

## **Form ADV Part 2A Firm Brochure**

### **Item 1 Cover Page**

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**This brochure provides information about the qualifications and business practices of Golden Capital Management, LLC. If you have any question about the contents of this brochure, please contact us at 704-593-1144 or [info@gcm1.com](mailto:info@gcm1.com). 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.**

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

**Registration with the SEC does not imply a certain level of skill or training.**

## **Item 2 Material Changes**

This Golden Capital Management, LLC (“GCM”) Form ADV Part 2A (the “Brochure”) replaces the Form ADV Part 2A dated April 13, 2012 (the “April 2012 Brochure”). Changes to this Brochure from the April 2012 Brochure include the renaming of certain investment strategies that GCM offers to clients and the addition of three new investment strategies. These changes, including information about the new investment strategies, may be found in Items 5 and 8 of this Brochure.

This Brochure is available without charge. You may request a copy of the Brochure by contacting Golden Capital Management, LLC at 704-593-1144. Our brochure is also available on our web site at [www.gcml.com](http://www.gcml.com).

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#### **Item 4 Advisory Business**

Golden Capital Management was initially organized in 1999 as a division of Smith Asset Management Group. In December 2000, the firm began doing business as Golden Capital Management, LLC, a separate limited liability company and SEC-registered investment adviser (“GCM”). The owners of GCM are GCM Partners, Inc. (35%), which is owned by Greg W. Golden, Jeffrey C. Moser, and Jonathan W. Cangalosi, and Wells Fargo Bank, National Association (“Wells Fargo Bank”) (65%), which is owned by Wells Fargo & Company, a publicly-traded financial services company. GCM Partners, Inc. is the managing member of GCM.

In October 2011, GCM, pursuant to an agreement with Wells Capital Management Incorporated (“Wells Cap”) and GCM Partners, Inc., acquired certain assets, advisory contracts and team members of the Global Strategic Products business from Wells Cap in exchange for the issuance of an additional 20% equity interest in GCM. In connection with the transaction, GCM established an office in Boston, Massachusetts.

GCM provides discretionary and non-discretionary investment advisory services to individuals, pension plans, institutions, investment companies and other types of clients. GCM’s non-discretionary services include providing securities ranking information and/or model portfolios to other investment advisers, including one or more affiliated investment advisers. GCM offers several domestic and international equity investment strategies, each of which is invested primarily in exchange-listed equity securities.

In general, GCM manages accounts invested in the same investment strategy in a similar manner. For example, client accounts invested in GCM’s Large Cap Core strategy will typically be invested in the same securities, subject to limited exceptions. Clients may impose restrictions on GCM with respect to investing in certain securities or types of securities. When restrictions are imposed by a client, GCM may invest the “restricted” portion of the account in exchange-traded funds (commonly known as “ETFs”).

In general, GCM avoids investments in initial public offerings and private placements. With respect to certain of its investment strategies (i.e., Large Cap Core, Mid Cap Core, SMID Cap Core and Small Cap Core), GCM generally avoids investments in issuers for which the primary industry classification is alcohol, gaming or tobacco.

GCM provides investment advisory services in connection with various managed account programs, including, but not limited to, “wrap” account programs and model-portfolio programs. A wrap account program is an advisory program under which a fee not based directly upon transactions in a client’s account is charged for investment advisory services and the execution of client transactions. Under managed account programs, the sponsor typically provides certain services to the clients in the program, including assisting the client in selecting one or more investment advisers and/or investment strategies based on the client’s investment objectives, brokerage, custody and other account services. Investment advisers, such as GCM, typically provide portfolio management services, which may include providing a model portfolio to the program sponsor. With respect to securities purchased and sold for wrap account program clients, GCM generally manages such accounts in the same manner that it manages other accounts pursuing the same investment strategy. In model-portfolio programs, GCM typically provides a model portfolio to the program sponsor, and the program sponsor will typically direct the execution of

trades on behalf of program participants. GCM periodically communicates model portfolio changes (e.g., buy and sell decisions) to the program sponsor.

GCM typically relies on the managed account program sponsor to determine that the program is suitable for its clients. The amount of client-specific information received by GCM from such program sponsors varies, and program participants are encouraged to discuss program and investment suitability matters with their program's adviser and/or sponsor. (With respect to model-portfolio programs in particular, GCM does not typically receive any client-specific information.) Based on the information provided to it by the program sponsor, GCM will confirm that the investment strategy selected by a particular client appears to be suitable for the client. GCM does not, however, evaluate whether any particular client would, for example, be better off paying for brokerage execution and investment advice separately.

Managed account program fees, trading procedures and minimums vary and are generally determined by the program sponsor. Program sponsors typically pay a portion of the program fee paid by the client to GCM for the investment advisory services that it provides in connection with the particular program, although in certain programs, the client may pay GCM directly. A detailed description of fees, services and other features of the specific managed account programs in which GCM participates can be obtained from the sponsor of the specific program or from Schedule H of the sponsor's Form ADV.

As of December 31, 2011, GCM managed approximately \$6.6 billion on a discretionary basis and approximately \$520 million on a non-discretionary basis.

#### **Item 5 Fees and Compensation**

GCM's investment advisory fees for separate account management are typically stated as a percentage of assets under management and payable quarterly, in arrears. GCM typically sends an invoice to clients within 15 business days after quarter end. Fees may be paid directly to GCM by the client or may be paid from the client's custodial account based on arrangements agreed upon by the client and the client's custodian. Custodians may not independently validate the amount of GCM's fee, and clients are encouraged to review their custodial account statements. Fees are typically based on the market value of the account (including cash equivalents and accrued income) as of the close of each calendar quarter. Fees are prorated at inception and termination for the number of days under active management in the quarter. Fees may be adjusted on a time-weighted basis for changes to the value of the account due to material contributions or withdrawals during the quarter.

GCM provides model portfolios and securities ranking information to an affiliated investment adviser that uses the portfolios and rankings information in connection with the provision of investment advisory services to its clients. The fees paid to GCM under those and similar circumstances are negotiated on a case-by-case basis.

GCM serves as investment adviser to several mutual funds. The fees paid to GCM for mutual fund advisory services are negotiated on a case-by-case basis.

GCM's stated fee schedule for the strategies that it currently offers is set forth below. In general, GCM's fees are negotiable, and GCM is willing to enter into performance fee arrangements. Subject to exceptions, GCM's minimum account size for separate account management is \$5 million. Different fees

and minimums apply for wrap account program clients. When considering account-level advisory fees, clients should be aware that client accounts invested in investment company securities (e.g., exchange traded funds) will also bear their proportionate share of fees paid at the investment company level. GCM's investment advisory fee will not be reduced under such circumstances.

In addition to advisory fees paid to GCM, a client will pay other fees and expenses in connection with the account. For example, GCM clients (non-wrap program) will typically pay brokerage commissions and any other transaction charges associated with buying and selling securities. See Item 12. In addition, most clients will pay fees and expenses associated with the provision of custody services for their account. See Item 15. GCM does not receive any of these non-advisory service fees (e.g., brokerage commissions and other transaction charges, custodial fees, transfer taxes or sales loads or similar charges).

#### **FOCUSED STRATEGIES:**

##### **Large Cap Core**

0.60% - all assets

##### **Mid Cap Core**

0.65% - all assets

##### **SMID Cap Core**

0.75% - all assets

##### **Small Cap Core**

0.80% - all assets

#### **DOMESTIC ENHANCED INDEX STRATEGIES:**

##### **Enhanced Large Cap**

0.40% - all assets

##### **Enhanced U.S. Large Equity**

0.25% - all assets

##### **Enhanced U.S. Equity Market**

0.40% - all assets

##### **Enhanced Small Cap**

0.50% - all assets

## **CONVENTIONAL INDEX STRATEGY:**

### **S&P 500 Equity Index**

0.07% - first \$100 million

0.03% - all over \$100 million

## **SPECIALIZED STRATEGIES:**

### **Extended Alpha**

0.80% - all assets

### **Dividend Income**

0.60% - all assets

## **INTERNATIONAL STRATEGIES:**

### **Enhanced International Equity**

0.50% - all assets

### **Global Equity Yield**

0.70% - first \$50 million

0.60% - next \$50 million

0.50% - all over \$100 million

### **International Small Cap**

0.90% - first \$50 million

0.80% - next \$50 million

0.70% - all over \$100 million

### **Emerging Markets**

0.85% - first \$50 million

0.75% - next \$50 million

0.65% - all over \$100 million

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

GCM accepts performance-based fees for a small number of clients. GCM portfolio managers may manage both accounts that are charged a performance-based fee and accounts that are charged asset-based fees. Conflicts of interest arise in circumstances where the firm and/or a portfolio manager manages accounts that charge performance-based fees and accounts that charge other types of fees (e.g., asset-based fees) because the firm and/or portfolio manager have an incentive to favor the accounts that pay a performance-based fees. For example, GCM could be in a position to earn more in investment management fee revenue if it were to allocate more profitable trading opportunities to its performance-

based fee accounts rather than its asset-based fee accounts. Similarly, GCM could favor one group of similarly-managed accounts over another group of similarly-managed accounts by consistently trading one group of accounts prior to trading the other group of accounts. GCM has developed procedures that are intended to ensure that all accounts are treated fairly and to prevent this potential conflict from influencing the allocation of investment opportunities among clients.

GCM policy prohibits any trade allocation practice whereby GCM's proprietary accounts, affiliated accounts, or any particular client(s) or group of clients receive more favorable treatment than other client accounts. GCM seeks to assure that trades on behalf of different client groups involving the same security are executed in a fair order and that no client is unfairly disadvantaged over the long term. In that regard, trades for securities that are held in multiple accounts that can be traded together (i.e., the same "client group") are "blocked" (aggregated) for trading. All accounts within the block receive the same execution price, and shares are allocated pro-rata based on pre-trade order amounts. When needed, GCM typically relies on a random order generator to determine the order in which client group trading takes place (or, in the case of certain model portfolio programs, the order in which model recommendations are communicated). Whenever trades are effected on a rotational basis, there exists the possibility that any particular client group will receive a higher or lower execution price than another client group in the rotation. GCM may, in its discretion, trade client groups (or communicate recommendations) in an order that differs from the order determined by the random order generator for operational reasons if program size or other factors suggest that the affected client groups will not be unfairly disadvantaged. In certain cases, GCM may send common trades for different client groups to different brokers for execution at the same time. Simultaneous execution may be appropriate, for example, when a trade for one client group is of limited size.

#### **Item 7 Types of Clients**

GCM provides discretionary and non-discretionary investment advisory services to individuals, pension plans, institutions, investment companies and other types of clients. GCM clients may include affiliates of GCM, including without limitation, Wells Fargo Bank and Wells Fargo Advisors, LLC. As noted above, in addition to providing investment advisory services through managed separate accounts, GCM provides investment advisory services in connection with several managed account programs, including wrap fee and/or model-portfolio programs. Subject to exceptions, GCM's minimum account size for separate account management is \$5 million. With respect to managed account programs, GCM's minimum account size requirements vary. In general, managed account program minimums are less than GCM's separate account minimum account size.

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

A. GCM provides advisory services primarily with respect to equity securities, and all of GCM's investment strategies invest primarily in equity securities that are listed on U.S. or foreign stock exchanges. At the core of GCM's investment decision making processes are quantitative models that it relies on in making securities buy-sell recommendations and constructing portfolios. GCM uses these models to evaluate thousands of publicly-listed equity securities.

In general, our stock selection models apply concepts rooted in fundamental analysis. The models assess companies with regard to, among other things, valuation, earnings, and quality; and that assessment is



translated into rankings/scores that identify companies as relatively more or less attractive than others. GCM believes that a company with a better ranking is more likely to outperform – on a total return basis – another company with a lower ranking, all things being equal. Accordingly, GCM’s investment process is designed to construct portfolios that are typically overweighted in higher-ranked companies, and underweighted in lower-ranked companies. All of GCM’s investment strategies involve the risks generally associated with investing in equity securities. The market value of equity securities fluctuates, and investing in equity securities involves risk of loss. Security values may decline for a number of reasons, including those that relate to the particular issuer of the security, as well as those that relate to the broader stock market. All GCM clients should be prepared to bear the risks associated with investing in equity securities.

B. GCM’s investment strategies include focused, domestic enhanced index, conventional index, specialized and international strategies. GCM’s focused strategies include: **Large Cap Core (LCC)**, **Mid Cap Core (MCC)**, **SMID Cap Core (SMID)**, and **Small Cap Core (SCC)**. GCM’s domestic enhanced index strategies include: **Enhanced Large Cap (ELC)**, **Enhanced U.S. Large Equity (EULE)**, **Enhanced U.S. Equity Market (EUEM)**, and **Enhanced Small Cap (ESC)** (formerly known as Disciplined Small Cap Equity). GCM’s conventional index strategy is the **S&P 500 Equity Index**, and the specialized strategies are **Extended Alpha (EA)** and **Dividend Income (DIV)**. GCM’s international strategies include: **Global Equity Yield (GEY)**, **International Small Cap (ISC)**, **Emerging Markets (EM)** and **Enhanced International Equity (EIE)** (formerly, known as Disciplined International Core Equity).

The material risks involved with these strategies are those that are typically associated with investments in equity securities. GCM strategies invest primarily in equity securities that are listed on U.S. or foreign stock exchanges, and GCM’s advised accounts are typically fully exposed to such equity securities, with the exception of approximately up to 3% that is typically held in cash and/or money market funds. Focused strategies tend to be more concentrated than the enhanced index, specialized or conventional index strategies (i.e., they typically invest in fewer securities).

All of GCM’s investment strategies may invest in small and/or medium capitalization companies, and each of the SCC, SMID, MCC, ESC and ISC strategies invest a majority of its assets in small and/or medium capitalization companies. The GEY, ISC, EM and EIE strategies invest in foreign securities (i.e., securities that are not listed on a U.S. exchange) and may invest in exchange traded funds (ETFs) that invest in foreign securities or commodities. Investments in these types of securities present various additional risks, including those that are described in more detail below.

Each GCM investment strategy has a particular performance benchmark (e.g., S&P 500 Index), but there can be no assurance that a strategy’s performance will exceed or equal that of its performance benchmark or that its performance will be positive for any given period of time. GCM makes no guarantees with respect to any account’s performance.

GCM believes that when the equity market is driven by fundamental considerations, the GCM models are likely to be predictive of relative stock price movements. There are conditions in which GCM’s fundamental models are less likely to be predictive of relative stock price movements, and during such times, the performance of GCM’s investment strategies is more likely to trail the performance of their respective benchmarks. Such conditions include highly speculative market environments, periods when

there are shocks to the financial or economic systems, and market environments where a very narrow sub-segment of the market (e.g., stocks from a particular sector or industry) dominates. While GCM seeks to invest in equity securities that will appreciate in price, there is always a risk that security prices will go down. The market price of securities held by any account may decline due to factors affecting (i) securities markets generally, (ii) particular industries and/or (iii) particular companies (commonly referred to as “issuer risk”), among other factors. Securities markets can be volatile, and especially during periods of volatility, the prices of securities of a particular company may be negatively impacted, even in the absence of degradation in the financial conditions or prospects of that company.

C. As noted above, all of GCM’s investment strategies invest primarily in equity securities that are listed on U.S. or foreign stock exchanges. The material risks associated with investing in such securities are described above. Clients and prospective clients should be comfortable with assuming these risks.

All of GCM’s investment strategies may invest in small and/or medium capitalization companies, and each of the SCC, SMID, MCC, ESC and ISC strategies invests a majority of its assets in small and/or medium capitalization companies. (For these purposes, small and/or medium capitalization companies may include companies with market capitalizations that are less than approximately \$15 billion.) Investing in small to medium size companies can have more risk than investing in larger, more established companies. The securities of small companies are frequently traded in lower volume and, as a result, they may be less liquid than the securities of larger, more-established companies. Further, for a variety of reasons, smaller capitalization companies are more likely to experience changes in earnings and growth prospects than larger, more established companies. For these and other reasons, the prices of small and medium capitalization securities can fluctuate more significantly than the securities of larger companies.

All of GCM’s investment strategies may invest in shares of exchange traded funds (ETFs). ETFs are pooled investment vehicles (funds) that invest in underlying securities or financial instruments. As pooled investment vehicles, ETFs typically pay fund-level investment advisory and other operational fees. Accordingly, clients should understand that the fees paid by ETFs to their respective service providers are in addition to the fees that are charged by GCM for its investment advisory services. These fees are charged without regard to the performance of the ETF. In addition, shares of ETFs may trade at, above or below their net asset value. Accordingly, the price that a seller of shares receives may be less than the net asset value of their shares. The risks of particular ETF structures and the investments in which they invest are typically described in the ETF’s prospectus.

The EIE, ISC, GEY and EM strategies invest in foreign securities and may invest in shares of ETFs that invest primarily in foreign securities. Foreign investments may be subject to more risks than U.S. domestic investments. These additional risks may include lower liquidity, greater price volatility and risks related to adverse political, regulatory, market or economic developments. In addition, amounts realized on sales or distributions of foreign securities may be subject to relatively high levels of foreign taxation and withholding when compared to comparable transactions in U.S. securities. Investments in foreign securities involve exposure to changes in foreign currency exchange rates. Foreign investments are also subject to risks including trade settlement, custodial, and other operational risks, as well as potentially less stringent investor protection and disclosure standards in certain foreign markets.

The EIE, ISC, GEY and EM strategies may invest (directly or indirectly through ETFs) in foreign securities that are issued by companies in emerging markets. The EM strategy may invest substantially all of its assets in such securities. Emerging markets securities typically present relatively greater exposure to the risks described above and may be particularly sensitive to certain economic changes. For example, emerging markets may have more volatile currencies and may be more sensitive than more mature markets to a variety of economic factors.

The EIE, ISC, GEY and EM strategies also may invest in depositary receipts to obtain exposure to foreign securities markets. A depositary receipt is a receipt for shares of a foreign-based company that represents ownership of the company's underlying securities and entitles the holder to distributions on the underlying securities. Depositary receipts include American Depositary Receipts ("ADRs"), European Depositary Receipts ("EDRs") and Global Depositary Receipts ("GDRs") (collectively, "DRs"). DRs are typically issued by a sponsoring bank or other financial institution. The securities underlying DRs are typically denominated in a currency other than U.S. dollars, and investments in DRs involve currency risk. In addition, DR holders may not obtain all of the rights and benefits of the holders of ordinary shares. For example, DR holders may have a limited ability to participate in corporate actions and vote proxies, may incur additional fees and may have different tax consequences than ordinary share holders.

The EIE, ISC, GEY and EM strategies may engage in foreign currency transactions for purposes of buying and selling foreign securities and for hedging purposes. Changes in foreign exchange rates may affect the U.S. dollar value of all foreign currency, as well as all foreign currency denominated securities, held in strategy accounts. Exchange rates are influenced generally by the forces of supply and demand in the foreign currency markets and by numerous political and economic events occurring outside the United States, many of which may be difficult, if not impossible, to predict.

The EIE, EULE and S&P 500 Equity Index strategies may invest in exchange-traded stock index futures contracts. GCM utilizes futures contracts primarily for purposes of obtaining equity exposure for available cash positions. Stock index futures contracts are a type of derivative instrument. GCM trades in futures contracts that are traded on regulated exchanges. The risks associated with investing in stock index futures include those described above, as well as risks associated with the use of leverage, including the potential for higher volatility.

There are risks associated with GCM's Extended Alpha strategy related to "short" selling. Short sales involve the sale of a security that the account has borrowed, with the expectation that the security will decline in value. Short sales create a risk that the account will be required to close the short position by buying the security at a time when the security has appreciated in value, thus resulting in a loss to the account. Short sales involve leverage because an account borrows securities and then sells them and invests the proceeds of the sale, thereby leveraging its assets. The use of leverage may magnify losses or gains for an account. In addition, the technique of selling securities "short" while buying securities "long" introduces potential conflicts of interest involving GCM and/or its clients. For example, GCM could buy a particular security long for one account at the same time that it was selling a security short for another account. GCM does not expect that this will occur with respect to any of its focused strategies and does not expect that it will occur frequently, if at all, with respect to its other enhanced strategies. Owing to the nature of the S&P 500 Equity Index strategy (i.e., it is designed to closely track the composition of the S&P 500 Index), it is possible that accounts pursuing the S&P 500 Equity Index

strategy may purchase securities that are being shorted by accounts following the Extended Alpha strategy or may sell securities that are being purchased by Extended Alpha strategy accounts. GCM has adopted procedures designed to ensure that all of its clients are treated fairly over time and that no one group of clients (or client) is disadvantaged relative to another group of clients (or client) for reasons related to short selling.

#### **Item 9 Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of GCM's advisory business or the integrity of GCM's management.

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

A. Not applicable.

B. Not applicable.

C. Wells Fargo & Company ("Wells Fargo"), which owns (indirectly) 65% of the membership interests in GCM, is a large financial services organization that operates commercial and investment banking, brokerage, investment advisory and other businesses. As described in more detail below, GCM has relationships and/or arrangements with several Wells Fargo subsidiaries.

GCM provides discretionary and/or non-discretionary investment advisory services to one or more Wells Fargo subsidiaries, including Wells Fargo Bank and Wells Fargo Advisors, LLC. Such services include, without limitation, the provision of model portfolios for one or more investment strategies that include security names and weightings and/or security ranking information and separate account management services. In addition, GCM provides investment advisory services to clients of several Wells Fargo subsidiaries, including without limitation, Wells Fargo Bank, and Wells Fargo Advisors, LLC. Such services may be provided in the context of a wrap or other managed account type program. GCM also serves as investment sub-adviser to certain mutual funds that are advised by Wells Fargo Funds Management, LLC, as well as other funds and/or clients advised by other Wells Fargo subsidiaries.

With respect to the selection and timing of investment decisions, GCM seeks to treat the advisory accounts of its affiliated persons (including the accounts of clients of its affiliates) in a manner that is substantially the same as the manner in which it treats the advisory accounts of its other clients who are similarly situated, absent account-specific restrictions and/or limitations. GCM seeks to allocate investment opportunities and securities to clients in a fair and equitable manner, and follows procedures designed to ensure that all of its clients are treated fairly. See response to Item 6, above.

From time to time, GCM may, on behalf of its clients, purchase and sell the securities of issuers that have business relationships with Wells Fargo and/or its affiliates. In addition, from time to time, GCM may, on behalf of its clients, purchase and sell securities issued by Wells Fargo. And, as noted above, GCM participates in several wrap/managed account programs. Some of these programs are sponsored by entities (or are affiliated with entities) that issue securities. From time to time, GCM may, on behalf of clients, purchase and sell the securities of issuers that sponsor wrap/managed account programs in which GCM participates. As a means of addressing the conflicts presented by these relationships, GCM has adopted a Policy on Conflicts of Interest and a Policy on Investment Decision Making that provide,

among other things, that GCM portfolio managers shall not take these relationships into account when making an investment decision regarding an issuer.

GCM has arrangements with Wells Fargo Funds Distributor, LLC, a registered broker-dealer, and Wells Capital Management Incorporated, a registered investment adviser, pursuant to which these entities may provide referral and/or wholesale distribution and related services for compensation. Any amounts paid to these entities are paid by GCM out of the fees that it receives for its services.

From time to time, Wells Fargo may be included among those companies that are included within the index that GCM's S&P 500 Equity Index investment strategy is intended to track (the benchmark index). Under such circumstances, it is possible that GCM may, on behalf of accounts pursuing that strategy, buy and sell securities issued by Wells Fargo (e.g., the common stock of Wells Fargo). Any such purchases and sales on behalf of an account will be consistent with having the account approximate the holdings and percentages suggested by the benchmark index.

D. Not applicable.

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

A. GCM has adopted a Code of Ethics (the "Code") that sets forth standards and procedures that are intended to assure that GCM employees do not use any information concerning the investments or investment intentions of any client, or their ability to influence such investment intentions, for personal gain or in a manner that is detrimental to the interests of GCM clients. The Code generally prohibits personal trading in securities, subject to certain exceptions, including without limitation, trading in U.S. government obligations, short-term debt securities, and exchange-traded and other open-end funds. Exceptions to the prohibition on personal trading may also be made by the GCM management team on a case-by-case basis. In addition, subject to management approval, employees may transact in securities through certain approved discretionary advisory accounts. Such accounts may be internally or externally managed. For example, a GCM portfolio manager has provided "seed" capital for GCM's Mid Cap Core investment strategy. The securities that are purchased and sold in this strategy (and accounts) may be purchased and sold by GCM for its other investment strategies (and accounts). To the extent that trading in particular securities in the employee account overlaps with trading in the same securities in other accounts, GCM will generally effect the trades in the employee account after the trading in client accounts has been completed. All GCM employees are required to disclose their personal securities holdings and transactions on a periodic basis. GCM may periodically supplement or revise its Code in its discretion. GCM will provide a copy of its Code to any client or prospective client upon request.

B. Not applicable.

C. and D. GCM and its related persons may invest in the same securities that GCM recommends to clients. For example, as noted above, a GCM portfolio manager provided "seed" capital for GCM's Mid Cap Core investment strategy. In addition, an affiliate of GCM has provided seed capital for several of GCM's investment strategies (i.e., Extended Alpha, International Small Cap, Global Equity Yield and Emerging Markets). The securities that are purchased and sold in these strategies (and accounts) may be purchased and sold by GCM for its other investment strategies (and accounts). To the extent that trading in particular securities in an employee or affiliate account overlaps with trading in the same securities in

other accounts, GCM will generally effect the trades in the employee and/or affiliate accounts account at the same time as the trading in the client accounts or after the trading in client accounts has been completed (i.e., GCM will not trade the employee or affiliate's account before the other client accounts).

## **Item 12 Brokerage Practices**

A. For many of its accounts, GCM has the authority to select broker-dealers for client transactions and to determine the reasonableness of the broker-dealers' compensation (e.g., commissions). GCM selects brokers based on a variety of factors, including commission fees, ability to obtain price improvement and liquidity, clearance and settlement capabilities, financial strength, access to markets and research, the availability and/or quality of brokerage and research services, trading error history, and account coverage. Broker-dealer compensation is negotiated by GCM to be commensurate with the value of the brokerage and research services provided. GCM has a best execution committee that conducts periodic analyses to evaluate the quality of the execution that brokers deliver. The committee maintains a list of approved brokers to which GCM directs the majority of its trading. In general, GCM distributes trading over which it has discretion among the brokers on its approved list.

For advisory accounts associated with wrap account programs, GCM will typically direct trades to the broker-dealer associated with the program (the "Program broker dealer"). The primary reason for utilizing the services of the Program broker dealer is that there is typically no separate execution charge (e.g., commission) associated with trades effected through the Program broker dealer. (Rather, the account pays an all-inclusive wrap fee that is intended to cover advisory, custody, brokerage and/or other fees.) Absent circumstances that suggest that the Program broker dealer is not able to provide best execution on a given trade, GCM will direct particular program trades to the Program broker dealer.

**Research and Other Soft Dollar Benefits:** For the majority of its non-wrap program clients, GCM has the authority to determine the brokers used and the commission rates paid for account trading. With limited exceptions, GCM non-wrap program client trades executed on a discretionary basis and involving U.S. exchange-listed securities are typically executed electronically at a commission of no more than \$0.02 per share. (Commission rates for trading in accounts invested in the enhanced and index strategies are typically less, and commission rates for trading in international securities are typically expressed as a percentage of the trade amount and higher.) A portion of the total commission for trades in accounts pursuing strategies other than the Conventional Index strategy is typically reserved and used to pay for brokerage and research services used to manage client portfolios, as permitted by Section 28(e) of the Securities Exchange Act of 1934 (a "soft dollar" arrangement). Section 28(e) generally provides that a person who exercises investment discretion with respect to an account, such as GCM, will not be deemed to have breached a fiduciary duty under federal or state law solely by causing the account to pay more than the lowest available commission, if such person determines in good faith that the amount of commission is reasonable in relation to the value of the brokerage and research services provided. In this regard, GCM has entered into commission sharing arrangements (CSAs) with broker-dealers in order to purchase both proprietary and/or third-party brokerage and research services. As a result of these soft dollar arrangements, the broker-dealer compensation clients pay may exceed the compensation that could be obtained from another broker or dealer, particularly if such other broker or dealer were not providing research or other services. GCM is sensitive to commission rates and their impact on client accounts, but GCM does not seek to pay the lowest commission rate possible.

While the brokerage and research services that are paid for with soft dollars are selected because GCM believes they will add value to GCM client portfolios, the use of client commissions to pay for such services creates a conflict of interest. When GCM obtains brokerage and research services with soft dollars, GCM receives a benefit because GCM does not have to produce or otherwise pay for the research with “hard” dollars. Accordingly, GCM may have an incentive to select or recommend broker-dealers based on GCM’s interest in receiving soft dollar benefits rather than the clients’ interest in receiving most favorable execution. Soft dollar services obtained by GCM may include research created or developed by broker-dealers (often referred to as “proprietary research”), as well as services that are developed or created by third parties. Soft dollar services may be used by GCM in servicing any or all accounts, and services obtained with commissions from one client account may be used in connection with accounts that do not provide any soft-dollar benefits to GCM. GCM does not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. For example, wrap program and directed brokerage accounts, which constitute a substantial portion of GCM’s assets under management, typically do not generate soft dollar benefits for GCM, but those accounts may benefit from soft dollars generated by other accounts. In addition, certain brokerage or research services obtained by GCM with soft dollars may be used for investment decision making purposes, as well as purposes unrelated to investment decision making (e.g., advertising). With respect to any such services, GCM will make a reasonable allocation of the cost of the services between “soft” and “hard” dollars based on the extent to which the services are used for investment decision making purposes (which may be paid for with “soft” dollars) versus non-investment decision making purposes (which are paid for with “hard” dollars out of GCM’s own funds). The allocation of costs between “soft” and “hard” dollars presents an additional conflict of interest between GCM and certain of its clients (i.e., those from which GCM receives soft dollar benefits). GCM believes that its use of soft dollars to obtain research and/or brokerage services is beneficial to the firm and its clients and follows policies and procedures that are intended to ensure that its use of soft dollars is consistent with applicable law and regulations.

Examples of brokerage and research services currently utilized by GCM and purchased with “soft” dollars are provided below. These examples are not exclusive and are subject to change at any time without notification.

- Bloomberg - market, financial and economic data
- Capital Economics - U.S. and Global Macro Economic Outlook
- FactSet Research - research integration tool and market/ economic data provider
- MSCI software - Barra Aegis Risk Manager, Optimizer & Performance Analyst
- MSCI data - equity risk and return data, core extended data, REIT data, models
- NYSE - security quotes
- Omgeo – domestic and international trade settlement services
- Russell Investments - Index constituent data
- Standard & Poors - Index constituent data and Compustat data
- SAS Institute - statistical programming language
- Thomson Reuters - IBES data, Worldscope Global, Thomson One
- Zacks Research - analyst research notes
- ITG – transaction cost analysis

GCM also receives additional research and/or brokerage services directly from the brokers

through which it trades. These services are in addition to any third-party services (noted above) and may include various forms of stock and market research (e.g., publications, email notifications, phone calls, etc.).

Brokerage for Client Referrals: GCM does not, in selecting or recommending broker-dealers, receive client referrals from a broker-dealer or third party.

Directed Brokerage: GCM does not routinely recommend, request or require that a client direct it to execute transactions through a specified broker-dealer. Some of GCM's clients may wish to direct the firm (either directly or through their advisers) to effect all portfolio transactions through a specified broker-dealer at a rate agreed upon between the client and the broker. (This may occur, for example, when the client's custodian is itself a broker-dealer.) In such cases, GCM typically does not negotiate commission rates unless expressly requested to do so by the client. Clients are free to choose or change broker-dealers at their discretion unless there is reason to believe the brokerage firm cannot offer adequate service. In such event, GCM might be unable to accept the management of the account.

A client who directs the firm to use a particular broker-dealer should consider whether such designation may result in certain costs or disadvantages to the client. Costs and disadvantages may include higher commissions and/or less favorable executions. For example, the particular broker-dealer selected may charge a higher commission than other broker-dealers would charge for the same transaction. In addition, GCM often will, at any given time, purchase and/or sell the same securities for many accounts. It is GCM's practice, where feasible, to aggregate for execution as a single transaction ("bunch") orders for the purchase or sale of a particular security for the accounts of several clients for whom GCM has discretion to select the brokerage firm. Bunching may enable GCM to obtain somewhat lower commissions based on the volume of the clients in the particular order. However, in those cases where a client and broker-dealer have previously negotiated a commission rate, GCM will be unable to negotiate further volume discounts, thus precluding the client from receiving the benefit of any lower commission that might otherwise be available from the aggregation. Accordingly, any client directing brokerage should satisfy itself that the broker-dealer selected by the client can provide adequate price and execution of transactions.

B. GCM typically manages accounts pursuing a common GCM investment strategy (e.g., Large Cap Core) in a similar manner, and GCM may place trade orders and/or communicate model portfolio recommendations for a variety of different clients (e.g., institutional, individual, investment company, proprietary account, wrap fee program and model portfolio clients) at or about the same time. Generally, when GCM initiates "across-the-board" trade decisions for an investment strategy, GCM will aggregate (or block) the trades into client groups that can trade with the same broker and follow the trade order rotation process described below. For trade decisions that are not across-the-board recommendations (e.g., individual account inception, contribution, liquidation, tax-loss harvesting), GCM generally does not aggregate orders, and instead places each trade order with a broker when the trade is ready for execution. In such cases, there exists the possibility that clients may receive more favorable or less favorable executions than might be available through an aggregated order.

GCM seeks to assure that trades on behalf of different client groups involving the same security are executed in a fair order and that no client is unfairly disadvantaged over the long term. When needed, GCM typically relies on a random order generator to determine the order in which client group trading



takes place (or, in the case of certain model portfolio programs, the order in which model recommendations are communicated). Whenever trades are effected on a rotational basis, there exists the possibility that any particular group of trades will receive a higher or lower execution price than another group in the rotation. GCM may, in its discretion, trade client groups (or communicate recommendations) in an order that differs from the order determined by the random order generator for operational reasons if program size or other factors suggest that the affected client groups will not be unfairly disadvantaged. In certain cases, GCM may send common trades for different client groups to different brokers for execution at the same time. Simultaneous execution may be appropriate, for example, when a trade for one client group is of limited size.

Occasionally, GCM may wish to trade the same security on behalf of clients in two different GCM investment strategies (e.g., Mid Cap Core and SMID Cap Core) at the same time. To the extent reasonably practicable, such trades will be traded in the manner described above (i.e., in an order based on the output of the random order generator). In instances where the same security is held by different investment strategies within a particular client group, GCM may aggregate the orders for clients in different strategies or trade them separately (in an order based on the output of the random order generator).

### **Item 13 Review of Accounts**

A. and B. As noted in response to Item 4, GCM typically manages accounts following each particular investment strategy in a substantially similar manner. The lead portfolio manager for each strategy is responsible for making the day-to-day portfolio management determinations for the particular strategy. Once a buy-sell determination is made for a particular strategy is made, the transaction is implemented across all of the accounts pursuing that particular strategy, unless individual client restrictions or guidelines dictate a different result. GCM's portfolio managers regularly review strategy holdings, and, on average, portfolio managers adjust strategy holdings about once per month. Investment strategy holdings may be adjusted more or less frequently. In general, individual account reviews are conducted on a weekly or monthly basis by GCM's Portfolio Traders. Portfolio Traders review holdings and levels of uninvested cash in client accounts.

In addition to the portfolio management reviews described above, on a monthly basis, the firm's Risk Management Team reviews reports related to account performance dispersion and account holdings dispersion for non-managed account program accounts. (Managed account program account performance is typically reviewed quarterly by the Risk Management Team.) In addition, the firm's Chief Compliance Officer conducts various account-related reviews on a spot-check basis.

C. GCM typically provides quarterly written reports to clients (except for clients that come to GCM through managed account programs). GCM's quarterly reports typically include detailed account holdings, account performance and performance attribution information, as well as investment strategy commentary with information about transactions occurring during the reporting period, if any. Managed account program sponsors typically provide program clients with regular quarterly reports. The content and timing of those reports are determined by the program sponsor, but typically include account holding and performance information, among other things.

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

A. Not applicable.

B. From time to time, GCM may compensate affiliated and unaffiliated persons and entities for client referrals. The compensation paid to any such entity will typically consist of a cash payment stated as a percentage of the assets under GCM's management as a result of any such referral. A recipient entity may pay a portion of the fee received from GCM to its employee(s) involved with the referral.

Under limited circumstances, GCM may participate in and/or make contributions toward training, educational seminars, client-appreciation dinners and/or similar events sponsored by other investment advisers (e.g., wrap program sponsors) that have clients in common with GCM. Any such contributions by GCM typically do not exceed \$1,000 for any one event. Participation and/or monetary contributions could create a conflict of interest for the other investment advisers, as they might have an incentive to favor managers that participate/contribute over investment advisers that do not.

#### **Item 15 Custody**

GCM does not itself maintain possession of any client assets. GCM client assets are maintained in the custody of broker-dealers, banks and other qualified custodians. Certain of these custodians may be affiliated with GCM.

GCM clients receive account statements directly from their custodians. Clients should carefully review such account statements. GCM sends quarterly statements to certain clients. GCM urges all clients who receive GCM quarterly statements to compare the account statements that they receive from their custodians with those that they receive from GCM. Any client with a question or concern arising from any such comparison should notify GCM and/or the client custodian immediately.

#### **Item 16 Investment Discretion**

For most clients, GCM has the authority to determine the securities, and the amount of securities, to be bought or sold for its clients without obtaining specific client consent. GCM's discretionary authority regarding investments may, however, be subject to certain limitations (e.g., restrictions or prohibitions placed by the client on transactions in certain types of securities or industries). The scope of GCM's authority (and limitations thereon) is typically agreed upon in advance with each client and memorialized in a written agreement. For example, GCM's standard advisory agreement provides for the appointment of GCM as the client's attorney and agent with power to direct the investments in the client's account. For a limited number of clients (including one or more subsidiaries of Wells Fargo & Company), GCM provides certain non-discretionary investment advisory services, including model portfolio investment recommendations and security rankings that may be acted upon by clients.

In connection with managing client accounts, there may be a variety of corporate actions or other matters for which shareholder action is required or solicited and with respect to which GCM may take action that it deems appropriate in its best judgment (except to the extent otherwise required by agreement with a client). These actions may include, for example and without limitation, responding to tender offers or exchanges, bankruptcy proceedings and proposed class action settlements. If GCM receives correspondence for a client relating to class action litigation, it will typically forward the correspondence

to the appropriate client and/or client custodian. GCM will have no power, authority, responsibility, or obligation to take any action with regard to any claim or potential claim in any bankruptcy proceeding, class action securities litigation or other litigation or proceeding relating to securities held at any time in a client account, including, without limitation, to file proofs of claim or other documents related to such proceeding, or to investigate, initiate, supervise or monitor class action or other litigation involving client assets.

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

A. and B. When agreed between GCM and a client, GCM will vote proxies for voting securities held in a client's account. Proxies will be voted in the best interest of GCM's clients in accordance with GCM's then-current Proxy Voting Policy (the "Policy"). GCM has retained an independent proxy voting service provider (currently, Institutional Shareholder Services, Inc.) to provide research, guidelines, recommendations and other proxy voting services for client proxies. Absent a determination by GCM to override the independent provider's guidelines and/or recommendations, client proxies will be voted in accordance with those guidelines and/or recommendations. GCM's Policy is available on the firm's website and upon request, in electronic or hard copy form. Clients may obtain from GCM the Policy, as well as information about how GCM voted clients' securities, by contacting GCM at [info@gcm1.com](mailto:info@gcm1.com).

Clients for whom GCM does not vote proxies will typically receive their proxies and other similar solicitations directly from their custodian or transfer agent. Clients for whom GCM does not vote proxies may contact GCM at [info@gcm1.com](mailto:info@gcm1.com) if they have questions concerning a particular proxy solicitation.

Wells Fargo & Company, which owns (indirectly) an ownership interest in GCM, is a large financial services organization that has commercial and/or investment banking and other business relationships with, and/or ownership interests in, many issuers of securities. Such relationships could, from time to time, create or give rise to the appearance of a conflict of interest between GCM and its clients. GCM has implemented procedures designed to prevent conflicts of interest from influencing its proxy voting decisions. These procedures include information barriers and, most significantly, the use of an independent party to assist in the proxy voting process.

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

A. Not applicable.

B. GCM is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

C. Not applicable.

#### **Item 19 Requirements for State-Registered Advisers**

Not applicable.