

Chesme Capital Management

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This Brochure provides information about the qualifications and business practices of Chesme Capital Management. If you have any questions about the contents of this Brochure, please contact us at (517) 669-1600 or [angela@chesme.com](mailto:angela@chesme.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 Chesme Capital Management also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Chesme Capital Management is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

## Item 2 – Material Changes

Below is a summary of material changes to Chesme Capital Management’s (“Chesme”) Brochure since its last annual amendment dated March 31, 2023.

- Item 4 has been amended to reflect our selection of third-party advisors and assets under management as of 12/31/23.
- Item 5 has been amended to reflect fee schedules for clients engaging our firm as of 4/1/24, as well as to provide an explanation of sub-advisory fees.
- Item 10 has been amended to reflect our selection of other advisors.

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## Item 4 – Advisory Business

Chesme Capital Management (“Chesme” or “the Firm”) is an investment advisory firm registered with the U.S. Securities & Exchange Commission (“SEC”) under the name Chesme, LLC and is owned by Steven M. Erb and Douglas J. Vaughn. Chesme was established in 2003 and was registered with the SEC under the name Chesme, Inc. through June 2017, at which point it transitioned to Chesme, LLC as part of a reorganization. The Firm provides advisory services to individuals, institutional clients and retirement plans. Registration with the SEC does not imply a certain level of skill or training.

The foundation of the Firm is its discipline and commitment to a fiduciary standard of care. Chesme practices nothing short of full disclosure and complete transparency. The Firm makes every effort to avoid conflicts of interest and make full disclosure of any material conflicts that could affect its advisory relationships.

**ADVISORY SERVICES** - The Firm provides advisory services to individual clients in the form of Planning and Portfolio Management.

The Firm provides advisory services to institutional clients in the form of Portfolio Management and to retirement plans in the form of Fiduciary Consulting and Investment Management.

### **PLANNING (Individual Accounts)**

The Firm offers the following Planning services:

- **Goals-Based Planning**: The Firm develops and implements a prudent asset allocation strategy, targeting future financial goals and cash flow needs, while avoiding undue sacrifices to current lifestyle and unnecessary investment risk. The Firm focuses on existing and expected income sources/assets, investment time horizon, savings rate, and risk preference/capacity.
- **Retirement Income Planning**: The Firm develops a prudent and realistic retirement income strategy to support spending goals throughout retirement, while leaving sufficient reserves for unexpected contingencies and any desire to leave a legacy for subsequent generations. The Firm focuses on asset/liability balance, timing, and income strategy selection.
- **Insurance Planning/Risk Management**: The Firm works in conjunction with properly licensed insurance professionals to review existing insurance policies (Life, Disability, Long-term Care, Health, and Property & Casualty) and make recommendations as to the type, amount, and limits on each policy.
- **Income Tax Planning**: The Firm works in conjunction with properly licensed/certified accounting professionals to project current income tax position and analyze withholding. The Firm develops and implements strategies to reduce current and future income tax liability.

- Estate Planning: The Firm works in conjunction with properly licensed legal professionals to review existing estate planning documents and recommend changes where appropriate. The Firm projects estate taxes given current and proposed estate planning documents.

## **PORTFOLIO MANAGEMENT (Individual/Institutional Accounts)**

The Firm provides Portfolio Management services to both individual and non-ERISA institutional accounts. Portfolio Management is offered as a standalone service or it may be used in conjunction with the Firm's Planning services.

The Firm gathers a sufficient level of relevant information concerning the client's investment knowledge, current financial state, investment objectives, expectations, risk tolerance, and reasonable restrictions the client wishes to place on the management of the client's assets. Chesme's advice and portfolio management recommendations are specifically tailored to the goals, needs, and desires of each client on an individual basis.

If the client opts to do so, the Firm may also offer advice on held away assets that are reported by client to the Firm. To enable the Firm to provide advice accurately, the client must utilize additional software allowing held away asset valuation to be disclosed to the Firm in order for the Firm to provide the most informed advice to client. Under this arrangement, the advice given to the client is based on a point in time for which the information is provided to the Firm. You are responsible for placing trades in held away accounts for which we provide investment advice, but do not maintain trading authority. Chesme will not provide portfolio management or execution services on these accounts. The only additional fee for this service consists of a \$37.50 per account per quarter account aggregation fee, to be billed quarterly in arrears.

Chesme offers to meet with clients at least annually to review their financial circumstances and discuss any necessary adjustments to the current asset allocation. Clients are reminded to promptly notify the Firm of any changes to their financial situation, investment objectives, risk tolerance or account restrictions. In addition, the Firm assists the client in understanding and evaluating the services provided.

## **THIRD PARTY MONEY MANAGERS**

Chesme will directly invest the assets deposited to your account(s) and/or strategically allocate them to separately managed accounts (each such account an "SMA") to be managed by independent third-party money managers or sub-advisors (each a "TPMM") in line with the asset allocation ranges we have determined for your portfolio. The asset allocation ranges for your portfolio may be modified over time, as your financial circumstances, needs, and investment objectives change.

Chesme will communicate these changes to your TPMMs as necessary and modify your portfolio

allocations accordingly. The TPMMs we recommend may contract with us directly to provide sub-advisory services to your account, may be accessible to us via the investment platform of your Custodian, or may contract with you independently. In some instances, you may be required to execute a separate written investment advisory agreement and/or discretionary trading authorization in favor of the recommended TPMM(s). You will be provided with the Form ADV Part 2A (or equivalent disclosures) for any recommended TPMMs in advance of their providing services to your account.

Chesme will act as a co-advisor to each of your SMAs, periodically monitoring their performance, evaluating their initial and continuing suitability, and communicating changes in your investment profile to the TPMM, as necessary and appropriate. The TPMM shall be responsible for all trading and investment selection functions under this arrangement. Chesme, or a third-party engaged by Chesme, will conduct initial and ongoing due diligence on each recommended Chesme, negotiate fees to be paid by clients and other terms of the engagement, and will provide you with consolidated performance reporting of all of your SMAs.

## **PONTERA**

Chesme uses a third-party platform to facilitate management of held away assets such as defined contribution plan participant accounts, with discretion. The platform allows Chesme to avoid being considered to have custody of Client funds since Chesme does not have direct access to Client log-in credentials to affect trades. Chesme is not affiliated with the platform in any way and receive no compensation from them for using their platform. A link will be provided to the Client allowing them to connect an account(s) to the platform. Once Client account(s) is connected to the platform, Chesme will review the current account allocations. When deemed necessary, Chesme will rebalance the account considering client investment goals and risk tolerance, and any change in allocations will consider current economic and market trends. The goal is to improve account performance over time, minimize loss during difficult markets, and manage internal fees that harm account performance. Client account(s) will be reviewed at least quarterly, and allocation changes will be made as deemed necessary.

## **FIDUCIARY CONSULTING & INVESTMENT MANAGEMENT (Retirement Plans)**

The Firm engages in Fiduciary Consulting & Investment Management for employer sponsored retirement plans at the Plan Level, Investment Level, and Participant Level. Duties include:

- Fiduciary Appointment Acceptance in Writing (as outlined by ERISA)
- Plan Fee Analysis
- Investment Policy Statement Preparation/Monitoring
- Vendor Search
- Vendor Pricing Negotiation
- Investment Selection/Monitoring
- Investment Performance Benchmarking/Reporting

- Participant Education, Guidance, or Advice

## **ASSETS UNDER MANAGEMENT AND ADVISEMENT**

As of December 31, 2023, the Firm had a total of \$648,568,328 discretionary assets under management and \$0 in non-discretionary assets under management.

## **Item 5 – Fees and Compensation**

### **PLANNING SERVICES (Individual Accounts)**

Depending on the complexity of the planning to be performed and the frequency of communication/reporting, fees are typically charged as a flat annual fee (\$500 to \$25,000 – negotiable) or hourly fee of \$150 to \$300 and are charged in addition to Portfolio Management fees (under a separate fee schedule).

The fees charged for Planning services are solely for the preparation and reporting of the plan and do not include other expenses or fees that might be generated upon implementation of the recommendations.

The specific manner in which fees are charged by the Firm is established in a client's written planning agreement with the Firm. The Firm typically bills its fees in arrears on a quarterly basis or in advance on an annual basis. Planning fees are not prorated in any instance.

### **PORTFOLIO MANAGEMENT ANNUAL FEE SCHEDULE (Individual/Institutional Accounts)**

Chesme charges clients a fee based on a percentage of the aggregate market value of a client's account(s). The standard fee schedule, which is negotiable, is set forth below.

#### **Clients engaging Chesme after 4/1/2024:**

For Balances Less Than \$50,000	\$500 Flat Fee
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#### **For Balances Over \$50,000**

On the first \$250,000 (up to \$250,000 in total assets)	1.00%
On the next \$250,000 (up to \$500,000 in total assets)	0.90%
On the next \$250,000 (up to \$750,000 in total assets)	0.70%
On the next \$250,000 (up to \$1,000,000 in total assets)	0.50%
For a balances over \$1,000,000	0.25%

Legacy clients that engaged Chesme prior to 4/1/2024:

For Balances Less Than \$50,000	\$500 Flat Fee
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For Balances Over \$50,000

On the first \$250,000 (up to \$250,000 in total assets)	1.00%
On the next \$250,000 (up to \$500,000 in total assets)	0.80%
On the next \$250,000 (up to \$750,000 in total assets)	0.60%
On the next \$250,000 (up to \$1,000,000 in total assets)	0.40%
For a balances over \$1,000,000	0.10%

The annual fee is tiered, which results in lower fees as assets in the client's account(s) increase. For example, legacy account(s) with a value of \$600,000 would pay 1.00% on the first \$250,000, 0.80% on the next \$250,000, and 0.60% on the remaining \$100,000. All accounts for client(s) in the same household are aggregated for purposes of calculating fees using the tiered schedule above. The Firm defines members of the same household as those residing at the same physical address.

The Firm manages accounts for Chesme employees and their immediate family members at a discounted rate or free of charge. Chesme maintains a Code of Ethics and investment, trade allocation and account valuation policies and procedures designed to prevent these accounts from receiving favorable treatment, other than with respect to fees.

The specific manner in which portfolio management fees are charged by the Firm is established in a client's written investment advisory agreement with the Firm. The Firm typically bills its fees in arrears on a quarterly (calendar) basis based on the average daily balance of the client's account in the quarter. Advisory fees are prorated for new accounts and are charged a prorated fee based on the number of days in the quarter in which services are provided divided by the total numbers of days in the quarter. Clients may elect to be billed directly for fees or to authorize the Firm to directly debit fees from their accounts. In all cases, clients receive an original invoice on a quarterly basis. All portfolio management client accounts are subject to a minimum flat fee of \$500.

A client or Chesme may terminate the advisory relationship at any time by providing written notice. Accounts terminated during a calendar quarter are charged a prorated fee based on the number of days in the quarter in which services are provided divided by the total numbers of days in the quarter. Upon termination of any account, any earned, unpaid fees will be due and payable.

Clients may also separately incur certain charges imposed by custodians, brokers, third party investment advisors and other third parties. These fees may include fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on investment accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in the funds' prospectus. Such charges, fees and commissions are exclusive of and in



addition to the Firm's advisory/portfolio management fees. Refer to Item 12 for information on the Firm's brokerage practices.

## **SUB-ADVISORY FEES**

The specific Sub-Advisory Fees charged by each TPMM will be set forth in their Form ADV Part 2A (or disclosure brochure containing the equivalent information) and/or other account opening documents.

## **PONTERA**

When advising individuals on employee benefit plans pursuant to ERISA, Chesme will utilize a platform called Pontera. For this service, Chesme charges clients a fee based on a percentage of the aggregate market value, based on the average daily balance of a client's account(s) held at Pontera. The standard fee for this management is the greater of .50% or \$200 annually, to be paid quarterly in arrears. These assets and the fees associated with managing these assets is separate from the assets utilized to calculate the fee schedule above.

The asset-based advisory fee payable for any qualified account (as defined below in Item 15, Custody) will be deducted directly from one of your other custodian/broker-dealer accounts. If there are insufficient funds available in another account or if Chesme believes that deducting the fee from another account would be prohibited by applicable law, Chesme will invoice you. Invoices must be paid within thirty (30) days of receipt.

## **FIDUCIARY CONSULTING & INVESTMENT MANAGEMENT (Retirement Plans)**

The Firm's fee schedule for retirement plan Fiduciary Consulting & Investment Management is negotiable and is based on the level of service required, fiduciary responsibility assumed by the Firm, and the complexity and size of the plan.

The Firm may charge a flat fee to cover fiduciary duties at the plan or Trustee level. These duties may include analyzing an existing plan's services, fees and investments, reviewing, creating or monitoring the Investment Policy Statement, conducting vendor searches and plan conversion/enrollment activities. The Firm charges a negotiable flat fee of \$2,500 - \$25,000 for these services.

The Firm may also charge a fee for fiduciary duties at the investment and participant levels. These duties may include investment monitoring and benchmarking, performance reporting and the delivery of participant level services. The Firm typically charges a negotiable annual fee, expressed as a percentage of assets, ranging from 0.10% to 0.40% for these services. Chesme also has some clients that are charged a negotiated flat fee for these services.

The specific manner in which fees for Fiduciary Consulting and Investment Management services are charged by the Firm are negotiable and vary based on the client. The Firm typically bills its

fees in arrears on either a quarterly or monthly basis based on the market value of the client's account on the last business day of the relevant period or the average daily balance of plan assets during the billing period. Details of each client's fee billing and payment practices are detailed in that client's investment advisory agreement. Fees are not prorated for new accounts.

Services are provided to Chesme employees and their immediate family members at a discount to the standard fee schedule or free of charge.

### **ACCOUNT VALUATION PRACTICES**

The Firm uses account market values to calculate assets under management, client investment management fees and investment performance, where applicable. There are inherent conflicts of interest when Chesme values client accounts, as higher security prices increase market values, thereby enhancing performance results and increasing fees. Chesme maintains account valuation (including fair valuation) policies and procedures to address such conflicts.

In all cases, the Firm uses pricing information provided by its clients' custodians to value the respective client portfolios. The account market value utilized for fee calculation purposes includes all assets owned by the client in the account, which may include unmanaged assets if Chesme manages the account around these unmanaged assets.

If a price for an asset is not available from a custodian or Chesme believes the price received from the custodian is not reflective of fair market value, Chesme's Investment Committee will be responsible for determining a fair value price in accordance with the methodology outlined in Chesme's pricing and valuation procedures.

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

The Firm does not charge performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). As a result, the Firm has no conflicts of interest between accounts that pay asset-based fees and accounts that pay performance-based fees, known as side-by-side management.

## **Item 7 – Types of Clients**

The Firm provides advisory services to individuals, high net worth individuals, corporate pension and profit-sharing plans, corporations, charitable institutions, foundations and endowments. Chesme does not impose a minimum account size for any advisory relationship; however, a minimum account fee for portfolio management clients is imposed as disclosed in Item 5 above.

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

Chesme believes in a passive investment management philosophy that focuses on specific asset class risk and return characteristics while limiting expenses, portfolio turnover and trading costs. Chesme manages each client account individually and utilizes an investment allocation strategy that blends a combination of different asset classes into a well diversified portfolio that matches each client's risk tolerance and investment goals.

Chesme predominantly utilizes open-end mutual funds when managing its client accounts. From time to time, Chesme utilizes fixed income securities in client accounts although fixed income securities do not make up a significant portion of Chesme's investment strategy. Chesme also has some client accounts that hold common stocks but they are the result of legacy positions and usually held for tax purposes in taxable accounts (e.g. significant taxable gains) or securities Chesme is instructed to hold by clients for emotional reasons. Chesme does not recommend purchase of new common stocks as part of its investment strategy.

Chesme meets with its clients at the onset of the client relationship to determine the client's investment objectives, risk tolerance, goals, etc. In the case of individual clients, this process culminates in the completion of an investment objectives form which governs management of the client's account. For institutional and retirement plan clients, the account is managed based on an Investment Policy Statement ("IPS") which is executed by the client and Chesme based on these initial client meetings. After these initial meetings take place and the investment objectives form or IPS is adopted, client accounts are managed on an individual basis by the employee assigned to the account, under the oversight of the Investment Committee.

Chesme, under the oversight of its Investment Committee, continually monitors the mutual funds and fixed income securities it recommends for use in Chesme's client accounts to reasonably ensure the securities used in its client accounts continue to be the optimal security for the particular asset class, sector or capitalization. The Investment Committee generally reviews the securities it recommends for use in its client accounts on a quarterly basis, including comparing the performance of securities against benchmarks. If the Investment Committee determines that a security should no longer be utilized in client accounts or should be replaced, changes are made to client accounts based on an individual analysis of each client's current portfolio, investment objectives and goals, among other factors. This analysis is performed by the Chesme advisor assigned to each client.

### **MATERIAL INVESTMENT RISKS**

Investing in securities involves the risk of loss that clients should be prepared to bear, including the loss of principal. Chesme does not assure or guarantee the results of any of its recommendations and does not guarantee that it will be successful in meeting investment goals or objectives. Certain material risks relating to the advice and recommendations provided by Chesme are set forth below, but this section does not attempt to identify every risk or to describe completely those risks it does identify.

## **Market Risk**

Client accounts are subject to market risks. The value of the securities held in client accounts will increase or decrease in response to movements in the market. Market risks, including but not limited to political, regulatory, economic and social developments, and developments that impact specific economic sectors, industries or segments of the market, can affect the value of client accounts. In addition, turbulence in financial markets and reduced liquidity in equity, credit and/or fixed income markets may negatively affect many companies, which could adversely affect client accounts. These risks may be magnified if certain events or developments adversely interrupt the global supply chain. In these and other circumstances, such risks might affect companies on a worldwide scale. Recent examples include risks related to the coronavirus pandemic.

Additionally, individual mutual fund investments may decline in value or not increase in value due to events unique to the individual investment, even when stock markets in general are rising.

## **Management Risk**

Chesme's investment approach may not produce the intended result due to a particular asset class or security type not performing as expected within Chesme's investment strategies. As a result, the overall performance of a client's account may decline or be less than expected.

## **Third Party Manager Risk**

Chesme recommends open-ended mutual funds as part of client portfolios. Other than with respect to decisions to invest and redeem, Chesme has no control over the investment strategies or decisions of the portfolio managers of mutual funds included in client portfolios. Portfolio managers of mutual funds invest in a broad range of equity, fixed income or exchange traded fund ("ETF") securities which all have their own risks, as detailed below. Should Chesme become dissatisfied with the investment decisions of one of the mutual funds included in its investment strategies, its only course of action would be to liquidate the client investment.

## **Held Away Risk**

Where client seeks advice from Chesme regarding held away assets, such advice is only valid at the time it is given. As assets are held away and must be implemented by clients, Chesme also cannot guarantee best execution of these transactions. When client seeks advice for held away assets, there is a risk of loss, particularly where the advice is implemented by client at a point in time when the market has fluctuated from the time the advice is given, or when utilizing a custodian with which Chesme cannot guarantee best execution.

## **Equity Risk**

Equity securities are typically more volatile than other security types. As a result, the performance of mutual funds that utilize equity securities may be more volatile than the investment markets as a whole, which can affect a client's overall account performance. The

mutual funds recommended by Chesme may invest in small or mid-cap companies which have additional risks. Smaller companies tend to be more volatile and have higher failure rates due to more limited markets financial resources and management experience. Additionally, smaller companies exhibit greater price volatility and sensitivity to market selling pressure than larger companies.

### **Foreign Securities Risk**

The mutual funds recommended by Chesme may invest in foreign securities. Foreign securities are subject to additional risks not typically associated with investments in domestic securities. These risks may include, among others, currency risk, country risks (political, diplomatic, regional conflicts, terrorism, war, social and economic instability, currency devaluations and policies that have the effect of limiting or restricting foreign investment or the movement of assets), different trading practices, less government supervision, less publicly available information, limited trading markets and greater volatility. To the extent that the mutual funds invest in issuers located in emerging markets, the risk may be heightened by political changes, changes in taxation, or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.

### **Fixed Income Risk**

The mutual funds recommended by Chesme may invest in fixed income securities. Additionally, Chesme recommends fixed income securities for client accounts on an infrequent basis. The issuers of fixed income securities may fail to make interest and principal payments which will affect the credit rating of the issuer and the price of the fixed income security owned by the mutual fund. Bankruptcy or insolvency of the issuer may result in total loss of principal. Fixed income security values also fluctuate in response to market interest rates.

### **ETF Risk**

A mutual fund recommended by Chesme may invest in ETFs. ETFs, depending on size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing downward price movement. Certain ETFs may also employ leverage, which increases volatility and creates additional costs to the ETF due to interest on the leverage.

### **Natural Disaster/Epidemic/Pandemic Risk**

Natural or environmental disasters, such as severe weather and widespread disease, including pandemics and epidemics, have been and can be highly disruptive to economies and markets, adversely impacting individual companies, sectors, industries, markets, currencies, interest and inflation rates, credit ratings, investor sentiment, and other factors affecting the value of client accounts. Given the increasing interdependence of global economies and markets, conditions in one country, market, or region are increasingly likely to adversely affect markets, issuers, and/or foreign exchange rates in other countries, including the U.S. These disruptions could prevent Chesme from executing advantageous investment decisions in a timely manner and negatively impact Chesme's ability to achieve the investment objectives of its investment strategies. These

disruptions could also prevent Chesme and its vendors or service providers from maintaining normal business operations or could result in the loss of services of key personnel on a temporary or long-term basis due to illness or other reasons. Any such event(s) could have a significant adverse impact on the value of client accounts and the risk profile of Chesme's investment strategies.

### **Cybersecurity Risk**

Chesme relies on information technology and electronic communications to conduct business, which subjects Chesme and its clients to the risk of cyber incidents. While Chesme has controls it believes are reasonably designed to protect against cyber incidents resulting in unauthorized access to confidential information or business disruptions, not all cyber incidents are preventable. Should a cyber incident occur, it would likely have a negative impact on Chesme and its clients.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of the Firm's management. The Firm has no information applicable to this Item.

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

Certain representatives of the Firm are licensed insurance agents. From time to time, they will offer clients advice or products from those activities. Clients should be aware that these services pay a commission and involve a conflict of interest, as commissionable products conflict with the fiduciary duties of a registered investment adviser. However, the Firm always acts in the best interest of the Client; including the sale of commissionable products to advisory clients. Clients always have the right to decide whether or not to utilize the services of any representative of the Firm. in such individual's outside capacities.

Outside of the above referenced affiliation, neither the Firm nor management persons of the Firm are affiliated with a broker dealer or any other organization within the financial services industry that is material to its advisory business.

The Firm and its management persons are not registered and do not have application pending to register, as a futures commission merchant, commodity pool operator/advisor.

### **Selection of Other Advisors**

When referring clients to third-party money managers, the Firm may receive a portion of the fees generated from the referral. Since each money manager has a separate agreement with the Firm, each agreement may have a different percentage of the fee paid to the Firm, which is disclosed to the client in the money manager's paperwork. This can provide an incentive for representatives to recommend one money manager over another. However, the Firm and its representatives will always put the client's best interest before our own.

## Item 11 – Code of Ethics

The Firm maintains a Code of Ethics which applies to all personnel providing services to Chesme clients. As a fiduciary, Chesme has a duty of utmost good faith to act solely in the best interests of each of its clients. The Code of Ethics compels all personnel providing services to Chesme clients to act with utmost integrity in all dealings. In connection with these expectations, Chesme has established core standards of conduct consistent with Chesme's culture of trust, honesty, integrity, dependability, consistency and transparency.

The standards of conduct included in Chesme's Code of Ethics include provisions related to confidentiality of client information, limitations on personal trading, limitations on gifts and business entertainment, provisions related to serving as a director for an outside organization or engaging in outside business activities, prohibitions against using inside information to trade in personal accounts or on behalf of clients, and a requirement to strive to avoid and/or if appropriate, manage and/or disclose potential or actual conflicts of interest. All personnel providing services to Chesme clients are required to acknowledge the terms of the Code of Ethics at the time he/she becomes a supervised person and annually thereafter.

Chesme access persons are permitted to buy and sell for their own accounts securities that are recommended to clients, which create potential conflicts of interest. Chesme utilizes open-ended mutual funds and fixed income securities (on a limited basis). As such, Chesme believes that the risk of access persons personally benefiting from Chesme client market activity or Chesme access persons' personal trading activity interfering with making investment decisions in the best interest of clients is generally very low. The Code of Ethics requires all access persons to report to the CCO certain securities holdings information initially upon employment and at least annually thereafter and certain personal securities transaction information on a quarterly basis. Personal trading is monitored by Chesme to address the conflicts of interest arising from allowing access persons to invest in the same securities as clients.

A copy of Chesme's Code of Ethics is available to any client or prospective client upon request.

## Item 12 – Brokerage Practices

Chesme's Investment Committee conducts oversight of the investment and trading processes including trading policies and procedures, best execution, soft dollar practices and broker considerations, including brokers used and commissions. Below is a summary of Chesme's trading and brokerage practices.

### **SELECTION OF BROKERS**

For individual and wealth management clients, Chesme recommends clients use Fidelity Investments ("Fidelity") or Charles Schwab & Co. ("Schwab") as their custodian. Chesme is not



affiliated with Fidelity or Schwab. Chesme reserves the right to decline working with a client if the client wishes to select a custodian that has not been approved by Chesme.

It is generally an affiliated broker-dealer of Fidelity or Schwab that will execute the clients' transactions. Chesme considers many factors in selecting broker-dealers with which to place client trades and when recommending Fidelity and Schwab to its institutional and wealth management clients, including: quality of execution, clearing and settlement of trades; timeliness of transfers and payments to and from accounts; fees and commission levels; quality control (error identification and correction), responsiveness and performance of service team, availability of research and tools, reputation, financial strength and stability; and prior service to Chesme and its other clients.

### **BEST EXECUTION**

As a fiduciary, Chesme has an obligation to seek best execution of clients' transactions under the circumstances of the particular transaction. Chesme aims to execute transactions in a manner such that the client's total cost or proceeds is the most favorable under the circumstances. Chesme's Investment Committee monitors broker-dealer relationships and evaluates the quality of execution received from broker-dealers executing transactions for clients.

As noted above, Chesme recommends Fidelity and Schwab for its individual clients and wealth management clients. The custodians that Chesme recommends, along with their affiliated broker-dealers, offer both custody and brokerage services, among other services. Clients will enter into an arrangement to utilize one of these custodians for both brokerage and custody services. This arrangement generally allows the client to obtain attractive brokerage rates and professional execution. Custodians may charge the client additional "trade away" fees when trades are executed by another broker-dealer, and therefore in most instances it is advantageous for Chesme to execute through the client's custodian in order to avoid these additional costs.

Chesme does not have an obligation to seek or ensure best execution of clients' transaction within held away assets. When Chesme advises clients on held away assets, such advice is given at a particular point in time and limited to circumstances described by client to Chesme. Where Chesme is not recommending a particular custodian utilized by client to implement Chesme's advice, Chesme cannot ensure best execution of such transaction will be achieved.

### **SOFT DOLLAR PRACTICES**

Chesme does not engage in pre-arranged soft dollar arrangements, which are formal arrangements where Chesme specifically directs portfolio brokerage commissions to a broker-dealer in return for brokerage or research services that Chesme may use in making investment decisions for its clients ("soft dollar" arrangements).

Chesme, however, may benefit from other services provided by broker-dealers, such as general research. Any such services provided by broker-dealers are generally available to all participating advisors in the applicable custodian's institutional adviser program. Benefits received from



broker-dealers will not be used solely for the accounts that generated the brokerage commission, but will be used in managing all client accounts.

It is Chesme's policy to operate within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934 when obtaining research and other brokerage services from broker-dealers which also execute trades in Chesme client accounts. When Chesme receives research or other brokerage services from broker-dealers or other benefits based on its relationship with broker-dealers, it could potentially cause a conflict of interest as Chesme may have incentive to select broker-dealers or recommend clients maintain their custodian accounts at Schwab or Fidelity based on its interest in receiving these services or benefits, rather than receiving the most favorable execution for client trades. When receiving research or brokerage services or other benefits, Chesme receives a benefit because it does not have to produce or pay for such services itself or receives a discount on services it would otherwise not. While Chesme may consider such services provided in allocating brokerage to a specific broker-dealer, as a practical matter Chesme generally allocates brokerage on the basis of execution quality and other related services rather than in consideration of research or brokerage services or other benefits received. The Investment Committee provides oversight of Chesme's brokerage practices including soft dollar considerations and broker commissions to provide reasonable assurance these conflicts are managed.

#### **DIRECTED BROKERAGE ARRANGEMENTS**

Chesme does not permit its clients to direct brokerage to a particular broker-dealer. As noted above, Chesme recommends clients utilize Fidelity or Schwab for custodian services. This arrangement generally allows the client to obtain attractive brokerage rates and professional execution through custodians' affiliated broker-dealers. Custodians may charge the client additional "trade away" fees when trades are executed by another broker-dealer, and therefore in most instances it is advantageous for Chesme to execute through the client's custodian in order to avoid these additional costs.

#### **TRADE AGGREGATION PRACTICES**

Due to the nature of the securities in which Chesme actively trades (specifically, mutual funds) and the Firm's investment philosophy to consider each client's needs and objectives rather than managing client accounts to specific investment models, securities held in client accounts are generally traded on an individual basis and are not "bunched" or "blocked" with other client trades.

In the unlikely occurrence that Chesme determines it is in the clients' best interest, trades may be bunched or traded in a block. In almost all cases, a block trade is filled by one broker. If on a rare occasion a block order is filled (full or partial fill) at several prices through multiple trades, an average price will be calculated for all trades executed by the broker for the block, and all participants in the block trade will receive the average price. Only trades executed within the block on the single day may be combined for purposes of calculating the average price. Partial fills

may be allocated on a pro rata basis, subject to rounding and reasonable efforts to minimize trading costs.

### **CROSS TRANSACTIONS**

Chesme generally does not affect cross transactions between its client accounts, however cross transactions may occur if Chesme determines it is in the best interest of each client participating in the trade. All cross transactions will be executed in accordance with Chesme's Cross Transactions Policy. Chesme will not engage in cross transactions involving an ERISA client account.

### **TRADE ERRORS**

It is Chesme's policy for clients to be made whole following a trade error caused by Chesme. Chesme shall follow the custodian's trade error policy when correcting and resolving trade errors. Schwab's policy is to absorb *de minimis* losses under \$100 and make the client whole. If a loss is over \$100, Chesme will reimburse the entire loss. If a trade error results in a gain, Schwab's policy allows the client to keep that gain, only if the client account can support the trade error transaction (for example, client will not keep the gain if the client's account did not have enough cash to purchase the security that was purchased in error causing the trade error). Fidelity's policy requires Chesme to reimburse the client for the entire loss. If the trade error results in a gain, Fidelity's policy is to donate the gain to charity.

Chesme's Investment Committee will periodically review all trade errors. Chesme maintains a Trade Error Policy to ensure all trade errors caused by Chesme are resolved in the client's best interest.

## **Item 13 – Review of Accounts**

Individual and institutional client accounts typically undergo a formal account review by the Chesme advisor assigned to the account in preparation for client meetings at least annually, but more frequently if some cases. Factors that may trigger additional reviews include changes in client circumstances, changes in world or economic events and changes in the strategies Chesme uses to construct client portfolios. The Firm offers to meet with its clients at least annually, or more frequently at the client's request, during which time the client's performance, asset allocation and investment objectives, both current and future, are reviewed. Annual reports are provided to clients and include an evaluation of the account's performance over the past two years.

The investment options offered to retirement plan clients are formally reviewed by the Investment Committee based on the frequency specified in the client's IPS. Chesme provides retirement plan clients with quarterly fi360® reports which includes an investment snapshot, holding summary, including scoring of each holding based on pre-determined criteria, watch list items and information on the models Chesme offers to plan participants. This reporting is also

discussed during meetings with Plan Sponsors, which are held on at least an annual basis and more frequently at a client's request.

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

The Firm has, from time-to-time, engaged in solicitor relationships in accordance with the disclosure requirements Rule 206(4)-1 of the Advisers Act, but is not compensating any third party for referrals at this time.

## **Item 15 – Custody**

Chesme does not maintain physical custody of client assets, although the Firm is deemed to have custody of assets if clients give it the authority to withdraw fees directly from their custodial accounts. Client assets must be maintained in an account at a qualified custodian - generally a broker-dealer, bank or trust company. A custodian is appointed by each client to have possession of the assets of the account, settle transactions for the account and accept instructions from the account's investment managers regarding securities trading in the account.

Clients should receive statements, at least quarterly, from the qualified custodian that holds and maintains client's investment assets. The Firm urges you to carefully review these statements.

Certain client accounts subject to Chesme's services may be held at a custodian that is not directly accessible by the Chesme ("qualified accounts"). Chesme may, but is not required to, manage these qualified accounts using the Pontera, allowing Chesme to view and manage these assets. To manage qualified assets, you must agree to the Pontera End User Terms and Conditions and Privacy Policy and must further agree to keep Chesme apprised of any changes to your usernames and passwords for qualified accounts so that Chesme can promptly update your credentials using the Pontera system. You also must agree to promptly address any requests to update its login credentials when requested by the Pontera system. In the event of any delay by you to update your login credentials, you must acknowledge in your agreement that Chesme will not have access to view or manage your qualified account, which may result in investment losses. Chesme will not be responsible for any losses arising from your delays in updating its login credentials through the Pontera system. Chesme will be under no obligation to credit any fees for valuations made in good faith during periods when Chesme did not have access to any qualified account in calculating its fees under the investment management agreement.

## **Item 16 – Investment Discretion**

The Firm's accepts discretionary authority when managing client accounts pursuant to each client's Investment Advisory Agreement. Clients may impose reasonable restrictions on the management of its account which are reflected in the client's IPS.

Neither the Firm nor any of its employees guarantees the investment performance of any asset.

## Item 17 – Voting Client Securities

As a matter of Firm policy and practice, the Firm does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Upon request, the Firm may provide advice and information to clients regarding the voting of proxies.

## Item 18 – Financial Information

The Firm has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding. The Firm does not charge \$1200 6 months or more in advance for their services.

## Other Information

### **CLASS ACTIONS AND OTHER LEGAL PROCEEDINGS**

Chesme does not monitor, advise or act for any client in legal proceedings, including, without limitation, class actions and bankruptcies. Clients should ensure that they have instructed their custodians to promptly forward to the client any communications relating to legal proceedings involving account assets.

### **PRIVACY NOTICE**

Safeguarding client information is an issue we take seriously at Chesme Capital Management. To affirm our continuing commitment to the proper use of customer information, we have set forth the following Privacy Principles.

1. **Recognition of a Customer's Expectation of Privacy:** We believe the confidentiality and protection of customer information is one of our fundamental responsibilities. And while information is critical to providing quality service, we recognize that one of our most important assets is our customers' trust.
2. **Use, Collection, and Retention of Customer Information:** Chesme Capital Management limits the use, collection, and retention of customer information to what we believe is necessary or useful to conduct our business and provide quality service. Information collected may include, but is not limited to: name, address, telephone number, tax identification number, date of birth, employment status, annual income and net worth.
3. **Maintenance of Accurate Information:** We recognize the necessity of maintaining accurate customer records have established procedures to keep such information current and complete.

4. **Limiting Employee Access to Information:** Access to personal, non-public customer information is limited to those employees with a business reason to know such information. Employees are educated on the importance of maintaining the confidentiality of customer information and on these Privacy Principles.
5. **Protection of Information via Established Security Procedures:** Chesme Capital Management recognizes that a fundamental element of maintaining effective customer privacy procedures is to provide reasonable protection against the unauthorized access to customer information. Therefore, we have established appropriate security standards and procedures to guard against any unauthorized access to customer information.
6. **Restrictions on the Disclosure of Customer Information:** When it comes to sharing customer information with unaffiliated companies, we place strict limits on who receives specific information about customer accounts and other personally identifiable data. Chesme Capital Management may disclose any of the information it collects about customers (or has collected about former customers) to third parties who are not affiliated with Chesme Capital Management under the following circumstances:
  - As directed or authorized by the customer or customer representative;
  - As permitted by law, for example, to service providers who provide investment products or services to the customer, in order to effect or settle trades on the client's behalf, in connection with a regulatory audit or examination, or to respond to a subpoena or similar legal process;
  - To parties providing services to Chesme Capital Management, such as database service companies or data conversion companies. Such companies shall be contractually prohibited from disclosing or using client information other than to perform the services contracted for.
7. **Disclosure and Notification of Privacy Principles to Customers:** Chesme Capital Management aims to ensure our clients are confident the firm's ability to manage their financial affairs expertly and confidentially. As a result of this commitment, we have developed these Privacy Principles which are readily available to our clients. If we change our Privacy Principles with regard to sharing your confidential information, we are required by law to notify you and provide a revised notice. Customers who have questions about these Privacy Principles or have a question about the privacy of their customer information should contact Chesme Capital Management's Chief Compliance Officer, Angela Chisman, at 517-624-2208 or e-mail her at [angela@chesme.com](mailto:angela@chesme.com).