



# **Capital One Asset Management, LLC**

**299 Park Avenue, 31st Floor  
New York, NY 10171  
646-836-5299**

**[www.capitalone.com](http://www.capitalone.com)**

**(To access webpage select Investing/Wealth and  
Asset Management/Asset Management)**

**June 20, 2016**

This brochure provides information about the qualifications and business practices of Capital One Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at (713) 212-5242 or (732) 321- 4708. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Capital One Asset Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser may be used by you to determine if you wish to hire or retain an Adviser.

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



## **Item 2 – Material Changes**

This brochure is filed as an amendment to Form ADV, Part 2. The last update was filed with the SEC on March 30, 2016. Since that time, there have been no material changes to the Disclosure Brochure.

*Additional information about Capital One Asset Management, LLC (“COAM”) is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with COAM who are registered, or are required to be registered, as Investment Adviser representatives of COAM.*

Item 3- Table of Contents

	Page
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.....	10
Item 7 Types of Clients.....	11
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss .....	12
Item 9 Disciplinary Information.....	22
Item 10 Other Financial Industry Activities and Affiliations .....	23
Item 11 Code of Ethics .....	24
Item 12 Brokerage Practices.....	26
Item 13 Review of Accounts.....	30
Item 14 Client Referrals and Other Compensation .....	31
Item 15 Custody .....	32
Item 16 Investment Discretion .....	33
Item 17 Voting Client Securities.....	34
Item 18 Financial Information.....	35



#### **Item 4 – Advisory Business**

Capital One Asset Management, LLC ("COAM" or "Adviser") is a Louisiana Limited Liability Company which is an investment adviser registered with the SEC. It is a wholly owned subsidiary of Capital One, National Association ("CONA" or the "Bank"), which is a wholly owned subsidiary of Capital One Financial Corporation (the "Company"), a diversified financial services holding company. COAM was formerly the Trust Investment Department of Hibernia National Bank, which was acquired by the Company in 2005. COAM has provided investment services for over 80 years although it has only been registered with the SEC as an investment adviser since 2001 as part of the enactment of the Gramm-Leach Bliley Act. The Company is a publicly held corporation, traded on the New York Stock Exchange under the symbol COF.

COAM has one client, which is CONA. COAM advises CONA in managing the assets the Bank holds as a fiduciary in its trust and investment management accounts. COAM's services to the Bank include investment policy and asset allocation advice, as well as managing financial asset portfolios. Additionally, COAM provides investment reporting services, such as investment performance reporting, in connection with administrator, trustee, and/or custodian services provided directly by the Bank's Wealth and Asset Management Group.

COAM maintains an inter-company agreement in order to provide investment advisory services to the Bank, while the Bank provides COAM with administrative services, technology support and disaster recovery services under the same agreement.

COAM's primary service arrangement with the Bank involves discretionary management of financial assets. Typically, at the formation of a relationship, COAM and Bank representatives assess the Bank client's investment objectives, risk tolerance, constraints and any unique circumstances.

All relevant factors are documented in an investment policy statement. The Bank's clients may impose certain restrictions upon COAM's activities, and COAM will generally follow these restrictions if it reasonably believes it is in a legally sound position to do so. Certain restrictions may be outside the scope of COAM's practice, in which case COAM and the Bank client must come to an agreement. Once goals and risk tolerance are established, COAM constructs a portfolio designed to meet those objectives, and periodically reports on trading activities and investment results.

When serving clients in a fully discretionary capacity, COAM and the Bank generally have not sought Bank clients who wish to retain investment discretion or share discretion with the Bank.

In order to serve the Bank's clients who wish to retain investment authority rather than delegate it to the Bank, COAM offers non-discretionary investment advisory services. Under such an arrangement, the client retains CONA as custodian while COAM provides non-discretionary investment advice with respect to the account(s). COAM will periodically review the assets and present the Bank's client with recommendations regarding purchases and sales of assets based upon the client's investment objectives. The services are strictly advisory in nature and COAM has no authority to implement any of its investment recommendations without specific instructions from the Bank client.



Investment advisory fees in connection with COAM's services are charged by the Bank as part of a bundled fee for administrative/trustee, investment management and custodial services. These fees are based upon the market value of assets under management, are charged in arrears, and are shown on the Bank clients' statements.

As of December 31, 2015, COAM had approximately \$3,874,702,529 billion in assets under management \$3,837,352,106 billion on a discretionary basis and \$37,350,423 million on a non-discretionary basis.

As a result of the SEC's Municipal Advisor Rule (effective July 1, 2014), if a firm acts as a municipal advisor to a municipal entity or obligated person with respect to certain investment advice, it generally must be registered as a municipal advisor with the SEC and Municipal Securities Rulemaking Board (MSRB). COAM is exempt from registering because it is an SEC Registered Investment Adviser. While COAM has sole discretion to provide investment advice to Bank clients that are municipal entities and obligated persons regarding municipal financial products, they do not provide advice concerning (i) whether and how to issue municipal securities; (ii) the structure, timing and terms of an issuance of municipal securities and other similar matters, or (iii) municipal derivatives.



## Item 5 – Fees and Compensation

COAM is compensated for investment management services through an inter-company agreement with the Bank based upon assets under management.

The fees, described in the schedules indicated below, are charged by the Bank to its clients and are a bundled fee for investment management, trust administration and custody services. Administration and custody services are provided by CONA's Trust department.

### **Fee Schedules are as follows:**

#### **Institutional Equity Management Fee Schedule**

- |                              |            |
|------------------------------|------------|
| • First \$5 Million          | 0.85%      |
| • Next \$5 Million           | 0.70%      |
| • Next \$15 Million          | 0.45%      |
| • Capital above \$25 Million | Negotiable |

Minimum Annual Fee:	\$42,500
---------------------	----------

#### **Institutional Fixed Income Fee Schedule**

- |                               |       |
|-------------------------------|-------|
| • First \$5 Million           | 0.40% |
| • Next \$5 Million            | 0.30% |
| • Next \$15 Million           | 0.25% |
| • Next \$25 Million           | 0.20% |
| • Next \$50 Million           | 0.15% |
| • Capital above \$100 Million | 0.10% |

Minimum Annual Fee:	\$20,000
---------------------	----------

#### **Institutional Ultra Liquid Fee Schedule**

Assets under management must meet or exceed \$10 million to utilize the Ultra-Liquid Strategy.

- |                      |       |
|----------------------|-------|
| • First \$10 Million | 0.20% |
| • Next \$25 Million  | 0.15% |
| • Next \$25 Million  | 0.06% |
| • Above \$60 Million | 0.03% |

Minimum Annual Fee:	\$20,000
---------------------	----------



### Institutional Ultra Short Duration Fee Schedule

Assets undermanagement must meet or exceed \$5 million to utilize the Ultra-Short Duration strategy.

- |                               |       |
|-------------------------------|-------|
| • First \$10 Million          | 0.30% |
| • Next \$15 Million           | 0.25% |
| • Next \$25 Million           | 0.20% |
| • Next \$50 Million           | 0.15% |
| • Capital above \$100 Million | 0.10% |

Minimum Annual Fee:	\$15,000
---------------------	----------

### Investment Management

#### Fixed Income Only:

- |                     |       |
|---------------------|-------|
| • First \$1 Million | 0.55% |
| • Next \$1 Million  | 0.45% |
| • Next \$3 Million  | 0.35% |
| • Next \$5 Million  | 0.30% |
| • Over \$10 Million | 0.25% |

Minimum Annual Fee:	\$5,500
---------------------	---------

#### Equity or Blended Allocation:

- |                     |       |
|---------------------|-------|
| • First \$1 Million | 1.25% |
| • Next \$1 Million  | 0.90% |
| • Next \$3 Million  | 0.80% |
| • Next \$5 Million  | 0.70% |
| • Over \$10 Million | 0.50% |

Minimum Annual Fee:	\$12,500
---------------------	----------

### Infrastructure MLP and Energy Income Portfolio Management Fee Schedule

- |                              |            |
|------------------------------|------------|
| • First \$5 Million          | 0.85%      |
| • Next \$5 Million           | 0.70%      |
| • Next \$15 Million          | 0.45%      |
| • Capital above \$25 Million | Negotiable |

Minimum Investment:	\$500,000
Minimum Annual Fee:	\$4,250



### **Non-Discretionary Investment Advisory Services Fee Schedule**

• First \$1 Million	0.75%
• Next \$1 Million	0.50%
• Next \$3 Million	0.35%
• Next \$20 Million	0.30%
• Capital above \$25 Million	Negotiable
Minimum Investment:	\$1,000,000
Minimum Annual Fee:	\$7,500

### **Pilot Mutual Fund and Pilot Exchange Traded Fund Portfolio Management Fee Schedule**

• First \$1 Million	0.75%
• Next \$1 Million	0.50%
• Next \$3 Million	0.35%
• Capital above \$5 Million	0.30%
Minimum Annual Fee:	\$7,500

### **Pilot Mutual Fund and Pilot Exchange Traded Funds Trust Account Fee Schedule**

• First \$1 Million	1.00%
• Next \$1 Million	0.65%
• Next \$3 Million	0.45%
• Capital above \$5 Million	0.40%
Minimum Annual Fee:	\$10,000

In addition, COAM offers investment management services to Bank's clients whose financial assets are held with custodians other than CONA. In such cases, the fee schedules stated above are still applicable.

#### Additional information applicable to all fee schedules:

- Additional fees for sub-advised portfolio management services by third-party managers will be disclosed separately, if applicable.





- There are additional fund-level fees charged by mutual funds and exchanged-traded funds utilized in the portfolio.
- Brokerage commissions on equity and mark-ups on fixed income trades are charged separately and are not included in the schedule of fees.
- Brokerage commissions are used to pay for qualified brokerage and research services that support COAM's investment decision process and comply with the Securities Exchange Act of 1934, Section 28(e) "Safe Harbor" provisions. Commissions for trade execution of equity and debt securities are discussed in Item 12 of this document.
- Commission charges on equity trades for non-discretionary investment advisory accounts are transacted at execution cost and no soft dollar credits are collected.
- Fees are calculated on the period-end market value and charged on the 15th of the following month.
- CONA reserves the right to review and modify the schedule of fees at any time.



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

Performance-based fees involve charging higher fees when certain performance benchmarks are met. Proprietary side-by-side trading involves the Adviser trading for its own account along with client accounts. COAM does not charge performance-based fees and does not facilitate proprietary side-by-side trading, with respect to COAM trading for its own account. However, see Item 11 below with respect to trading in accounts of employees, or officers of COAM or its affiliates.



## **Item 7 – Types of Clients**

COAM has only one client, the Bank. Pursuant to the inter-company service agreement with the Bank, COAM manages discretionary accounts that the Bank accepts and COAM provides investment advice and trade execution services to non-discretionary investment advisory clients. COAM's services, including offering clients direct interaction with a portfolio manager, are generally designed for accounts with financial assets greater than \$1,000,000.

Accordingly, COAM offers its services through the Bank to the Bank's clients. These clients include the following:

- Individuals
- Banks or thrift institutions
- Corporations
- Retirement Plans
- Endowments
- Foundations
- Municipalities or other public/government entities
- Charitable and Non-Profit Organizations
- Trust and Estates

As stated in Item 4, COAM offers non-discretionary advisory services to Bank clients listed above.



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

### **Asset Allocation Risk: Accuracy in Investment Policy Statements**

COAM advisory services to the Bank includes recommending and/or selecting an allocation of assets among various asset classes and sub-classes that COAM's investment professionals believe are appropriate for the Bank in achieving the stated investment objective of its clients. The specific choices are generally recorded within the Bank client's investment policy statement, which describes the investment objectives and records the client's risk tolerance and return requirements. Also included are any constraints that must be considered in the achievement of these objectives, such as, but not limited to, tax constraints, restriction on security holdings and liquidity requirements.

COAM assists the Bank's client in preparing or updating his/her investment policy statement, and through this process, acts in an advisory capacity to assist in discovering the Bank client's investment objectives and risk tolerance. The conclusions recorded within the document are for the creation of an allocation of assets that is suited to the Bank client's investment objectives and risk tolerance, and provides the discipline necessary to navigate a variety of market conditions with an optimal mix of risk and return.

Occasionally, the Bank client's investment policy must change due to his/her changing personal circumstances which may alter the client's investment objective and/or risk tolerance. At that time, it may be appropriate to restructure the portfolio to align the allocation of assets and securities to the revised investment policy. COAM's portfolio managers are trained to navigate through this process in a prudent manner, considering all market-related fact or sand client circumstances.

### **Asset Allocation Risk: Forecasting Market Returns and Risks**

In establishing recommended asset allocation strategies, COAM must assess the expected returns of asset classes (i.e. common stocks, fixed income securities, cash equivalent securities) and sub-asset classes (i.e. corporate bonds, small capitalization stocks) over the Bank client's investment horizon. In doing so, COAM considers the historical returns, correlations of return with other assets, and risks inherent in the assets, and the likelihood of the returns, correlations and risk levels being different over the relevant investment horizon of the client. Factors that may influence future returns among these asset classes include: the expected growth rate of the economy, whether domestic or global; the stage of the economic cycle; the expectations for acceleration or deceleration in economic activity; the level and direction of interest rates; expectations of monetary, fiscal and tax policies; the influences of currency trends and the global trading environment; an assessment of valuation levels; and the level and trends in corporate earnings, sales and dividends, among other factors.

COAM devotes significant effort to discern risk and return potential in the financial markets in which it operates, knowing that doing so is challenging and subject to error. Recognizing this, COAM imposes limitations on its staff in deviating from asset allocation targets that have historically delivered return and risk levels over long time periods. Assuming these levels of return and risk are a reasonable forecast of the future, constraining the portfolio accordingly would allow clients invested according to the targets to achieve their stated investment objectives. These limits are often stated within investment policy statements, and at a firm-wide level, generally fall within a range no greater than plus or minus



fifteen percent from the long-term target asset allocation. For example, a Bank's client with a balanced asset allocation may have long term allocation targets of 5 percent in cash equivalents, 45 percent in fixed income securities and 50 percent in equities. The limits to the deviation from the target equity position would be 35 percent at the minimum and 65 percent at the maximum. At the sub-asset class level (i.e. international bonds, mid-cap, small-cap equities), the tolerance ranges could be considerably smaller.

To the extent COAM's assessment of market returns and risks are inaccurate over the Bank client's investment horizon, the Bank's client may be unable to achieve his investment objectives and could suffer an investment loss.

## **EQUITY PORTFOLIO MANAGEMENT**

COAM employs various methods and strategies in the management of the Bank's client equity portfolios. Portfolios can be invested in one specific strategy (for example, large US company stocks only), or a blend of strategies providing exposure to both domestic (US) and foreign markets, and including stocks of companies of any size from small to very large. In the absence of specific direction from the Bank's client, equity portfolios are generally broadly diversified across many strategies. These strategies may include Large Cap U.S., Mid Cap U.S., Small Cap Value U.S., Developed International, Emerging Markets and Thematic Equity such as Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs). COAM utilizes proprietary and non-proprietary strategies.

### **Equity Strategy (Style) Allocation**

COAM's Asset Allocation sub-Committee sets the guidelines for allocating the Bank's client accounts among equity strategies (also known as styles). As noted in the Asset Allocation Risk section above, in determining the proportion of the Bank client's portfolio to dedicate to each equity strategy, COAM considers a range of economic and market factors including evaluations of the prospective profitability of broad segments of the market and the respective valuation levels of those segments. Additionally, COAM reviews economic growth prospects both domestically and globally, and the interplay of corporate earnings with those growth prospects. COAM determines the appropriate allocations to be made within the equity portfolio and executes these decisions by overweighting or underweighting various market segments relative to a broad market benchmark index.

### **Proprietary Equity Philosophy**

COAM's equity philosophy, as it relates to strategies managed internally, is based on a core belief that fundamentals<sup>1</sup> ultimately drive stock prices. Within the domestic (U.S.) market, COAM manages separately-managed account (SMA) portfolios of common stocks using a proprietary process that combines two major, complementary components: a fundamental equity evaluation and ranking component, and a risk-controlled portfolio construction component. In evaluating common stocks to determine their candidacy for inclusion in portfolios, COAM focuses on identifying stocks with a superior potential for earnings growth relative to its peers and the valuation level of stocks relative to

<sup>1</sup> Fundamentals in this context refers to the broad set of factors that determine the underlying financial health and growth prospects of a company, industry, economic sector or market. At the company level, the term "fundamentals" generally refers to an assessment of the outlook for revenue and earnings growth and balance sheet condition along with the risks to that growth and health based upon company-specific, industry and even macro-economic factors.



earnings growth potential. COAM relies on a combination of factors for this evaluation that are designed to provide our portfolio managers with the following:

- A view of the near-term and long-term earnings growth prospects of a company relative to peers;
- A view of the quality and reliability of prospective earnings in addition to the price an investor must pay for those earnings, which is reflected in the company's stock price
- Insight into a company's competitive positioning in its industry and its prospects for maintaining or improving that position
- Insight into a company's ability to innovate. Innovation can come in the form of products and services, ways to deliver products and services, or cost containment.

These factors are all considered in combination to avoid an over-reliance on any single factor, which would increase stock selection risk.

The risk-controlled portfolio construction process is designed to minimize or eliminate sources of portfolio risk that COAM believes are unprofitable in the long run. Unprofitable risks are generally categorized as substantial and/or systematic methods of market timing. Examples include excessive rotation of portfolio exposures in and out of industry groups or economic sectors that result in a high rate of portfolio turnover, varying the portfolios focus on growth or value stocks, and varying portfolio exposure to market (or "beta") risk. In constructing portfolios, COAM reviews these sources of risk and attempts to reduce their effect on long-term portfolio returns. Our goal is to minimize exposure to these risks when compared to the benchmark index of the strategy. COAM employs tolerance bands around benchmark characteristics and keeps portfolios' exposures to those characteristics (for example average capitalization) within those tolerance bands.

### **PILOT PORTFOLIO PLATFORM**

The Pilot Portfolios are for accounts designated by COAM to be invested in a uniform manner in terms of the underlying assets and the account's assigned investment objective. Accounts have no material constraints that would restrict COAM's investment discretion. Accounts are managed in groups and track COAM's asset allocation framework to ensure proper treatment of all accounts in the group. These portfolios are constructed using collective investment vehicles (mutual funds and exchanged traded products) in order to achieve sufficient diversification and provide investment management opportunities in stocks, bonds, money markets and alternative investments. Each fund included in the Pilot Portfolio is thoroughly researched and vetted through a rigorous due diligence process designed to identify suitable vehicles that meet COAM's investment standards. The funds selected for Pilot Portfolio accounts follow the third party investment product selection methodology. See page 18 for the detail.

### **ENERGY SECURITY PORTFOLIO MANAGEMENT**

COAM offers proprietary, separately-managed account (SMA) portfolios of energy-related securities. Based upon the mandate of the particular strategy, these securities may include master limited partnership units, common stocks and fixed income securities. COAM offers these as stand-alone strategies when the Bank's client seeks a particular mandate or for inclusion in broader mandate portfolios (such as one option available for accessing a thematic equity class as mentioned in the Equity Portfolio Management section above).

## **Proprietary Energy Security Philosophy**

COAM's energy security philosophy is based, like our equity philosophy, on the belief that fundamentals ultimately drive security prices. As such, in considering securities for potential inclusion in portfolios and in constructing portfolios, COAM examines a number of factors informing the outlook for both stability and growth of distributions from the security:

- **Business Assets & Strategy:** What is the mix of the underlying company's business? What opportunities (including announced plans) and risks does it have going forward? What are the geographic exposures it has currently and prospectively? How effective is the management team likely to be?
- **Financials:** What is coverage of current distributions? What is the nature of the company's debt? What is the company's ability to access additional capital?
- **Valuation:** What is the current yield from the security? What is the security's valuation relative to alternatives including other securities from the same company or similar securities issued by peers? What are the company's prospects for growth relative to this valuation? What are the risks to the security's prospects relative to this valuation?

These factors are considered in concert to provide a broad view of the relative attractiveness of each security considered. These are also considered within the context of the overall macro-economic outlooks for various components of the energy sector, interest rate and other capital market considerations, and evolving political conditions.

In the portfolio construction process, all these inputs are considered with a further goal of providing diversification within the portfolio and to avoid exposing the portfolio to unintended factor risks such as capitalization risk, investment style risk and sector rotation risk. To this end, the portfolio managers examine items such as the portfolio's exposure to various types of sub-industries within the portfolio's mandate, the geographic disposition of underlying company assets, the contribution of current yield versus growth in total return expectations, and liquidity and other market analysis.

Additionally, COAM will generally not invest in new issue equity securities in managed accounts due to the nature of the security evaluation process employed by COAM.

## **FIXED INCOME PORTFOLIO MANAGEMENT**

COAM manages fixed income portfolios on both a passive (buy and hold or laddered maturity) and active basis according to the Bank's client direction and portfolio size. Active management begins with the selection of a specific benchmark index. The benchmark for the Bank's client will reflect the investment horizon, return objective, risk tolerance, and the existence of any specific constraints including bond market sector or quality guidelines. COAM's investment process is designed to create positive excess return to the selected benchmark over the longer term through modest duration adjustments, yield curve positioning, modest to significant variations in sector emphasis and security selection. COAM finds the use of sector and security emphasis particularly useful in sectors such as corporate bonds, mortgage-backed securities, and municipal bonds. In addition, allocations to securities/sectors not included in the benchmark may also be utilized, with limitations, where permissible, to enhance the portfolio's return.

Actively managed strategies employed by COAM may encompass all dollar-denominated investment



grade securities, including but not limited to, US Treasury securities, US Agency securities, Agency Mortgage Backed Securities (MBS), corporate securities, Commercial Mortgage Backed securities (CMBS), and Municipal securities. COAM's strategies target defined maturity and duration ranges and include cash and equivalents, ultra-liquid, ultra-short, intermediate, and long strategies as well as tax-exempt variants. In addition, COAM will opportunistically utilize thematic fixed income strategies, such as high yield corporate bonds, international developed and emerging markets bonds within fixed income portfolios as appropriate, and in cases where such an allocation is desired by the Bank's client. The appropriateness of a particular strategy for the Bank's client is determined at the inception of an account relationship or, in some cases as result of the ongoing review of the client's investment policy as the relationship evolves.

COAM's fixed income investment style is described as sector rotation with limited duration management. The process begins with a thorough assessment of economic conditions including domestic and foreign GDP trends, fiscal policy, monetary policy, credit conditions, inflation expectations, currency trends and commodity prices. The conclusions of this assessment are then used to create a set of expectations regarding future economic and market trends. Based upon those expectations, a set of strategic guidelines are agreed upon that influence how portfolios will be managed. The guidelines relate to areas such as duration/convexity policy, fixed income sector weights, credit quality and a determination of attractive or unattractive sectors of the yield curve. The guidelines are then incorporated into the management of fixed income portfolios, such that portfolios will reflect a common set of characteristics.

Portfolios are constructed to reflect the client-designated benchmark as well as the strategic guidelines described above. Software tools are used to identify the risk characteristics of the benchmark and portfolio managers are responsible for maintaining the proper amount of exposure to those risk characteristics.

The primary risks involved in fixed income investments are:

- Duration - which measures a security's linear price sensitivity to an instantaneous parallel shift in the yield curve (interest rate risk)
- Convexity - which measures the non-linear price sensitivity to an instantaneous parallel shift in the yield curve
- Liquidity risk - the risk that a security will be difficult or impossible to sell; or the cost of liquidating a security in terms of haircut paid relative to the quoted price of a security
- Currency risk - risk of depreciation of the currency in which interest and principal payments are denominated
- Spread risk - which measures the compensation in the form of yield in excess of a risk free rate that an investor demands in order to hold a particular security. Spread risk increases and decreases over time depending on a variety of factors.
- Credit risk - which measures the risk that a creditor will be unable to fulfill its obligations with regards to interest payments and return of principal at maturity.

At the portfolio level, duration and convexity are evaluated in relation to the selected benchmark and are controlled through the application of target ranges around the benchmark's duration and convexity. Liquidity risk is controlled by restrictions on the percentage of a portfolio that can be invested in securities which are deemed illiquid.



Direct currency risk is typically not applicable to our process due to our internal restriction from owning foreign currency denominated securities. The evaluation of indirect currency risk is incorporated into our credit risk controls. Spread risk is influenced by a variety of factors including credit risk, duration, and convexity as well as the business cycle, issuance trends, covenants, market liquidity, and cross-sector risk/reward opportunities. Credit risk is monitored through firm-wide controls that are ratings driven. Proprietary credit research is conducted primarily through the use of models and projections of credit fundamentals<sup>2</sup> and default risk; and third party research and evaluations are also utilized. Credit research prepared by COAM is the primary factor in COAM's corporate bond security selection.

Security analysis is performed on securities other than corporate bonds using appropriate metrics including option adjusted spread, z-spread, libor spread, prepayment shock analysis, cohort analysis, interest rate path analysis, and cumulative default rate projections.

Municipal securities exhibit unique risks that relate to the various types of issuers. The relatively steady and reliable revenue streams associated with essential municipal services, such as electric, water and sewerage services; and the unlimited taxing authority of many municipalities, such high quality municipal issuers have experienced fewer incidents of default than the corporate bond universe. Consideration of the source, reliability, and growth potential of revenue backing each municipal bond are key elements of our security selection and portfolio construction process. Additionally, COAM conducts proprietary municipal credit research, designed to identify municipalities that are responsibly reserving for pension liabilities, and highlighting those that do not for avoidance in security selection. Ratings guidelines are established for new purchases, municipal bond holdings are reviewed regularly, and recommendations are developed by the Fixed Income Strategy Group regarding the advisability of holding securities with ratings that no longer meet our credit standards which are shared with the Investment Policy Committee.

## **ALTERNATIVE INVESTMENT (STYLE) ALLOCATION**

COAM's Asset Allocation sub-Committee sets the guidelines for allocating the Bank's client accounts among alternative investment strategies (also known as styles). When used appropriately, alternative investments can potentially enhance the overall risk-return profile of an investment portfolio. In determining the proportion of the Bank client's portfolio to dedicate to alternative investment strategies the COAM Asset Allocation sub-Committee considers the risk-return targets of the client's assigned investment objective, including growth, liquidity and diversification. Additionally, COAM considers economic and market factors that impact each asset class across the range of asset classes available for inclusion in Bank client portfolios. Alternative investment strategies introduce unique benefits, but also unique risks associated with these investment strategies. COAM determines the appropriate allocations to be made to alternative investments and executes these decisions by overweighting or underweighting across various alternative investment strategies within the context of the client's overall portfolio allocation. These strategies may include diversified commodities, multi-strategy hedge, long/short equity hedge and credit hedge. COAM utilizes private placement and liquid 40 Act registered fund strategies.

<sup>2</sup> "Fundamentals" in the context of fixed income securities focuses on factors that influence the ability of the issuer to meet its obligations to pay interest and principal as required. Factors influencing this are numerous, including the level and trend of debt on the balance sheet, merger and acquisition activity and interest coverage ratios.



### **THIRD-PARTY INVESTMENT PRODUCTS**

To further COAM's goal of adequate diversification of the Bank's clients' portfolios, COAM may rely on third-party investment advisors (or sub-advisors). Third party managers are utilized for diversification purposes and as compliments or supplements to any or all of COAM's proprietary strategies.

#### **Product Selection Methodology for Actively Managed Products/Strategies**

The COAM Investment Solutions Team maintains an "Approved Product Platform", which identifies those products/strategies believed to be qualified within their stated investment style for investment in COAM discretionary managed portfolios. The Investment Solutions Team utilizes a seven step process to identify and recommend products/strategies for approval status consideration by the Investment Product Committee.

##### **Step One: Determine the Universe**

Products/strategies made available through databases within a stated investment style will generally make up the initial population for consideration by the Investment Solutions Team. Products/strategies may also be sourced through recommendations from COAM Portfolio Managers, external analysts or intermediaries as well as managers met through the Investment Solutions Team's participation at investment conferences. The initial population is narrowed through the evaluation of defined characteristics to determine those eligible for further consideration.

In addition, as part of Step One, the Investment Solutions Team will conduct style analysis on the products/strategies included in the initial population. Products/strategies are expected to demonstrate discipline and consistency with regard to the portfolio construction overtime relative to their stated style.

##### **Step Two: Initial Quantitative Ranking**

In an effort to narrow the population further, the Investment Solutions Team will utilize an initial quantitative ranking framework. The process begins with the product/strategy universe identified in Step One. The ranking methodology assigns weights to two broad scoring criteria titled Risk/Return and Returns, each of which include various underlying characteristics weighted in order of importance as determined by the Investment Solutions Team. The Investment Solutions Team will assign a rank to each product/strategy within the population by the broad category.

##### **Step Three: Secondary Quantitative Ranking**

Next, the Investment Solutions Team will narrow the population further starting with the remaining products/strategies from Step Two by applying a secondary quantitative peer comparison ranking. The ranking methodology assigns weights to two broad criteria titled Return Statistics and Risk Statistics. The Investment Solutions Team will rank each product/strategy within its peer group by category.

Based on the results of the ranking, the Investment Solutions Team will select products/ for further analysis.

##### **Step Four: Initial Qualitative Review**



Next, the Investment Solutions Team will perform an initial qualitative review of the products/strategies surviving from Step Three. The following factors are taken into consideration as part of the qualitative review:

- Portfolio Strategy Characteristics
- Manager Tenure
- Expenses

The Investment Solutions Team will classify products/strategies into the three categories as follows: (1) Move Forward, (2) Eliminate, and (3) Conduct additional research. A maximum of 10 total products/strategies will be selected from categories (1) and (3) to move beyond this step.

### **Step Five: Product Call/Preliminary Product Due Diligence Questionnaire**

For those products/strategies that survive Step Four, the Investment Solutions Team will schedule a call or in-person meeting with a Product Specialist, Senior Analyst, and/or Portfolio Manager from each of the products/strategies. The purpose of the product meeting is to clarify information and attempt to acquire additional previously unknown information to be used to complete a Preliminary Product Due Diligence Questionnaire to aide in the completion of the full due diligence process.

### **Step Six: Full Product Due Diligence**

The Investment Solutions Team will conduct a full product due diligence on the selected product/strategy. The Investment Solutions Team will document and assess each of the following (six) criteria:

- Process
- Investment Professionals
- Portfolio Risk
- Organization
- Risk/Reward Performance
- Operations

An optional onsite visit may be conducted.

If the product/strategy passes the full due diligence process, the Investment Solutions Team prepares a product/strategy summary presentation to provide to the Investment Product Committee members for formal approval. Once approved, the product/strategy will be placed on the Approved List and will be eligible for portfolio manager investment in COAM discretionary accounts.

### **Step Seven: Ongoing Monitoring and Review**

The Investment Solutions Team monitors all approved products/strategies regularly and conducts reviews on all approved products periodically, employing a process that includes daily, weekly, monthly, quarterly, and annual duties.

The Investment Solutions Team may recommend a product/strategy to be placed on the Watch List if it is determined that several quantitative and/or qualitative factors have deteriorated. Products/strategies placed on the Watch List are approved products/strategies that are no longer recommended to new and existing discretionary accounts. The Investment Solutions Team will closely monitor and evaluate these



products/strategies on an ongoing basis. The Investment Solutions Team may recommend replacing a product/strategy held in all discretionary accounts if the ETP's quantitative and/or qualitative factors do not improve.

## **Product Selection Methodology for Exchange Traded Products**

In addition to third-party managed products described above, COAM also employs passively managed products, specifically Exchange Trade Products ("ETP"), which are among the fastest-growing investment vehicles in the United States. Most ETPs combine the characteristics of open-ended mutual funds with those of stocks. ETPs can supplement other portfolios, providing exposure to a specific market, market segment or industry. Some ETP benefits include: diversification, liquidity, low expenses and fees, transparency, and tax efficiency.

### **Exchange Trade Product Selection Process**

Supported by the Investment Solutions Team, COAM maintains an "Approved Fund List" that identifies ETPs believed to be the most qualified within their respective investment style. The Investment Solutions Team utilizes a four-step process to narrow down ETPs in a particular investment style to be submitted to the Investment Product Committee ("IPC") for inclusion on the Approved Fund List.

#### **Step One: Determine the Universe**

ETPs available through databases are included in the initial population. This population is narrowed down by several characteristics at the investment style level to be included in the universe. ETPs may also be sourced through third party recommendations from analysts or intermediaries as well as ETP managers met through participation at investment management conferences. Once the investment style is selected and the population is identified, the Investment Solutions Team ensures the ETPs fulfill the desired mandate by analyzing several asset class specific portfolio characteristics and meeting certain criteria including assets under management and averaged daily trading volume.

#### **Step Two: Data Summary**

The Investment Solutions Team will compile and aggregate a database of ETP data points on the determined universe using various research sources. These data points allow the Investment Solutions Team to assess key statistics across the ETP universe.

#### **Step Three: Quantitative Ranking**

In an effort to rank and analyze all ETPs within each specific investment style, the Investment Solutions Team has adopted a quantitative ranking framework. The process begins with the determined ETP universe within an investment style. The ranking methodology assigns overall weights to four broad categories and each of its underlying characteristics based on importance. The Investment Solutions Team ranks each ETP within its peer group by category.

#### **Step Four: Qualitative Review**

The quantitative ranking process provides the Investment Solutions Team with a tool to evaluate ETP's performance and efficiency in order to narrow down the universe to approximately two to five ETPs in



each investment style. The Investment Solutions Team will perform a qualitative review on each of the ETPs selected.

The Investment Solutions Team monitor approved ETPs regularly and performs a quantitative and qualitative review on all approved ETPs quarterly. The Investment Solutions Team may recommend an ETP to be placed on the Watch List if it is determined that several quantitative and/or qualitative factors have deteriorated. ETPs placed on the Watch List are approved ETPs that are no longer recommended to new and existing discretionary accounts. The Investment Solutions Team will closely monitor and evaluate these ETPs on an ongoing basis. The Investment Solutions Team may recommend replacing an ETP held in all discretionary accounts if the ETP's quantitative and/or qualitative factors do not improve.



## **Item 9 – Disciplinary Information**

COAM does not have any legal or disciplinary actions to report.



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

COAM has arrangements with CONA, through the inter-company agreement discussed at Item 4 of this document.

It is COAM's policy to not use Capital One affiliated broker/dealers for executing transactions.

Under the Investment Adviser's Act, employees of COAM are considered "related persons" thereby creating a potential conflict of interest when the employee is allowed to trade for his/her personal accounts the same securities being traded for COAM client accounts. COAM has established written procedures in its Code of Ethics ("Code") that provides restrictions for safeguarding confidential information, reporting and monitoring of personal securities transactions, and prohibiting certain kinds of trading activities. COAM's procedures, including its trade comparison procedures, are reasonably designed to prevent and detect violations of federal insider trading prohibitions. To administer the Code, the Chief Compliance Officer or Chief Investment Officer may interpret the provisions of the Code, adopt and implement rules and procedures, enforce the provisions of the Code and determine whether violations of the Code, or of any such rule or procedures, have occurred. Reports regarding violations of the Code are presented to COAM's Board of Managers.

COAM provides investment manager selection and due diligence services to Capital One Advisors, LLC ("COA"). COAM's due diligence process assists COA with determining the Approved List of individual funds, investment managers and strategies that are made available to COA clients through its investment management platform, Envestnet. COAM utilizes a seven step due diligence process to analyze investment strategies for COA's approved list consideration (refer to Item 8 for further details on COAM's process). The COA Investment Committee makes the final decision to approve those investment managers, mutual funds, exchange traded funds, and managed account strategies that are recommended by COAM to be offered to COA clients.





## **Item 11 – Code of Ethics**

COAM has adopted a Code of Ethics for all of its supervised persons describing its high standard of business conduct and its fiduciary duty to its Client. The Code of Ethics includes provisions relating to the confidentiality of information regarding the Bank's clients; a prohibition on insider trading; restrictions on the acceptance of significant gifts; the reporting of certain gifts and business entertainment items; and personal securities trading procedures, among other things. All supervised persons at COAM must acknowledge the terms of the Code of Ethics annually, or as amended.

COAM anticipates that, in appropriate circumstances, consistent with the Bank client's investment objectives, it will cause accounts over which COAM has management authority to effect, and will recommend for non-discretionary accounts, the purchase or sale of securities in which COAM's affiliates and/or the Bank's clients, directly or indirectly, have a position of interest. COAM's employees, and persons associated with COAM, are required to comply with the Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of COAM and its affiliates may trade for their own accounts in securities purchased or recommended for the Bank's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of COAM employees will not interfere with (i) making decisions or recommendations in the best interest of advisory clients, and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions based upon a determination that such transactions do not interfere with the best interest of the Bank's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading on the same day as client trading activity with respect to certain transactions. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between COAM and the Bank and its clients.

The employees of COAM, its affiliates and its officers and directors, may invest in products managed by COAM or other third party advisors. Additionally, the employees of COAM, its affiliates and its officers and directors may also invest in proprietary funds or accounts in order to facilitate the development of new investment strategies and products. When COAM's or its affiliates' employees hold their account in the same securities as another Bank client's account, this could be seen as potentially harming the performance of a client's account and this can appear as a potential conflict of interest. COAM could be seen as having an incentive to favor its employees' accounts or its affiliates' employees' accounts by, for example, directing its best investment ideas to these accounts or allocating, aggregating or sequencing trades in favor of these accounts, to the disadvantage of other Bank clients' accounts. They could also appear to have an incentive to dedicate more time and attention to its proprietary accounts and to give its employees or its affiliates' employees a better execution and brokerage commissions than its other Bank client accounts. Accordingly, COAM has adopted formal policies and procedures designed to manage and address any conflicts of interest that may arise with such investments. Furthermore, records are maintained regarding the investment and allocation decisions and recommendations made by COAM. Furthermore, the Compliance Advisory Department, supporting COAM, conducts an ongoing review to ensure that violations do not occur and will inform COAM's Board of Managers of the results of any violation and will take appropriate remedial measures, if necessary.





The Bank and its clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Paul Teten, Chief Investment Officer at (713) 212-5242 or [paul.teten@capitalone.com](mailto:paul.teten@capitalone.com) or Marianne Melancon at 504-533-2522 or [marianne.melancon@capitalone.com](mailto:marianne.melancon@capitalone.com) from Capital One Asset Management's website: [www.capitalone.com](http://www.capitalone.com) (select Investing/Wealth and Asset Management/Asset Management).

## Item 12 – Brokerage Practices

### **Broker Evaluations**

In the conduct of investment advisory practice, COAM executes purchases and sales of securities by seeking best execution through *non-affiliated, COAM approved* broker/dealers. COAM's approval process involves an initial assessment of the financial condition of the broker/dealer and the types and quality of its services. Each quarter, COAM associates evaluate the services provided by each broker/dealer across a variety of areas, such as:

- Broker's ability to minimize total trading costs while maintaining financial health
- Broker's level of trading expertise
- Broker's infrastructure
- Broker's ability to provide the unique information or services
- Broker's ability to provide services to accommodate special transaction needs
- Broker's financial condition

Annually, a financial evaluation is conducted based upon the firm's published financial statements.

### **Soft Dollar Services**

Soft dollar services, also known as commission management services, are also an important factor used by COAM to select a broker/dealer. Generally, soft dollar services refer to arrangements where an investment adviser, such as COAM, uses a portion of the brokerage commission from equity trading for the purchase of research, including third-party vendor research, which COAM uses to support its investment decision process. Section 28(e) of the Securities and Exchange Act of 1934 provides a "safe harbor" that permits investment advisers to enter into soft dollar arrangement if the investment adviser determines in good faith that the amount of the commission is reasonable in relation to the value of the brokerage and research services. The types of services purchased through such arrangements include economic analysis, quantitative and fundamental equity analysis, security analysis, market quotation and news services, mutual fund research services, portfolio analysis, and decision support tools.

Soft dollar products/services are used only for discretionary accounts. COAM continually evaluates these services in comparison to other available research services to ensure commissions are used appropriately and that the use of such services is in compliance with COAM's fiduciary duty to achieve best execution for its clients. COAM utilizes a standard commission rate for all trades. Soft dollar or commission management arrangements result in higher commission levels for Bank clients than if COAM paid brokers only for trade execution and purchased all research services directly. Currently, the commission rate is \$0.05 per share on equity trades in discretionary accounts. In general, approximately 1.37 cents to 1.5 cents per share is attributable to execution cost, with the remainder allocated to COAM's Soft Dollar research pool.



To the extent that COAM could perform more research in-house rather than purchase it from third-parties, or purchase more research directly, commissions could be reduced to less than \$0.05 cents per share, reducing overall client costs. COAM mitigates this conflict by actively monitoring the research services purchased and the vendors who provide the service through its Trading Oversight Committee. Evaluations are performed annually by the portfolio managers and COAM management to identify the usage, satisfaction for each service and the cost of the service.

The dollars accumulated from such arrangements are exclusively from equity trading. However, soft-dollar benefits are not proportionally allocated to any accounts or any particular account type. Some managed client accounts receive soft-dollar benefits though they may not have generated soft-dollar benefits through trading activity.

COAM utilizes vendor services that are both research and non-research related, referred to as "mixed use vendors". COAM makes a good faith effort to allocate costs for such vendors between its hard dollar and soft dollar budgets based upon analysis of the anticipated use of the product or service through COAM's use of an internal survey. Payment for non-research items are allocated to COAM's hard dollar budget. Mixed use allocation decisions are memorialized in a soft dollar budget and presented to the Trade Oversight Committee on a quarterly basis. Allocations are also reviewed by the Director of Investments and the Chief Compliance Officer annually, to ensure the payments made for research and non-research items were made in accordance with COAM's allocation decisions. If invoices are reallocated from soft dollars to hard dollars, the payment reallocation is reviewed by the Director of Investments or the Chief Investment Officer and the Chief Compliance Officer to ensure all reallocated payments are made in accordance with COAM's policies.

COAM uses sub-advisors for client portfolios in certain asset classes and styles, such as international large cap equity. The sub-advisor is responsible for all management and trading decisions within these accounts. Trading commissions on sub-advised equity accounts are negotiated with the sub-advisors' approved brokers at a rate of one cent per share. COAM receives no benefits from these commissions.

COAM's policy is to disclose the general nature of products and services purchased with brokerage commissions. Eligible product categories employed are:

- U.S. and global Economic analysis
- Quantitative equity services
- Equity Research
- Quotation services and fundamental securities data
- Portfolio analysis and decision support tools

## **Trading**

### **Equity Trading**

The primary factor in evaluating a broker/dealer's service to COAM is the quality of execution of security transactions on behalf of Bank clients. In selecting a broker/dealer for a particular trade, the ability for COAM to provide "best execution"<sup>3</sup> is the primary determinant. COAM conducts post-trade evaluation of equity trade execution on a regular basis and reports quarterly to its Trading Oversight Committee. Trades are selected on a sampling basis. Testing includes comparing COAM's trade execution prices to other trade execution prices around the same time period using the Bloomberg Professional service. Such analysis is one factor for informing the Trading Oversight Committee on the capabilities and service level of each broker's trading desk.

### **Fixed Income Trading**

The primary factor in evaluating a broker/dealer's service to COAM is in the execution of security transactions on behalf of Bank clients. COAM's trading desk generally conducts its fixed income trading on a competitive basis to help ensure "best execution". COAM also conducts post-trade evaluation of fixed income trade execution on a regular basis and reports quarterly to its Trading Oversight Committee. Trades are selected on a sampling basis. Testing includes comparing COAM's trade execution prices to other trade execution prices around the same time period using the Bloomberg Professional service. Such analysis is one factor in informing the Trade Oversight Committee on the capabilities and service level of each broker's trading desk.

Other services that influence the selection of broker/dealers for fixed income trading include the proprietary research available from the firm. COAM has determined that certain proprietary dealer research is valuable to its investment decision process, and that it is beneficial to the management of Bank client accounts. In certain cases, COAM may execute trades through broker/dealers which are not at the best price available, but which help ensure access to valued research content. This practice may create a conflict between the short-term interest of the Bank client and the interest of COAM in accessing research for the benefit of a larger group of clients. However, such trade allocation decisions are consistent with the concept of "best execution" since the research is a tool employed to enhance investment results through better trading decision within client portfolios. COAM may accumulate funds for the purchase of research services from a portion of the dealer concession related to newly-issued U.S. government agency securities. The accumulation of such funds has no impact on the price or yield received by discretionary accounts for the securities purchased under such arrangements.

COAM typically executes fixed income trades as agent in the over-the-counter market, paying no commissions and executing between the bid and asking price for a bond. On rare occasions, COAM will pay a commission to sell a hard to place security. Occasions warranting such trades include:

- Odd-lot municipal bond sales
- Municipal bond sales for securities issued outside of the bank's trade area
- Trades in which initial attempts to seek bids result in a lack of interest or apparent poor prices

<sup>3</sup> "Best execution" refers to the obligation of the advisor to conduct its trading operations for managed portfolios in a manner that is designed to ensure that prices received for the security orders reflect an optimal mix of price improvement, speed of execution and likelihood of execution.



Commissions charged on agency fixed income trades will vary based on numerous factors including the size of the order and the specific characteristics of the security, including its quality, marketability, and liquidity.

COAM will invest in shares of a new-issue bond having considered the following:

- The appropriateness of the security given the client's investment objective,
- Liquidity in the account, and,
- The ability of the account to hold the security given negotiability constraints, trading constraints, and diversification requirements.

### **Trade Execution**

COAM conducts no trades with firms affiliated with Capital One Financial Corporation or its subsidiaries. In selecting approved broker/dealers or in allocating trades, COAM does not consider, nor does it inquire into, whether a broker/dealer conducts any other business with Capital One affiliates.

Bank clients may direct COAM to use a particular broker/dealer to execute transactions for their accounts. In such event, the client negotiates terms, and COAM will not seek better execution from other broker-dealers. As a result, a client may pay higher commissions or other fees for the account than would otherwise be the case.

COAM shall make every effort to create block trades where feasible in order to treat all the accounts employing similar strategies equally. Multiple executions of the block trade will be averaged so that each account receives the same average price. If the entire block is not fully executed on the day it is submitted, COAM pro-rates the executed shares or units among the participating accounts according to the size of the order for each account.

Exception to block order pricing:

- Small orders/odd lots deemed impractical to precisely pro-rate the executed shares or units
- Non-negotiable allocations of bond trades

Trades entered electronically through the trading system are executed in the order they are received by the trading system. Should orders for the same security be entered electronically by different portfolio managers on the same day, a block trade may not be created because the trading desk may not be aware that the opportunity exists to create a block trade. Portfolio managers are encouraged to seek opportunities to create block trades among accounts assigned to different managers. However, this is not required.

When prioritizing orders for execution, COAM enters orders for security transactions for accounts with sole investment authority. For accounts requiring co-fiduciary approval, COAM enters those orders once the approval has been obtained.



### **Item 13 – Review of Accounts**

An initial and annual investment review is conducted by the assigned Portfolio Manager for all managed Bank client accounts. An initial investment review is conducted within 60 days of an account being substantially funded (defined by having at least 90% of the targeted assets in the account). Thereafter, investment reviews are performed on accounts each calendar year. The annual review is automatically triggered by CONA's trust accounting system based upon the month of when the initial investment review is completed.

The review of accounts is influenced by the portfolio managers' expertise and knowledge of the Bank client's investment policy governing the account within the context of the decisions and guidance regarding investment strategy at the firm level. The strategy decisions in the areas of asset allocation and broad aspects of strategy are determined by the Investment Policy Committee ("IPC" or "Committee"), consisting of the Chief Investment Officer, Director of Investments, Senior Director of Equity Portfolio Management, Performance Team Director, Chief Compliance Officer, Director of Investment Solutions, and chaired by the Director of Investments. Investment strategy within fixed income portfolios are guided by the fixed income strategy team, overseen by the IPC. Firm-wide decisions regarding the allocation of assets to cash equivalents, equities, fixed income and various sub-classes within each are set by the Asset Allocation sub-committee within the IPC. The Committee's decisions directly affect the allocation of assets for each of COAM's standard investment objectives. The Annual Investment Review serves to confirm the account is allocated within the ranges prescribed by the IPC for the particular investment objective.

Initial and Annual Investment Reviews include: a review of the individual securities held in the account to confirm they are on the firm's approved securities list, and a review of the percent of each security in relation to the overall market value of the account to confirm the account does not hold more than 10% of a single security. If a true concentration is identified, portfolio managers must put a diversification plan in place to reduce the holding or confirm that the file contains direction from the Bank's client to continue to hold the concentration.

All investment reviews are subject to a second review and approval by a senior portfolio manager. Relationships over \$2,000,000 and all new accounts are presented to the monthly COAM Administrative Committee for discussion.



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

COAM does not compensate its employees for referrals. However, in some instances, CONA may compensate its employees for referrals to the Wealth and Asset Management business.

CONA's incentive compensation programs for business sourced or referred to Wealth and Asset Management by employees of the bank are as follows:

### Wealth and Asset Management Associates:

Wealth and Asset Management Specialists ("Specialists") - The incentive compensation payout for Specialists is 43% of the estimated first year fees for Wealth and Asset Management services when there is a continuous income stream and 15% for one-time fees.

### Revenue Sharing Agreement:

CONA participates in a revenue sharing arrangement with Capital One Advisors, LLC, ("COA"), formerly known as Capital One Financial Advisors, LLC ("COFA"), and a subsidiary of Capital One Financial ("COF"). The arrangement is based on COA's Financial Advisors or other associates referring potential or existing clients to CONA and CONA agreeing to provide services. As compensation for the referral from COA, CONA agrees to compensate COA one-half, or 50%, of the regular asset based fee it collects from the client so long as the account remains with CONA. The payments are made directly to COA and not directly to the Financial Advisors. CONA will not compensate COA for fees that are not regular or asset based, such as termination fees or tax preparation fees.



## **Item 15 – Custody**

COAM does not maintain custody of any of the Bank's client assets. However, CONA, as administrator, trustee and/or custodian, in most cases, maintains custody of client assets. As custodian, the Bank sends at least quarterly and annual statements to all discretionary accounts listing assets, current market value and all transactions for the current period.

As a wholly owned subsidiary of CONA, COAM is subject to a surprise audit under Section 206(4)-2 of the Adviser's Act. COAM engages an independent accounting firm to conduct the examination and reconciliation of assets held by the custodian. COAM's surprise audit was completed in the 4<sup>th</sup> quarter of 2015 and filed with the Securities and Exchange Commission on November 19, 2015.





## **Item 16 – Investment Discretion**

COAM's primary service arrangement in connection with the Bank's clients involves discretionary asset management. Under this arrangement, COAM will make daily investment management decisions with consideration given to the investment objective and any special instructions detailed in writing in the client's Investment Policy Statement.

When having full discretion, COAM will act in a fiduciary capacity exercising proper due diligence in accordance with the prudent investor rule. In order to facilitate the effective management of an account with full discretion, the Bank is expected to notify COAM promptly of any significant changes to its client's investment objective, risk tolerance, liquidity needs, legal or tax status. By assigning full discretion to COAM, the Bank indicates that, in the interest of effectiveness and time sensitivity, investment decisions will be made without first consulting the client.

Unless otherwise agreed to by COAM, decisions, including selling or purchasing securities, rebalancing an account, proxy voting, and the investment and reinvestment of the assets in the Bank client's account are covered under a full discretion arrangement. Under this arrangement, COAM also has full responsibility for managing, reinvesting and rebalancing Bank's client portfolios, monitoring maturities, calls, dividends, bonus or rights issues, tender offers and other corporate actions to ensure all benefits accrue to the Bank's clients.

In rare instances, Bank clients may impose certain restrictions upon COAM's activities, and COAM will generally agree to follow the restrictions if it believes it is in a sound position to do so and that it serves the client's best interests. Certain restrictions may be outside of COAM's practice, in which case COAM and the Bank client must come to a mutually agreeable decision.



## Item 17 – Voting Client Securities

### CAPITAL ONE ASSET MANAGEMENT, LLC PROXY VOTING POLICY

COAM acknowledges that among its duties as a fiduciary to CONA is the obligation to protect the interests of the Bank's clients by voting the shares held in the Bank clients' accounts. To ensure shares are voted in all appropriate circumstances, COAM will exercise voting discretion under all shares unless voting discretion is specifically reserved for Bank's client or assigned to a third party. COAM has determined that in order to efficiently and uniformly vote proxies; it will retain the services of Glass Lewis & Co. to make recommendations to each proxy vote. Additionally, absent a contrary instruction from COAM with respect to a given proxy vote, COAM has instructed Glass Lewis & Co. to vote each proxy in accordance with recommendations it may make in accordance with its proxy voting policy which COAM has adopted. In instances where COAM reasonably believes that a contrary vote would be in the best interests of the Bank's client in a given circumstance, COAM will override the recommendations of Glass Lewis & Co. A copy of COAM's proxy voting policy can be obtained by contacting Paul Teten, Chief Investment Officer at (713) 212-5242 or [paul.teten@capitalone.com](mailto:paul.teten@capitalone.com) or Martin Sirera at 504-533-3327 or [martin.sirera@capitalone.com](mailto:martin.sirera@capitalone.com) or from Capital One Asset Management's website: [www.capitalone.com](http://www.capitalone.com) (select Investing/Wealth and Asset Management/Asset Management).

### GENERAL STANDARDS AND APPROACH

In general, COAM has determined that it is in the best interests of the Bank's clients to vote their shares to promote alignment of the interests of an issuer's corporate management with the interests of its shareholders, to improve the accountability of corporate management to its shareholders, to reward good performance by management, and to approve proposals that COAM believes will result in financial rewards for its clients. To the extent that the interests of COAM conflict with the interests of the Bank or its clients, COAM will cause proxies to be voted solely in furtherance of the interest of the Bank's clients. In those instances, COAM will cause all proxies to be voted strictly in accordance with the recommendations of Glass Lewis & Co. determined pursuant to the Policy, without regard to COAM's actual or perceived interests.

COAM maintains a Proxy Committee ("Committee") responsible for the oversight of the proxy voting process. The Committee's duties include reviewing proxy issues as they arise, monitoring the recommended vote from Glass Lewis & Co., and, in instances where COAM reasonably believes that a contrary vote would be in the best interests of the Bank's clients in a given circumstance, documenting and approving the contrary vote, and monitoring the vendor's voting process and performance.



## **Item 18 – Financial Information**

Capital One Asset Management, LLC is a wholly owned subsidiary of Capital One, N.A., which is a wholly owned subsidiary of Capital One Financial Corporation.

There is currently no financial condition that is reasonably likely to impair COAM's ability to meet contractual commitments to the Bank.