

**Item 1. Cover Page  
Part 2A of Form ADV: Firm Brochure  
March 2024**



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This brochure provides information about the qualifications and business practices of Grace Capital Management, LLC. If you have any questions about the contents of this brochure, please contact our firm at (512) 485-1800 or by email at [george@grace-cap.com](mailto:george@grace-cap.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Authority.

Additional information about Grace Capital Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) by searching CRD #150054.

Please note that the use of the term "registered investment adviser" and description of Grace Capital Management, LLC and/or our associates as "registered" does not imply a certain level of skill or training. You are encouraged to review this Brochure and Brochure Supplements for our firm's associates who advise you for more information on the qualifications of our firm and our employees.

## **Item 2. Material Changes**

Grace Capital Management, LLC is required to advise you of any material changes to our Firm Brochure ("Brochure") from our last annual update, identify those changes on the cover page of our Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Brochure. We must state clearly that we are discussing only material changes since the last annual update of our Brochure, and we must provide the date of the last annual update of our Brochure.

Last Annual Amendment Filing Date: 03/2023

There are no material changes to report since our last filing. However, we now offer Financial Planning services billed hourly. See Item 5 for details.

Additionally, we have made other changes, some of which may clarify or enhance existing disclosures, but we do not consider these other changes to be material.

### Item 3. Table of Contents

<b><u>Section:</u></b>	<b><u>Page(s):</u></b>
Item 1. Cover Page.....	1
Item 2. Material Changes .....	2
Item 3. Table of Contents.....	3
Item 4. Advisory Business.....	4
Item 5. Fees and Compensation .....	6
Item 6. Performance-Based Fees and Side-By-Side Management.....	9
Item 7. Types of Clients and Account Requirements .....	10
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	10
Item 9. Disciplinary Information.....	14
Item 10. Other Financial Industry Activities and Affiliations .....	14
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	15
Item 12. Brokerage Practices .....	16
Item 13. Review of Accounts or Financial Plans .....	19
Item 14. Client Referrals and Other Compensation .....	19
Item 15. Custody.....	20
Item 16. Investment Discretion.....	20
Item 17. Voting Client Securities .....	20
Item 18. Financial Information.....	21

## **Item 4. Advisory Business**

Grace Capital Management, LLC is dedicated to providing individuals and other types of clients with a wide array of investment advisory services. We specialize in offering Comprehensive Portfolio Management and Selection of Third-Party Advisory services to our clients. Our firm is a limited liability company formed in the State of Texas. We have been in business as an investment adviser since 2009 and are one hundred percent (100%) owned by Mr. George Duff, Managing Member and Chief Compliance Officer.

### **Types of Advisory Services Offered**

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#### **Comprehensive Portfolio Management:**

Our Comprehensive Portfolio Management service encompasses asset management as well as providing financial planning/financial consulting, and pension consulting services to individual plan participants and clients. It is designed to assist clients in meeting their financial goals through the use of financial investments. We conduct at least one, but sometimes more than one meeting (in person, if possible, otherwise via telephone conference) with clients in order to understand their current financial situation, existing resources, financial goals, and tolerance for risk. Based on what we learn, we propose an investment approach to the client. We may propose an investment portfolio, consisting of exchange traded funds, mutual funds, individual stocks or bonds, or other securities. Upon the client's agreement to the proposed investment plan, we work with the client to establish or transfer investment accounts so that we can manage the client's portfolio. Once the relevant accounts are under our management, we review such accounts on a regular basis and at least quarterly. We may periodically rebalance or adjust client accounts under our management. If the client experiences any significant changes to his/her financial or personal circumstances, the client must notify us so that we can consider such information in managing the client's investments.

#### **Financial Planning and Consulting Services:**

Financial Planning Services include, but are not limited to, a thorough review of Cash Flow, Businesses, Wills, Estate Plan/Trusts, Investments, Taxes, and Insurance. Services are determined based on the nature of the services provided and the complexity of each client's circumstances. All fees are agreed upon prior to the commencement of any services and will include entering into a contract (the "Client Agreement") with the client. Prior to the planning process, the client will be provided with an estimated plan fee. Payment is required to be provided prior to service.

#### **Selection of Third-Party Advisory Services:**

We may utilize Third-Party Advisor Services, where we may design an investment portfolio and provide ongoing corresponding asset management services on a fee-only basis for a percentage of assets in conjunction with another investment advisory firm. Before selecting other advisers, we make sure that the other advisers are properly licensed or registered.

In order to assist the Client in the selection of a Third-Party Advisory Service, we will typically gather information from the Clients about the Client's financial situation, investment objectives, and reasonable

restrictions the Client wants imposed on the management of the account. We will not offer advice on any specific securities or other investments in connection with this service.

We will periodically review reports provided to the Clients, but no less often than on a quarterly basis. The Investment Advisory Representatives of our firm will contact the Client periodically, as agreed to with the Clients, in order to review the Client's financial situation and objectives; communicate information to the Third-Party Advisors managing the account as warranted; and assist the Clients in understanding and evaluating the services provided by the Third-Party Advisory Service. Clients will be expected to notify us of any changes in their financial situation, investment objectives, or account restrictions. Clients may also contact the Third-Party Advisors directly managing the account or sponsoring the program.

### **IRA Rollover Recommendations:**

For the purpose of complying with the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02"), when applicable, we are providing the following acknowledgment to clients. When we provide investment advice to clients regarding their retirement plan account or individual retirement account, we are a fiduciary within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with client interests. We operate under an exemption that requires we act in the clients' best interest and not put our or our employees' interests ahead of the clients. Under this exemption, we must:

- meet a professional standard of care when making investment recommendations (give prudent advice),
- never put our or our employees' financial interests ahead of the clients when making recommendations (give loyal advice),
- avoid making misleading statements about conflicts of interest, fees, and investments,
- follow policies and procedures designed to ensure that we and our employees give advice that is in the clients' best interest,
- charge no more than is reasonable for services, and
- give the clients basic information about conflicts of interest.

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

### **Tailoring of Advisory Services**

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We offer individualized investment advice to clients utilizing our firm's Comprehensive Portfolio Management service. Additionally, we offer general investment advice to clients utilizing our firm's Selection of Third-Party Advisory Service.

We usually do not allow clients to impose restrictions on investing in certain securities or types of securities due to the level of difficulty this would entail in managing their account. In the rare instance that we allow restrictions, it would be limited to our firm's Comprehensive Portfolio Management service.

## Participation in Wrap Fee Program

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We sponsor and act as portfolio managers of a wrap fee program as further described in Part 2A, Appendix 1 (the “Wrap Fee Program Brochure”). Clients participating in a wrap fee arrangement pay a single fee for advisory, brokerage and custodial services. Clients’ portfolio transactions will be executed without commissions charge in a wrap fee arrangement.

The overall cost you will incur if you participate in our wrap fee program may be higher or lower than you might incur by paying transaction costs separately with another advisor. To compare the cost of the wrap fee program with non-wrap fee portfolio management services, you should consider the frequency of trading activity associated with our investment strategies, the brokerage commissions charged by broker/dealers, and the advisory fees charged by investment advisers. We will review with clients any separate program fees that may be charged to clients.

## Regulatory Assets Under Management

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We managed \$109,475,469 on a discretionary basis and \$30,540,749 on a non-discretionary basis as of March 15, 2024.

## Item 5. Fees and Compensation

### Compensation for Our Advisory Services

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#### Comprehensive Portfolio Management:

GCM charges an annual fee of 1.00% and service fee of .10%. Depending on the account size, fees may be discounted and are negotiable. Therefore, clients with similar assets under management and investment objectives may pay higher or lower fees than other clients. Our firm’s fees are billed on a pro-rata annualized basis monthly in advance based on the value of your account on the last day of the previous month. In rare cases, we will agree to directly bill clients. Fees will generally be automatically deducted from your managed account through a qualified custodian. As part of this process, Clients understand the following:

- a) The client’s independent custodian sends statements at least quarterly showing the market values for each security included in the Assets and all account disbursements, including the amount of the advisory fees paid to our firm,
- b) Clients will provide authorization permitting our firm to be directly paid by these terms. Our firm will send an invoice directly to the custodian, and
- c) If our firm sends a copy of our invoice to the client, legend urging the comparison of information provided in our statement with those from the qualified custodian will be included.

For clients who do not want the Comprehensive Portfolio Management service and only want financial planning/financial consulting services, our firm may charge *subscriptions fees* – that is, fees charged for initial and continual advice regarding financial, income tax, estate, family and risk management goals and objectives.

Level	Frequency	Amount Per Frequency	Annualized Fee
Executive	Quarterly	\$5,000	\$20,000
Family Office	Monthly	\$5,000	\$60,000

*Executive:* Full audit of financial picture, quarterly reviews, and evaluation of strategic changes. This includes investment planning, insurance planning, tax planning, retirement planning, high-level business planning, and high-level estate planning.

*Family Office:* Everything from “Executive” plus business design and creation, business operations, succession planning, systematized cash flow operations, and detailed estate planning.

### **Financial Planning and Consulting Services:**

Our fixed financial planning fees are calculated and charged through a negotiated fixed subscription fee (typically assessed monthly or quarterly), starting at \$5,000 per month and may be higher with a fee of up to \$100,000 per year based on the complexity and unique needs of each client. Fixed financial planning fees are paid 100% in advance, but never more than six months in advance. Client may terminate the Financial Planning Services without penalty upon written notice for future assessed payment periods, or as set forth in the Client Agreement. Thereafter, client may terminate the Financial Planning Services upon written notice and the prorated portion of the fixed financial planning fees collected in advance will be refunded to the client based on the prorated amount of work completed at the point of termination.

GCM charges an hourly fee of \$500 per hour when a client is interested in a one-time engagement that does not include ongoing financial advice and/or asset management services. The hourly rate is negotiable at the discretion of the GCM advisor and handled on a case-by-case basis, depending on the complexity and level of service required. The hourly fee would be assessed when it is in the best interest of the client, based on their desired level of service. Services include: a Net Worth Review; Cashflow & Spending Analysis; Monte Carlo Simulation; Recommendations for Retirement, Taxes, Investing, Insurance, Business Planning, and Estate Planning; and a Tax Return Review. Fees are non-refundable and paid, as accrued, on a monthly basis until engagement is complete.

### **Selection of Third- Party Advisory Services:**

We receive compensation pursuant to the agreements with the Third-Party Advisor for introducing Clients to the Third-Party Advisor and for certain ongoing services provided to Clients. This compensation, which is disclosed to the Client in a separate disclosure document provided by the Third-Party Advisor, is typically equal to a percentage of the investment advisory fee charged by that Third-Party Advisory Program or a fixed fee. The advisory fee paid to us from the Third-Party Advisor shall be negotiable in certain circumstances but shall never exceed the amount in our firm’s published fee statement. We disclose that all Third-Party Advisors will be appropriately licensed with the applicable State(s).

The separate written disclosures you need to be provided will include a copy of the Third-Party Advisor’s Form ADV Part 2, all relevant Brochures, a Solicitation Disclosure, Statement detailing the exact fees we are paid, and a copy of the Third-Party Advisor’s privacy policy. The Third-Party Advisor we recommend will not directly charge you a higher fee than they would have charged without us introducing you to them.

Third-Party Advisors establish and maintain their own separate billing processes which we have no control over. In general, they will directly bill you and describe how this works in their separate written disclosure documents.

### **Other Types of Fees & Expenses**

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Non-Wrap fee clients will incur transaction charges for trades executed in their accounts. These transaction fees are separate from our fees and will be disclosed by the firm that the trades are executed through. Also, clients will pay the following separately incurred expenses, which we do not receive any part of: charges imposed directly by a mutual fund, index fund, or exchange traded fund which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses).

Wrap fee clients will receive the Form ADV, Part 2A, Appendix 1 (the "Wrap Fee Program Brochure"). Wrap fee clients will not incur transaction costs for trades. More information about this is disclosed in the separate Wrap Fee Program Brochure.

### **Termination & Refunds**

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We charge our advisory fees monthly in advance. In the event that you wish to terminate our services, we will refund the unearned portion of our advisory fee to you. You need to contact us in writing and state that you wish to terminate our services at any time. Upon receipt of your letter of termination, we will proceed to close out your account and process a pro-rata refund of unearned advisory fees.

### **Commissionable Securities Sales**

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Supervised persons of our firm may sell securities for a commission. In order to sell securities for a commission, our supervised persons are registered representatives of DAI Securities, LLC ("DAI"), member FINRA/SIPC. Our supervised persons may accept compensation for the sale of securities or other investment products, including distribution or service ("trail") fees from the sale of mutual funds. You should be aware that the practice of accepting commissions for the sale of securities:

- 1) Presents a conflict of interest and gives our firm and/or our supervised persons an incentive to recommend investment products based on the compensation received, rather than on your needs. We generally address commissionable sales conflicts that arise:
  - a) by explaining to clients that commissionable securities sales create an incentive to recommend products based on the compensation we and/or our supervised persons may earn and may not necessarily be in the best interests of the client;
  - b) when recommending commissionable mutual funds, explaining that "no-load" funds are available.
- 2) In no way prohibits you from purchasing investment products recommended by us through other brokers or agents which are not affiliated with us.
- 3) Does not exceed more than 25% of our revenue.
- 4) Does not reduce your advisory fees to offset the commissions our supervised persons receive.



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

While we currently do not charge performance-based fees for any clients, should that change, below is our performance-based compensation. Our intent is to accommodate clients who demand performance-based fees in place of our normal fee schedule.

Our firm may charge qualified clients<sup>1</sup> “performance fees” – that is, fees based on a share of capital gains on or capital appreciation of the managed assets of a client.

Clients are charged a service fee. Please refer to the Wrap Fee Program Brochure for details.

The Performance-Based fee is charged quarterly in arrears at the end of each quarter as follows:

- 15% of the net profits (i.e., profits after our management fee have been deducted) achieved for the previous quarter of account management.

The performance fee is calculated as follows: we will receive a percentage of the net capital appreciation (i.e., capital appreciation less capital depreciation and any accumulated net capital depreciation carry-forward from prior periods) of each Client’s account. The performance fee is payable only if and to the extent that the net capital appreciation of the Client’s account exceeds any net capital depreciation accumulated during the performance fee period as adjusted for withdrawals of capital (a “high water mark” arrangement). We may, in our discretion, waive all or any portion of the performance fee or may agree with a client to other changes to the performance fee by written agreement only.

In charging performance fees to some of our client accounts, we face a conflict because we can potentially receive greater fees from client accounts having a performance-based compensation structure than from those accounts we only charge a fee unrelated to performance (e.g., an asset-based fee). As a result, we may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

We have taken several important steps to ensure that our performance-based accounts are not favored over our client’s non-performance fee-based accounts. These steps include:

- 1) A periodic comparison of our performance and non-performance based accounts. Our comparison will entail a review of our ten most profitable and ten least profitable (including unrealized gain or loss) investment decisions based on total return of positions opened and closed for each investment strategy or mandate offered to clients. We keep track of securities ticker symbol, purchase date, sale date, percentage of gain and/or loss, and dollar amount of the gain and/or loss. In the event that we find performance-based accounts are being unduly (i.e., consistently) favored over non-performance based accounts, we would take action to

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<sup>1</sup> We are currently permitted to charge performance-based fees only to clients with at least \$1 million under management with our firm or a net worth of at least \$2 million. It is expected that the SEC will revisit this standard in the near future and tie the definition of a qualified client to inflation. It is unclear at this time whether the SEC will grandfather, or exempt existing qualified clients being charged performance-based fees from a greater financial threshold for meeting the qualified client standard should the definition change.

address the situation. This could include allowing non-performance based accounts to trade before performance based accounts to the extent practicable, or if the problem persists, not allowing new performance based accounts, waiving our performance based fees or cancelling our performance based fee arrangements altogether and in some cases, termination of firm personnel.

- 2) The use of block trades and allocations made based on client's risk tolerance, investment objectives and restrictions. A periodic review of the block trade allocations to detect whether profitable trades are being disproportionately allocated to performance-based accounts, while unprofitable trades are being disproportionately allocated to pure-fee based accounts with no performance fee. If our firm detects a problem in the allocation of block trades, our remedies are the same as those outlined above.

## **Item 7. Types of Clients and Account Requirements**

We have the following types of clients:

- Individuals and High Net Worth Individuals,
- Trusts, Estates or Charitable Organizations,
- Pension and Profit-Sharing Plans,
- Corporations, limited liability companies and/or other business types.

We require a minimum account balance of \$1,000,000 for our Comprehensive Portfolio Management service. At our discretion, we will consider waiving the minimum account balance requirements. Specifically, we may combine the account values of family members living in the same household to determine the account balance. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values will increase the asset total, which could result in meeting the minimum account balance. In addition, clients should refer to the independent investment adviser's disclosure document for information on minimum account size requirements or any other conditions for managing or maintaining an account.

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

### **Methods of Analysis**

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We use the following methods of analysis in formulating our investment advice and/or managing client assets:

*Charting.* In this type of technical analysis, we review charts of market and security activities in an attempt to identify when the market is moving up or down and to predict when how long the trend may last and when that trend might reverse.

*Fundamental Analysis.* We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition

and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

*Technical Analysis.* We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company. This presents a risk that a poorly managed or financially unsound company may underperform regardless of market movement.

*Other.* We also utilize Zephyr and Morning Star, a computer-based software that analyzes managers, funds, investments, etc., while also calculating funds, standard deviations, and offers various other support packages to the Advisor.

## **Investment Strategies**

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We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

*Long-Term Purchases.* When utilizing this strategy, we may purchase securities with the idea of holding them for a relatively long time (typically held for at least a year). A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell. Typically, we employ this sub-strategy when we believe the securities to be undervalued; and/or we want exposure to a particular asset class over time, regardless of the current projection for this class. The potential risks associated with this investment strategy involve a lower than expected return, for many years in a row. Lower-than-expected returns that last for a long time and/or that are severe in nature would have the impact of dramatically lowering the ending value of your portfolio, and thus could significantly threaten your ability to meet financial goals.

*Short-Term Purchases.* When utilizing this strategy, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. The potential risk associated with this investment strategy is associated with the currency or exchange rate. Currency or exchange rate risk is a form of risk that arises from the change in price of one currency against another. The constant fluctuations in the foreign currency in which an investment is denominated vis-à-vis one's home currency may add risk to the value of a security. Currency risk is greater for shorter term investments, which do not have time to level off like longer term foreign investments.

*Margin Transactions.* We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash and allows us to purchase stock without selling other holdings. Margin accounts and transactions are risky and not necessarily for every client. The potential risks associated with these transactions are (1) You can lose more funds than are deposited into the margin account; (2) the force sale of securities or other assets in your account; (3) the sale of securities or other assets

without contacting you; and (4) you may not be entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.

*Option Writing.* We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative because it derives its value from an underlying asset. The two types of options are calls and puts. A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires. A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires. We will use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio. We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price. We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time, and other factors. The potential risks associated with these transactions are that (1) all options expire. The closer the option gets to expiration, the quicker the premium in the option deteriorates; and (2) prices can move very quickly. Depending on factors such as time until expiration and the relationship of the stock price to the option's strike price, small movements in a stock can translate into big movements in the underlying options.

Clients should review the disclosure documents of the independent registered investment adviser(s) that we recommend for the management of the client's account for information regarding the types of investments, securities analysis methods, sources of information, and investment strategies used by the independent registered investment adviser(s).

## **Risk of Loss**

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Investing in securities involves risk of loss that clients should be prepared to bear. While the stock market may increase and your account(s) could enjoy a gain, it is also possible that the stock market may decrease, and your account(s) could suffer a loss. It is important that you understand the risks associated with investing in the stock market are appropriately diversified in your investments and ask us any questions you may have.

*Legal and Regulatory Matters Risks.* Legal developments which may adversely impact investing and investment-related activities can occur at any time. "Legal Developments" means changes and other developments concerning foreign, as well as US federal, state and local laws and regulations, including adoption of new laws and regulations, amendment or repeal of existing laws and regulations, and changes in enforcement or interpretation of existing laws and regulations by governmental regulatory authorities and self-regulatory organizations (such as the SEC, the US Commodity Futures Trading Commission, the Internal Revenue Service, the US Federal Reserve and the Financial Industry Regulatory Authority). Our management of accounts may be adversely affected by the legal and/or regulatory consequences of transactions effected for the accounts. Accounts may also be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by governmental regulatory authorities or self-regulatory organizations.

*System Failures and Reliance on Technology Risks.* Our investment strategies, operations, research, communications, risk management, and back-office systems rely on technology, including hardware, software, telecommunications, internet-based platforms, and other electronic systems. Additionally, parts of the technology used are provided by third parties and are, therefore, beyond our direct control. We seek to ensure adequate backups of hardware, software, telecommunications, internet-based platforms, and other electronic systems, when possible, but there is no guarantee that our efforts will be successful. In addition, natural disasters, power interruptions and other events may cause system failures, which will require the use of backup systems (both on- and off-site). Backup systems may not operate as well as the systems that they back up and may fail to properly operate, especially when used for an extended period. To reduce the impact a system failure may have, we continually evaluate our backup and disaster recovery systems and perform periodic checks on the backup systems' conditions and operations. Despite our monitoring, hardware, telecommunications, or other electronic systems malfunctions may be unavoidable, and result in consequences such as the inability to trade for or monitor client accounts and portfolios. If such circumstances arise, the Investment Committee will consider appropriate measures for clients.

*Cybersecurity Risk.* A portfolio is susceptible to operational and information security risks due to the increased use of the internet. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyberattacks include, but are not limited to, infection by computer viruses or other malicious software code, gaining unauthorized access to systems, networks, or devices through "hacking" or other means for the purpose of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cybersecurity failures or breaches by third-party service providers may cause disruptions and impact the service providers' and our business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement, or other compensation costs, and/or additional compliance costs. While we have established business continuity plans and risk management systems designed prevent or reduce the impact of such cyberattacks, there are inherent limitations in such plans and systems due in part to the everchanging nature of technology and cyberattack tactics.

*Pandemic Risks.* The outbreak of the novel coronavirus rapidly became a pandemic and has resulted in disruptions to the economies of many nations, individual companies, and the markets in general, the impact of which cannot necessarily be foreseen at the time. This created closed borders, quarantines, supply chain disruptions and general anxiety, negatively impacting global markets in an unforeseeable manner. The impact of the novel coronavirus and other such future infectious diseases in certain regions or countries may be greater or less due to the nature or level of their public health response or due to other factors. Health crises caused by the coronavirus outbreak and future infectious diseases may exacerbate other pre-existing political, social, and economic risks in certain countries. The impact of such health crises may be quick, severe and of unknowable duration. These pandemics and other epidemics and pandemics that may arise in the future could result in continued volatility in the financial markets and could have a negative impact on investment performance.

### **Practices Regarding Cash Balances**

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We generally invest client's cash balances in money market funds, FDIC Insured Certificates of Deposit, high-grade commercial paper and/or government backed debt instruments. Ultimately, we try to achieve the highest return on our client's cash balances through relatively low-risk conservative investments. In most cases, at least a partial cash balance will be maintained in a money market account so that our firm may debit advisory fees for our services related to Comprehensive Portfolio Management service.

## **Item 9. Disciplinary Information**

There are no legal or disciplinary events that are material to the evaluation of our advisory business or the integrity of our management.

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

### **Other Financial Industry Activities**

Neither Grace Capital Management, LLC nor any of its management persons are registered, nor does it have any pending application to register as a broker-dealer.

Grace Capital Management, LLC and its management persons are not registered, or have an application pending to register, as a commodity pool operator, futures commission merchant, or commodity trading advisor, or as an associated person of the foregoing entities.

### **Other Financial Industry Affiliations**

Representatives of our firm are registered representatives of DAI Securities, LLC (“DAI”), a member of FINRA/SIPC. In such capacity, they may offer securities products and brokerage services to clients of Grace Capital Management, LLC on behalf of DAI pursuant to FINRA rules and regulations. DAI maintains a supervisory relationship with respect to its registered representatives employed by Grace Capital Management, LLC for their activities related to the offers and sales of, and continuing services for the securities products and brokerage services on behalf of DAI. DAI may supervise the activities of Grace Capital Management, LLC, or its representatives when they are providing advisory services.

DAI has fully disclosed clearing arrangements with Fidelity Investments Group (“Fidelity”). As a fully disclosed broker-dealer, DAI may take custody of clients’ funds or securities for transmittal only.

Some representatives of our firm are licensed insurance agents. They may offer insurance products (non-variable) and receive fees as a result of insurance sales. A conflict of interest may arise as these insurance sales may create an incentive to recommend products based on the compensation adviser and/or our supervised persons may earn.

### **Third-Party Advisors Arrangements**

Please see Item 4 above for more information about the selection of third-party advisors. The compensation paid to our firm by third-party advisors may vary, and thus creates a conflict of interest in recommending a manager who shares a larger portion of its advisory fees over another advisor. Prior to referring clients to third-party advisors, our firm will ensure that third-party advisors are licensed, or notice filed with the respective federal and state authorities. A potential conflict of interest in utilizing third-party advisors may be an incentive to us in selecting a particular advisor

over another in the form of fees or services. In order to minimize this conflict our firm will make our recommendations/selections in the best interest of our clients.

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

We recognize that the personal investment transactions of members and employees of our firm. **As a fiduciary**, it is an investment adviser's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. Our fiduciary duty is the underlying principle for our firm's Code of Ethics, which includes procedures for personal securities transaction and insider trading. Our firm requires all representatives to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment with our firm, and at least annually thereafter, all representatives of our firm will acknowledge receipt, understanding and compliance with our firm's Code of Ethics. Our firm and representatives must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients. This disclosure is provided to give all clients a summary of our Code of Ethics. If a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

Our firm recognizes that the personal investment transactions of our representatives demand the application of a Code of Ethics with high standards and requires that all such transactions be carried out in a way that does not endanger the interest of any client. At the same time, our firm also believes that if investment goals are similar for clients and for our representatives, it is logical, and even desirable, that there be common ownership of some securities.

In order to prevent conflicts of interest, our firm has established procedures for transactions effected by our representatives for their personal accounts<sup>2</sup>. In order to monitor compliance with our personal trading policy, our firm has pre-clearance requirements and a quarterly securities transaction reporting system for all of our representatives.

Neither our firm nor a related person recommends, buys, or sells for client accounts, securities in which our firm or a related person has a material financial interest without prior disclosure to the client.

Related persons of our firm may buy or sell securities and other investments that are also recommended to clients. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request.

Likewise, related persons of our firm buy or sell securities for themselves at or about the same time they buy or sell the same securities for client accounts. In order to minimize this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics, a copy of which is available upon request. Further, our related persons will refrain from buying

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<sup>2</sup> For purposes of the policy, our associate's personal account generally includes any account (a) in the name of our associate, his/her spouse, his/her minor children or other dependents residing in the same household, (b) for which our associate is a trustee or executor, or (c) which our associate controls, including our client accounts which our associate controls and/or a member of his/her household has a direct or indirect beneficial interest in.

or selling the same securities prior to buying or selling for our clients in the same day unless included in a block trade.

## **Item 12. Brokerage Practices**

### **Selecting a Brokerage Firm**

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We generally recommend DAI and/or Fidelity for client advisory accounts.

We recognize our duty to best execution for our clients under the circumstances available. The decision to utilize the preferred broker-dealer firms is based upon a number of factors:

- Quality of overall execution services provided;
- Promptness of execution;
- Creditworthiness, financial condition, and business reputation of the broker-dealer;
- Research (if any) provided;
- Promptness and accuracy of reports on execution;
- Ability and willingness to correct errors;
- Promptness and accuracy of confirmation statements;
- Ability to access various market centers;
- The broker-dealer's facilities and technology;
- The market where the security trades;
- Any expertise in executing trades for the particular type of security;
- Commission charged;
- Reliability of the broker-dealer;
- Ability to use Electronic Communications Networks ("ECNs") to gain liquidity, price improvement, lower commission rates and anonymity,
- Reputation of the broker-dealer; and
- Execution and operational capabilities of the broker-dealer.

We anticipate execution information to be provided by the service providers on request. The preferred service providers have consolidated their "Best Execution" responsibilities within a monitoring group that is charged with monitoring execution quality through a "regular and rigorous review" of the execution quality it receives from the venues where the service providers route equity and option orders. Additionally, these firms indicate in their best execution policies that they continually monitor alternative venues to identify opportunities for improving execution quality.

We have reviewed our service provider's best execution documentation. Among the factors the service providers consider include the amount of net price improvement, speed of execution, certainty of execution, cost of execution, service issues, reliability, credit worthiness of counterparties, and accessibility.

While it is possible that clients may pay higher commission or transactions fee through preferred services providers, we have determined these service providers currently offer the best overall value to us and our clients for the service, brokerage, and technology provided.



We periodically review other alternatives that are available in the market. However, we believe that excellent customer service and trade execution is superior to most non-service oriented, discount and internet-based brokers that may otherwise be available to the public. The preferred service providers feature a broad line of products and services that are available to every investor, regardless of the amount of investable assets. Clients have the ability to specifically request, in writing, their desire to utilize another financial services firm. In such cases, the client is responsible for ensuring that we have the authority to receive all account information in a timely manner. Further, the client understands that we cannot offer best execution because of limitations that may be placed on us by the client's preferred service provider.

We may have an incentive to continue to use or expand the use of Fidelity and DAI's services. Our firm examined this potential conflict of interest when we chose to enter into the relationship with Fidelity and DAI and we have determined that the relationship is in the best interest of our firm's clients and satisfies our client obligations, including our duty to seek best execution.

Fidelity and DAI charge brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity and DAI enable us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity and DAI's commission rates are generally discounted from customary retail commission rates. However, the commission and transaction fees charged by Fidelity and DAI may be higher or lower than those charged by other custodians and broker-dealers. When possible and in the clients' best interest, we will purchase institutional share classes.

Our clients may pay a commission to Fidelity and DAI that is higher than another qualified broker dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions.

### **Research and Other Soft Dollar Benefits**

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Fidelity and DAI may make certain research and brokerage services available at no additional cost to our firm. These services may be directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided by Fidelity and DAI may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance by Fidelity and DAI to our firm in the performance of our investment decision-making responsibilities.

We do not receive soft dollar benefits although the non-soft dollar investment research products and services that may be obtained by our firm will generally be used to service all of our clients, a transaction fees paid to Fidelity and DAI by a specific client may be used to pay for research that is not used in managing that specific client's account.

## **Client Brokerage Commissions**

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We do not use client brokerage commissions (or markups or markdowns) to obtain research or other products or services. The aforementioned research and brokerage services are used by our firm to manage client accounts. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

## **Brokerage for Client Referrals**

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Our firm does not take into consideration whether or not we will receive client referrals from the broker-dealer or third party in selecting and/or recommending broker-dealers.

## **Directed Brokerage**

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We allow clients to direct brokerage outside our recommendation. However, we may be unable to achieve the most favorable execution of client transactions. Client directed brokerage may cost clients more money. For example, in a directed brokerage account, you may pay higher brokerage commissions because we may not be able to aggregate orders to reduce transaction costs, or you may receive less favorable prices.

## **Aggregation of Purchase or Sale**

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We perform investment management services for various clients. There are occasions on which portfolio transactions may be executed as part of concurrent authorizations to purchase or sell the same security for numerous accounts served by our firm, which involve accounts with similar investment objectives. Although such concurrent authorizations potentially could be either advantageous or disadvantageous to any one or more particular accounts, they are affected only when we believe that to do so will be in the best interest of the effected accounts. When such concurrent authorizations occur, the objective is to allocate the executions in a manner which is deemed equitable to the accounts involved. In any given situation, we attempt to allocate trade executions in the most equitable manner possible, taking into consideration client objectives, current asset allocation and availability of funds using price averaging, proration, and consistently non-arbitrary methods of allocation.

## **Administrative Trade Errors**

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From time to time, we may make an error in submitting a trade order on your behalf. Trading errors may include a number of situations, such as:

- The wrong security is bought or sold for a client,
- A security is bought instead of sold,
- A transaction is executed for the wrong account,
- Securities transactions are completed for a client that had a restriction on such security, or
- Securities are allocated to the wrong accounts.

When this occurs, we may place a correcting trade with the broker-dealer which has custody of your account. If an investment gain results from the corrective action, the gain will remain in your account unless it is legally not permissible for you to retain the gain, or we confer with you and you decide to

forego the gain (e.g., due to tax reasons). If a loss occurs due to our administrative trade error, we are responsible and will pay for the loss to ensure that you are made whole.

Note: To limit the respective administrative expenses and burden of processing small trade errors, it should be noted some custodians (at their own discretion) may elect not to invoice us if the trade error involves a de minimis dollar amount (usually less than \$100). Generally, if related trade errors result in both gains and losses in your account, they may be netted.

### **Item 13. Review of Accounts or Financial Plans**

We review accounts on a periodic basis, no less than annually, for our clients subscribing to our Comprehensive Portfolio Management service. Third-Party Advisory clients receive at least quarterly reviews. The nature of these reviews is to learn whether clients' accounts are in line with their investment objectives, appropriately positioned based on market conditions, and investment policies, if applicable. Mr. Duff, Managing Member and Chief Compliance Officer conducts reviews of all client accounts.

Reviews are also performed when the client informs our firm of substantial changes to their financial or tax status, investment objectives, risk tolerance or time horizons. Lastly, reviews may occur when fundamental market factors (e.g., inflation rates, interest rates, GDP, etc.) change in a material way.

We may review client accounts more frequently than described above. Among the factors which may trigger an off-cycle review are major market or economic events, the client's life events, requests by the client, etc.

Clients will be issued trade confirmations for all transactions, monthly account statements (for all months in which a change occurs in the account, unless the Client has asked not to receive the same) and custodial statements.

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

#### **Other Compensation**

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Except for the arrangements outlined in Item 12 of Form ADV Part 2A, our firm has no additional arrangements to disclose.

#### **Referral Fees**

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We do not pay referral fees (non-commission based) to independent solicitors (non-registered representatives) for the referral of their clients to our firm in accordance with relevant state statutes and rules.

## **Item 15. Custody**

Our firm does not have custody of client funds or securities. However, we are deemed to have custody of clients' funds or securities when clients have standing letters of authorizations ("SLOAs") with their custodian to move money from a client's account to a third-party, and under that SLOA it authorizes us to designate the amount or timing of transfers with the custodian. The SEC has set forth a set of standards intended to protect client assets in such situations, which we follow. Clients will receive account statements directly from their qualified custodians at least quarterly upon opening of an account. The account statements will reveal the funds and securities held with the qualified custodian, any transactions that occurred in your account, and the deduction of our fee. If our firm decides to also send account statements to clients, such notice and account statements include a legend that recommends that the client compare the account statements received from the qualified custodian with those received from our firm. Clients are encouraged to raise any questions with us about the custody, safety or security of their assets and our custodial recommendations.

## **Item 16. Investment Discretion**

Clients have the option of providing our firm with investment discretion on their behalf, pursuant to an executed investment advisory client agreement. By granting investment discretion, our firm is authorized to execute securities transactions, determine which securities are bought and sold, and the total amount to be bought and sold. Limitations may be imposed by the client in the form of specific constraints on any of these areas of discretion with our firm's written acknowledgement. Neither we nor any of our firm's related person have discretionary authority in making the determination of the brokers with whom orders for the purchase or sale of securities are placed for execution, and the commission rates at which such securities transactions are effected.

## **Item 17. Voting Client Securities**

We do not and will not accept the proxy authority to vote client securities. Clients will receive proxies or other solicitations directly from their custodian or a transfer agent. In the event that proxies are sent to our firm, we will forward them on to you and ask the party who sent them to mail them directly to you in the future. Clients may call, write, or email us to discuss questions they may have about particular proxy votes or other solicitations.

However, Third-Party Advisors selected or recommended by our firm may vote proxies for clients. Therefore, except in the event a Third-Party Advisor votes proxies, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Therefore (except for proxies that may be voted by a Third-Party Advisor), our firm and/or you shall instruct your qualified custodian to forward to you copies of all proxies and shareholder communications relating to your investment assets.

We generally are not able to advise or act on behalf of its clients in legal proceedings, including class actions or bankruptcies, involving securities purchased or held in client accounts. The custodian sends all legal notices, including proxies, directly to the owners of each account. To the extent that we receive notice of class actions or bankruptcies of securities purchased or held in clients' accounts, it will forward such notices to the client's custodian for delivery directly to the affected client.

### **Item 18. Financial Information**

Our firm has never been the subject of any bankruptcy proceedings. Our firm is not required to provide financial information in this Brochure because:

- Our firm does not require the prepayment of more than \$1,200 in fees when services cannot be rendered within 6 months.
- Our firm does not take custody of client funds or securities.
- Our firm does not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.