in a new market environment. Funds may not track their underlying investments due to structural, trading or other issues. Fund managers may not perform as expected, may leave or change strategy. Fund choice may be influenced by ancillary services provided to us by the Fund sponsor, including the services such as visibility into underlying fund investments, and research reports or newsletters provided by the Fund sponsor. Because different Fund sponsors provide different quality and quantity of such services and materials, the Funds we invest in and recommend may be influenced by the receipt of these services and materials.

## **PORTFOLIO STRATEGIES**

Using these general investment selection criteria, we construct portfolios with varied emphasis. They fall in these general types:

### ■ Equity Growth at a Reasonable Price (GARP) Strategy

Individual stocks are chosen with an emphasis on historical records of growth of earnings, prospects for future earnings, and current valuation. One measure of valuation used is the price/earnings ratio divided by the expected growth of earnings (PEG). We are looking for that ratio to be low relative to the market averages and the stock's own historical trading patterns. The portfolios are focused on domestic equities although tactical investments in international equity, commodities, and liquid alternative investments may be used. This may involve the use of Funds.

**Primary Risks:** In certain market environments, focusing on companies with low PEG ratios may eliminate some investments and therefore adversely impact diversification. This strategy tends to produce higher turnover and generate greater trading costs and higher tax liability than alternative approaches.

### ■ Equity Dividend Strategy

Portfolios are constructed to generate income that exceeds a benchmark fixed income portfolio. On average, stocks in the portfolio will have higher than average dividend yields, consistent records of dividend payments and lower historical price volatility. This is designed to be an alternative to fixed income.

**Primary Risks:** Dividends may be cut. Because these are equity securities, the portfolio may be more volatile than a high-quality intermediate term fixed income portfolio. Individual stocks in the portfolio are subject to company specific problems. In a period of rising interest rates, high yield stocks may be adversely impacted.

### ■ Diversified Balanced Portfolio Strategy

Portfolios are allocated in accordance with the plan established with the individual client and will involve one or more asset classes. The portfolio manager may make some adjustments in asset allocation for tactical purposes based on expectations for short or intermediate market movements. The domestic equity portion of the portfolio consists of individual stocks with exposure to additional market segments through Funds. International equity portions are structured with Funds, American Depositary Receipts, and some individual companies domiciled outside the United States. Fixed income portions are structured using Funds or individual issues or a combination. Other alternative asset classes are added using publicly traded vehicles. Diversification is central to portfolio construction in setting asset allocation and in implementing individual segments of the portfolio. Individual portfolio segment returns are compared with standard industry benchmarks such as the S&P 500, the MSCI EAFE Index or the Barclays Aggregate Bond Index. Custom benchmarks may be created for individual portfolios based on the target allocation established for the client portfolio.



**Primary Risks:** See risks of individual asset classes. Tactical changes in asset allocation may be mistimed and result in greater portfolio volatility and/or lost opportunity for return. These portfolios are individually designed by the portfolio manager for specific clients. Returns may vary depending on the asset allocation and portfolio manager performance.

## GENERAL INVESTMENT RISKS

All investments involve risk. The risks are, among others, the risks of the financial markets in general; the risk the portfolio constructed does not perform as well as benchmarks; the risk of structural market failures, financial panics, and liquidity crises; and the macroeconomic effects of government policies, protectionism, wars and depressions. Investment results will vary, cannot be guaranteed, and accounts may lose value.

## DISCIPLINARY INFORMATION

No principal or employee of CTA is or has been the subject of any disciplinary proceeding, action or event.

## OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS

No principal or employee of CTA has other financial industry activities or affiliations that would impact clients of CTA.

## CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING

CTA's Code of Ethics ("Code") is based upon the following principles: (1) We will always place the interest of our clients ahead of the interest of the firm or ourselves; (2) Our personal securities transactions will be conducted to avoid any actual or apparent conflicts of interest, or any abuse of our position of trust and responsibility; and (3) We will not take advantage of our positions to the detriment of clients. The Code imposes trading restrictions as well as restrictions on the receipt of gifts. A copy of the Code is available on request to clients and prospective clients.

The firm or its principals and employees ("Employees") may invest in securities which are owned by clients. While this may align the firm or its Employees' interests with the clients', it can present a conflict of interest in trading. When purchasing or selling fixed income securities, personal transactions will typically take place at the same time as such securities are purchased or sold for clients. When purchasing or selling equities with market capitalization of \$10 billion or more,

personal transactions will be permitted on the same day as such equities are purchased or sold for clients. Transactions in all other securities will typically take place at least one day after such securities are purchased or sold for clients. Because client accounts are individually managed, it is possible that purchases or sales may be made in client accounts shortly after a purchase or sale of the same security by an Employee of CTA. The Chief Compliance Officer or a principal of CTA will review all security transactions of clients and Employees daily. As a part of that review, we intend to screen for transactions that may have disadvantaged clients. In instances of a conflict with the normal policy, we will review the transactions to determine if the client's interests have been compromised. If circumstances suggest that the client's interests were not compromised, then we typically will not require the Employee to unwind his/her trade. If it is determined that a client account was disadvantaged, we will take appropriate action.

The Code also contains preclearance procedures for purchases in Initial Public Offerings and in private placements.

## BROKERAGE PRACTICES

In selecting brokers to execute transactions for our client accounts we consider, among other factors, the brokers trading expertise, technology and trading platforms, support in setting trade strategy, trade settlement and operations efficiency, research, and commission and settlement costs.

We maintain a list of approved brokers for both equity (stock) and fixed income (bond) trading. Brokers must meet financial strength requirements and provide basic service capabilities. We rate brokers at least semi-annually on trade execution, broker support, operational efficiency, and quality of research. Based on our evaluations, we establish guidelines for allocating trades to brokers. Portfolio managers have discretion to direct trades to a particular broker considering their research and trading expertise.

There are three components to determining the broker for a particular trade: (1) Commissions and settlement charges; (2) Market impact (the change in price caused by the trade); (3) Brokerage and research services. All three components are taken into account in choosing the broker for each trade. Minimizing commissions is only one factor in the decision process. Commissions will vary depending on the level of trade support required for the transaction. Higher commissions may also be paid to compensate brokers for brokerage and research services.

When a security is traded for multiple client accounts, the transaction is combined into one or more trading blocks. This is done to improve execution of the trade and ensure equitable treatment of all participating clients. Commission and settlement costs will vary depending on the clients' agreement with their custodian and the broker selected.

If the client has requested to be consulted before trades are executed for any reason, the impacted

client account will likely be traded individually or in a later-in-time trading block. When this occurs, such client account may be traded after Employees' trades and may receive less advantageous pricing or trading charges.

Clients who designate a specific broker for a transaction will likely receive a different trade execution than an aggregated transaction, which could be advantageous or disadvantageous to those clients. Those clients that designate a specific broker for transactions must do so in writing.

Larger share or dollar amount transactions have the potential for greater market impact and may require enhanced trading expertise. This potentially involves a trade-off between a higher commission and settlement charges and a higher market impact.

CTA receives research from brokers that we use to supplement our own investigations and analysis. That research is a necessary component of our investment decision making process. The research is either proprietary to the broker or it is obtained from third parties and made available to CTA by the broker. This research may include any of the following:

- Analytical reports on specific companies or industries
- Current and historical statistical information on companies, industries or economic conditions
- Information on federal and state legislative developments
- Information on accounting practices
- Meetings either in person or electronically with corporate managements, industry experts, economists and other experts
- Meetings either in person or electronically with research analysts with expertise in specific companies and industries
- General investment information useful in identifying investment opportunities and developing investment strategies
- Statistical information useful in evaluating comparative investment performance
- Technical measurement services

Other services that may be received from the brokers include custody of client assets, trade settlement, and other information about investment industry developments including information related to operations and compliance.

The research and other services are paid for by commissions generated by client trades. This is a longstanding industry practice. The Securities Exchange Act of 1934 established criteria for "qualified" brokerage and research services. We believe that the research and services received for client commissions fall within the definition of "qualified" brokerage or research service.

We use research and other services for all the clients for whom we exercise investment discretion,

not just the clients who paid the commissions. Some clients with more trades bear a disproportionate share of the costs of brokerage and research services. Additionally, when we select brokers that provide these services, our clients pay higher commissions than those charged by some other brokers.

The use of client commissions for research and services is a potential conflict of interest. We may have an incentive to allocate trades to a particular broker to obtain research services rather than to the broker who would be expected to provide the best combination of commission and price. Absent the availability of commissions to compensate brokers, some of these services would need to be acquired by direct purchase out of our resources. At this time, many research services are not available for direct purchase.

The custodian selected by a client has an impact on the commissions paid and on other investment expenses. The pricing and policies of different custodians will sometimes impact which broker is determined by us to be the most appropriate for any particular trade. In addition, each custodian may not offer all share classes of particular funds. If you have questions about how your selection of a custodian may impact your investment costs or brokerage selection, please ask your portfolio manager.

## REVIEW OF ACCOUNTS

Portfolio managers review accounts on an ongoing basis, using their own review methodology, in order to determine the advice and recommendations for each account. In addition, at least once a year, the Chief Compliance Officer reviews all accounts with the respective portfolio manager. During these reviews, we check the portfolio and trading activity for compliance with the client's profile and stated objectives. Included in the review are the client profile, the portfolio appraisal, trading activity, and performance information.

## CLIENT REFERRALS & OTHER COMPENSATION

With respect to certain accounts, we pay a portion of our investment management fee to a solicitor as a referral fee. In those instances, the fees are fully disclosed to the client.

## CUSTODY

All of our clients hold their assets at third party qualified custodians. While we do not require that our clients hold their assets with any particular third party custodian, a majority of our clients

custody with Charles Schwab. See “Brokerage Practices” above. We typically have limited powers of attorney to accommodate trading, payment of our fees and the transfer of funds directly to a client’s designated bank account. We try to avoid situations where we are deemed to have custody of client assets because we have additional control over the assets.

All of our clients receive statements at least quarterly or more frequently from their qualified custodian. We suggest clients compare information we provide to the information contained in their custodial statement.

Some custodians provide us with other services including trade settlement, and other information about investment industry developments including information related to operations and compliance.

## INVESTMENT DISCRETION

Clients provide us with a power of attorney so that we may trade in their accounts. We manage both discretionary and non-discretionary (advisory) accounts. If we have investment discretion, we structure the portfolio and trade for the client to meet the investment objectives in their client profile within the limitations they established. Although we have discretion, a client can direct us to hold, purchase or sell any marketable security. For example, a client can direct us to hold certain securities because the security has a low cost basis. Some clients who give us discretion may request an email or phone call before we trade. We will do this on a best efforts basis.

For non-discretionary accounts we will establish a preferred method of communication with the client. We will make recommendations to them based on their portfolio objectives and trade for their account on their approval. Due to delays in obtaining approvals, trades made in non-discretionary accounts may not be executed at the same time as discretionary accounts.

## VOTING CLIENT SECURITIES

Each client determines whether he or she will delegate proxy voting authority to CTA. When we accept proxy voting authority, we acknowledge that we have a fiduciary duty to vote proxies in the best interest of our clients.

Generally, we purchase securities based on the belief that management will maximize shareholder value. When we no longer believe management is meeting this goal, we typically sell the security. Therefore, as to most questions coming before shareholders, we vote in accordance with management’s recommendations. There will be circumstances when we neither believe disposing of

the security nor voting in accordance with management's recommendation will be in the best interest of our clients. In those cases, we will vote against management's recommendation. Each proxy is voted on a case by case basis. There may even be cases where we determine that the best course of action is to refrain from voting a proxy.

It is possible that a conflict of interest could arise regarding the voting of a particular proxy. In that case, we remove the conflicted portfolio manager from the decision-making process. We will make a written record of such instances.

Clients can direct our vote in a particular situation. We will vote their shares according to their direction as long as they notify us in writing with sufficient time for CT&A to coordinate with the respective custodian to adjust the necessary records.

Clients may obtain information on how their proxies were voted and our proxy voting policies and procedures by contacting us.

## FINANCIAL INFORMATION

Under current regulations we are not required to provide detailed financial statement information.