

# DeLaroche & Company, Inc. - Firm Brochure

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## Firm Brochure – June 14, 2011 Update

### **DeLaroche & Company, Inc**

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#### 1. Cover Page

This brochure provides information about the qualifications and business practices of DeLaroche & Company, Inc. If you have any questions about the contents of this brochure, please contact us at 818.957.3157 or by E-mail to [kevin@delaroche.net](mailto:kevin@delaroche.net). 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 DeLaroche & Company, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration does not imply a certain level of skill or training.

#### 2. Material Changes

This update does not contain material changes. Our last update was our annual update on June 6, 2011.

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### 4. Advisory Business

DeLaroche & Company, Inc. has been in business since 1986. The firm is an SEC registered investment adviser. Kevin J. Williams is the sole owner of the firm.

The firm offers discretionary investment management services. The company provides its investment management services to various clients, including pension, profit sharing, annuity, health and benefits trusts, non-profits, governments, corporations and individuals.

Our services are best described as risk management, investment management with specific risk constraints. Those constraints can be described relative to a benchmark or as an absolute return over a specified time horizon. Our primary service is our Conservative Investing Strategy in which we optimize return within the constraint of a positive twelve-month return.

For our Conservative Investing Strategy, we broadly diversify our portfolios across multiple asset classes. We use fixed income and equity investments. We use foreign and domestic assets. We may invest in real estate equity and high yield bonds. Most, if not all, of our investments will be publicly traded or easily valued by an independent custodian. We will purchase stocks and bonds directly.

We can manage funds with client specific characteristics. We do manage a fund with a Socially Responsible objective that uses a client specified universe of acceptable companies.

Each portfolio has a written investment policy with the client's objective, tax considerations, income requirements, investment strategy and a benchmark of expected performance. The written investment policy includes any restrictions imposed by the client, such as investment in certain securities or types of securities.

All portfolios are reviewed monthly. There are two reviewers, the portfolio manager and assistant portfolio manager, both of whom have earned the designation of Chartered Financial Analyst (CFA). The portfolios are reviewed in a manner that relates their current structure to their objectives.

The Firm does not hold custody of any client assets under management. For every account, the Custodian provides regular statements of account directly to the client. As a course of business the company provides reports to clients on a quarterly basis.

The Firm does not participate in any wrap fee programs.

Amounts under management as of *April 30, 2011*

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- Client assets managed on a discretionary basis.....\$106,215,471
- Client assets managed on a non-discretionary basis ..... None

## 5. Fees and Compensation

The Firm provides its services at negotiated rates with a minimum annual fee. Such asset-based fee will be assessed on all investments, including any mutual funds, index funds, exchange traded funds, closed end funds and other investments that may already include the payment of a management fee to another party.

Advisory contracts are renewable and can be canceled by the client or adviser on 30 days notice. Fees are paid in advance, on a quarterly or monthly basis. We bill clients directly for our fees. In the event of contract termination, any prepaid fee for the period after the effective date of the cancellation will be prorated and refunded to the client.

The Firm does not maintain custody of client assets under management. Assets of each portfolio are held by a third-party Custodian and clients will be subject to custodial and other fees, as agreed with the Custodian. Client assets invested in mutual funds will incur mutual fund expenses. Clients will incur brokerage fees for the purchase and sale of securities (see section 12, Brokerage Practices). We will report total returns net of all fees in our reports.

The Firm does not receive any investment advisory revenue from commissions or other compensation for the sale of investment products recommended to clients, including asset-based distribution fees from the sale of mutual funds

For an account using our Conservative Investing Strategy with a normal asset mix of about 30% common stocks and 70% bonds or other fixed income, our typical fee schedule is 0.50% on the first \$5 million and 0.375% on the excess over \$5 million.

For an account using our Capital Growth Investing Strategy with a normal asset mix of about 65% common stocks and 35% bonds or other fixed income, our typical fee schedule is 0.75% on the first \$5 million and 0.50% on the excess over \$5 million.

For a separately managed account, the Firm does not impose a minimum dollar value of assets but does look for a minimum annual fee of \$10,000.

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

DeLaroche & Company, Inc. does not charge performance-based fees.

## 7. Types of Clients

The Firm provides its investment management services to various clients, which have included pension, profit sharing, annuity, health and benefits trusts, non-profit organizations, governments, corporations and individuals.

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

Most of our portfolios are conservative in nature, best characterized by an expectation of a highly probable positive annual return. We invest the largest portion of our portfolios in fixed income. We emphasize yield. We minimize interest rate risk. We invest a smaller portion of the portfolio in equity asset classes. We control risk by emphasizing diversification. All investments include some level of risk, our objective is to maximize return for investors who want a highly probable positive annual return.

With our conservative investing strategy, we try to create portfolios with bond-like risk levels, but by incorporating a small portion of the portfolios in diversified equity securities we try to achieve returns that are better than bonds.

We use quantitative models to determine asset classes to be used and their weighting in a portfolio. We make extensive use of quantitative tools to control risk and to enhance return. Those tools include mean variance optimization, regressions, and a series of filters and statistical overlays that allow us to create portfolios with optimum risk/reward characteristics.

## 9. Disciplinary Information

DeLaroche & Company has never been the subject of any disciplinary action. In addition, there have been no disciplinary actions against any of the firm's personnel.

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## 10. Other Financial Industry Activities and Affiliations

We do not receive compensation directly or indirectly from any source that would create a material conflict of interest with our clients. Also, there are no relationships or arrangements that would create a material conflict of interest with our clients.

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

DeLaroche and Company, Inc. is a member of the Investment Adviser Association and adheres to its Standards of Practice. Since its founding in 1937, the Investment Adviser Association (IAA) has prescribed certain principles of conduct for investment advisers. Many of these principles have been used by Congress and the Securities and Exchange Commission as the basis for legislation and regulations governing the conduct of investment advisers and by the United States Supreme Court in defining the standards of fiduciary conduct applicable to all investment advisers.

The Firm's portfolio managers are members of the CFA Institute. The Firm requires all employees to adhere to the CFA Institute's Code of Ethics and Standards of Professional Conduct. The CFA Code of Ethics is available on the CFA's webpage--<http://www.cfainstitute.org/centre/codes/ethics/index.html>. The CFA Institute requires its members to annually certify adherence to the Code and Standards.

The Investment Adviser Association's Standards of Practice and the CFA Institute's Code of Ethics and Standards of Professional Conduct are posted in the Firm's offices. All Firm employees are expected to abide by these principles.

The Firm will provide copies of the Investment Adviser Association's Standards of Practice and the CFA Institute's Code of Ethics and Standards of Professional Conduct to any client upon request.

The Firm does not recommend to clients, and does not buy or sell for client accounts, securities in which a related person has a material financial interest (rule 204A1(e)(10)).

The Firm discourages personal holdings in the same securities outside of DeLaroche & Company. Every quarter, the Firm circulates a list of all client holdings to all access persons. All access persons are required to report personal holdings and transactions in any of these securities. The Chief Compliance Officer reviews these reports. Though no action has been required

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so far, the Firm would take action to correct any material conflict and make whole any client suffering damages.

## 12. Brokerage Practices

The standard agreement of DeLaroche and Company, Inc. permits the aggregation and allocation of securities transactions. It is the policy and the fiduciary duty of the Firm to ensure that all participating clients are treated fairly and equitably when aggregating and allocating securities transactions. The Firm seeks best execution in all securities transactions.

The Firm may be able to improve the price, transaction costs, and other aspects of trade execution if it aggregates orders in the same security for multiple clients. However, the Firm will consider each client's specific objectives, together with any guidelines or restrictions on the account when making an investment decision.

DeLaroche and Company, Inc. requires that any client's request to direct brokerage be provided in writing, for review and approval. With respect to ERISA accounts, DeLaroche and Company, Inc. will require a written representation from the plan fiduciary that the directed brokerage arrangement is for the exclusive benefit of the plan participants and beneficiaries.

If directed to place trades through a client-selected broker, DeLaroche and Company, Inc. will not attempt to negotiate commissions, and as a result, the client may pay greater commissions; in addition to not receiving the benefit of negotiated commissions, the client may not receive volume discounts that the Firm's other clients may receive. Thus, there may be a disparity in commission charges among these clients; the client may not receive best execution, or, more specifically, that directed brokerage may result in higher commissions, greater spreads, or less favorable net prices than might be the case if the Firm were empowered to negotiate commission rates or spreads freely, or to select brokers-dealers based on best execution; directed transactions may not be combined or aggregated for execution purposes with orders for the same securities for other accounts managed by the adviser and may be placed at the end of aggregated trading activity for a particular security; and directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the batched order.

Any allocation to brokers considers available prices, commission rates, execution capabilities, research and other services provided by such brokers and dealers

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which are expected to enhance the Company's general management capabilities. Based on these considerations, the Company may cause an account to pay commissions that are higher than those that would be charged by other brokers or dealers. The Company will endeavor to allocate transaction cost to accounts in proportion to the benefits received by the account.

The firm does not receive research or other products or services other than execution from a broker-dealer or any third-party in connection with client securities transactions ("soft dollar benefits"). However, the firm does reserve the right to do so should the benefits to our clients justify their use.

### 13. Review of Accounts

Each portfolio has a written investment policy with the client's objective, tax considerations, income requirements, investment strategy and a benchmark of expected performance.

All portfolios are reviewed monthly. There are two reviewers, the portfolio manager and assistant portfolio manager. Both are Chartered Financial Analysts (CFA's). All portfolios are reviewed in a manner that relates their current structure to their objectives.

DeLaroche and Company, Inc. provides written quarterly reports to each account holder. These reports contain portfolio holdings, transactions since the last report, reconciliation of changes in the portfolio since the last quarter, account and benchmark returns, and portfolio analytics describing the risks in the portfolio.

### 14. Client Referrals and Other Compensation

DeLaroche & Company does not receive any economic benefit from any one who is not a client. Our compensation is our fees from our clients for our investment management services.

DeLaroche & Company does not directly or indirectly compensate for client referrals any person not directly employed by DeLaroche & Company.

Since 1997, DeLaroche has consulted Total Compensation Systems (TCS) regarding the retiree health funding needs of California public agencies, particularly California School Districts. TCS's expertise has been critical to DeLaroche's understanding of those needs and to the way we have presented our investment services to those agencies. To date, TCS has not been



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compensated for this consulting service. When this line of business is successful, it is DeLaroche's intent to make an agreement to provide TCS with compensation for consulting services. That compensation would probably be in the form of a consulting contract, but may be in some other form to be determined by DeLaroche and TCS.

### 15.Custody

DeLaroche and Company, Inc. does not maintain direct custody of any client assets under management. All client assets under management are held by a qualified third-party Custodian designated by the client, either a Bank or brokerage institution. The Custodian provides regular statements of account directly to the account holder.

DeLaroche and Company, Inc. performs a monthly reconciliation of each account's holdings as reported by the Custodian. Any identified discrepancies are resolved immediately. The regular client reporting includes a reconciliation of the holdings as of the end of the reporting period. Clients are urged to review and compare Delaroche's report and the statements provided by the Custodian.

### 16.Investment Discretion

DeLaroche and Company, Inc. accepts discretionary authority to manage securities accounts on behalf of clients. We do so with all funds held by an independent custodian and a written investment policy that describes the investment objective, the strategy that will be used, the benchmark used to measure investment expectation, and the investment horizon over which performance should be measured.

### 17.Voting Client Securities

The Firm's authority to vote proxies of our clients' investments is established by our investment advisory agreements, investment policies and documentation establishing the DeLaroche Core Investment Fund, L.P. The Firm's proxy voting guidelines have been tailored to reflect these specific contractual obligations.

In addition to SEC requirements governing advisers, the Firm's proxy voting policies consider, to the extent applicable, the long-standing fiduciary standards

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and responsibilities for ERISA accounts set out in Department of Labor Bulletin 94-2, 29 C.F.R. 2509.94-2 (July 29, 1994).

DeLaroche and Company, Inc.'s proxy voting procedures are designed and implemented in a way intended to ensure that proxy matters are conducted in the best interest of the Firm's clients.

The Firm's responsibilities for voting ERISA accounts also must consider: the duties of loyalty and prudence, compliance with the plan, as well as a duty to avoid prohibited transactions. The duty of loyalty requires the Firm to exercise proxy-voting authority solely in the interests of participants and beneficiaries and for the exclusive purpose of providing plan benefits to participants and beneficiaries. The duty of prudence requires that proxy-voting authority be exercised with the care, skill, prudence and diligence that a similarly situated prudent person knowledgeable in such matters would exercise. Consistent with Department of Labor guidelines, regardless of whether or not voting is performed pursuant to a statement of investment policy, the Firm will consider only those factors related to the economic value of the plan's investment and not subordinate the interests of participants and beneficiaries to unrelated objectives. The Firm must vote in accordance with the economic interests of the plan. (This does not mean that the Firm is required to maximize short-term gains if such a decision is not consistent with the long-term economic best interest of the participants and beneficiaries.) If the Firm reasonably determines that the cost of voting, including costs associated with research to determine how to vote, exceeds any expected economic benefits of voting, or if the exercise of voting imposes share-blocking or similar restrictions, the Firm has an obligation to refrain from voting.

The Firm has established voting guidelines. Votes on non-routine matters are ultimately cast on a case-by-case basis, taking into consideration the Firm's contractual obligations and fiduciary obligations including its investment management agreement and the investment policy, and other relevant facts and circumstances at the time of the vote.

Any material conflicts of interest are resolved in the best interest of clients. Each non-routine proxy is reviewed for a material conflict between the Firm's interests and those of the client. To resolve any such conflict, the Firm will disclose the conflict to clients and obtain their consent before voting.

DeLaroche and Company, Inc. has established procedures for the voting of proxies. The Firm maintains a database record of how all proxies have been voted.

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The Firm will provide a report detailing how proxies have been voted for an account upon request from the client.

The Firm will provide a copy of its procedures for the voting of proxies to any client upon request.

### **18. Financial Information**

The Firm does not have custody of client funds or securities and we do not require prepayment of more than \$500 in fees per client and six or more months in advance.

### **Appendix 1: Wrap Fee Program Brochure**

DeLaroche & Company, Inc. does not sponsor a wrap program.