

# Broyhill Asset Management, LLC

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## Brochure: Form ADV Part 2A

March 31, 2013

This brochure provides information about the qualification and business practices of Broyhill Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at 828-758-6100 or by email at [info@broyhillasset.com](mailto:info@broyhillasset.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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



## Item 2 - Material Changes

This Brochure has been updated from the previous version dated March 31, 2012 and includes the following material changes:

- Broyhill Asset Management, LLC has consolidated its BWCA operating division under the Broyhill Asset Management (BAM) brand.
- Broyhill Affinity Fund has returned capital to limited partners, reducing regulatory assets under management below the \$90 million threshold required for SEC oversight. As a result, Broyhill Asset Management, LLC is in the process of de-registering from SEC regulatory oversight to the state of North Carolina regulatory oversight.
- This brochure details the addition of two additional investment strategies, The Broyhill Opportunistic Fixed Income Portfolio and The Broyhill High Quality Dividend Portfolio.

Broyhill will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge. This list includes only material changes from the previous version of the Brochure.



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## Item 4 - Advisory Business

Broyhill Asset Management, LLC (“BAM”) provides various investment services to individuals, trusts, foundations and other institutions on a discretionary basis. BAM manages \$82,815,212 of assets, comprised of \$46,540,765 of discretionary assets and \$36,274,447 of non-discretionary assets, as of December 31, 2012. BAM does not participate in any wrap programs.

BAM was founded in June 1998 as Broyhill Wakin Capital Advisers, LLC and changed its name to Broyhill Asset Management, LLC on July 1, 2008. The principal owner of Broyhill Asset Management, LLC is M. Hunt Broyhill.

### Discretionary Investment Services

The Chief Investment Officer of BAM is Christopher Rocco Pavese, CFA. BAM offers asset management services on a discretionary basis and provides continuing supervision of each client’s portfolio. BAM has full discretion to determine which securities and the total amount of securities that are to be bought or sold for client accounts. BAM provides three fundamental value-oriented investment strategies: The Broyhill Global Thematic Portfolio, The Broyhill High Quality Dividend Portfolio and The Broyhill Opportunistic Fixed Income Portfolio. However, BAM may offer any advisory service, engage in any investment strategy and make any investment, including any not described in this Brochure, that BAM considers appropriate, subject to each client’s agreement with BAM or other agreed-upon restrictions.

## Item 5 - Fees and Compensation

### Separate Accounts

Asset Management Fees will be charged quarterly in advance based on a percentage of the client’s assets under management at the end of the prior quarter. Fees for separate accounts are individually negotiated and range between 0.60% and 1.25% of assets under management depending on product, asset type and size of account. Investment Advisory Services begin with the effective date of the agreement, which is the date the client signs the Investment Advisory Agreement. For that calendar quarter, fees will be adjusted pro rata based upon the number of calendar days in the calendar quarter that the Agreement was effective. Fees will generally be deducted directly from the client’s brokerage account pursuant to a written agreement.

Clients should be aware of their responsibility to verify the accuracy of the fee calculation submitted to the custodian by BAM, as the custodian will not determine whether the fee has been properly calculated. Advisory fees charged by BAM are separate and distinct from fees and expenses charged by exchange-traded, closed-end, or mutual funds, which may be recommended to clients. A description of these fees and expenses are available in each fund’s prospectus. Additionally, the fees charged by BAM are exclusive of all custodial and transaction costs paid to custodians, brokers or any other third parties. Clients should review all fees charged by BAM, custodians and brokers, and others (including but not limited to third-party sub-advisors) to fully understand the total amount of fees incurred.



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

Mr. Broyhill owns a controlling interest in the general partner in two private investment funds, the Broyhill All-Weather Fund, LP and Surety Partners, LLC, both of which are closed to new investors.

At the current time, Mr. Pavese and Mr. Broyhill do not receive performance-based compensation as a result of client participation in pooled investment vehicles.

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

BAM generally provides investment services to individuals, trusts, foundations and other institutions on a discretionary basis. Generally, BAM requires a minimum investment of \$500,000; however, BAM has discretion to waive the account minimum and reserves the right to decline any potential client for any reason.

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

### Methods of Analysis

BAM generally employs a long-term investment strategy. In evaluating investments, BAM takes into account a number of factors, including the fundamental, technical and cyclical characteristics of each investment. Investment ideas are generated through various sources and BAM acquires information about securities from numerous publically available sources including: Proxies, Forms 10-K and 10-Q, Global Central Banks, The IMF, The World Bank, The BEA, in addition to various independent research providers and financial publications.

### Investment Strategies

BAM provides three fundamental value-oriented investment strategies. The Broyhill Global Thematic Portfolio is a diversified, multi-asset class investment strategy. The objective is maximum total return, commensurate with the given risk profile of global capital markets and best suited for investors with a long term time horizon. The Broyhill High Quality Dividend Portfolio is a concentrated equity strategy invested in a group of businesses judged by BAM to be competitively entrenched market leaders, trading at reasonable prices. The objective is participation in up markets while mitigating the brunt of down markets, delivered to investors in the form of dividends and earnings growth. The Broyhill Opportunistic Fixed Income Portfolio is a separately-managed individual bond portfolio focused on short duration, high-yielding fixed income securities. The portfolio aims to combine a high probability of the safe return of principal with a current return superior to a portfolio of US Treasury securities.

The descriptions set forth in this Brochure of specific strategies and investments should not be deemed to limit BAM's investment activities. BAM may engage in any investment strategy and make any investment, including any not described in this Brochure, that BAM considers appropriate, subject to each client's agreement with BAM.



Investments are speculative and may entail substantial risks. There can be no assurance that the investment objectives of any client will be achieved, and clients should be prepared to bear a substantial loss on their investment.

### Material Risks

Some amount of risk is inherent in any and/or all investment decisions. Some investment decisions may result in profits and some investment decisions may result in losses. Furthermore, there is no guarantee that our investment objectives will be achieved; past performance is not a guarantee of future results. Material risks associated with our investment strategy include:

- *Equity Market Risks* – Overall stock market risks may affect the value of the investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates, and political events affect the equity markets.
- *Management Risks* - Our judgments about the attractiveness, value and potential appreciation of a particular asset class or individual security may be incorrect and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole or our intrinsic value approach may fail to produce the intended results. Our estimate of intrinsic value may be wrong or even if our estimate of intrinsic value is correct, it may take a long period of time before the price and intrinsic value converge.
- *Small and Mid-Cap Company Risks* – Investments in small and mid-cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in smaller volumes than securities of larger companies. In addition, small and mid-cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.
- *International Market Risks* – International market risks include, but are not limited to, currency, political risk, trading and settlement risks. Emerging markets, commodities and currencies have experienced periods of extreme volatility historically.
- *Fixed Income Market Risks* – Fixed income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed income securities generally declines. On the other hand, if rates fall, the value of the fixed income securities generally increases.
- *Credit Risks* – There is a risk that issuers and counterparties will not make payments on the securities they issue. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security which may affect liquidity and our ability to sell the security.



- *Real Estate Risks* – Real Estate Investment Trusts (REITS), although not a direct investment in real estate, are subject to the risks associated with investing in real estate. The value of these securities will rise and fall in response to many factors including economic conditions, the demand for rental property and changes in interest rates

## **Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the firm or the integrity of the firm's management in this item. Broyhill Asset Management, LLC has no legal or disciplinary events to report.

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

Mr. Pavese and Mr. Broyhill are employed by the BMC Fund, Inc., a closed-end, diversified investment company registered under the Investment Company Act of 1940. Mr. Pavese serves as Vice President and Chief Investment Officer and Mr. Broyhill serves as President of the BMC Fund, Inc. Both are primarily responsible for the day-to-day management of the Fund's portfolio.

Mr. Broyhill owns a controlling interest in Broyhill Wakin General Partners, LLC and Surety Capital Management, LLC. Broyhill Wakin General Partners, LP is the general partner of the Broyhill All-Weather Fund, LP. Surety Management Company, LLC is the general partner of Surety Partners, LLC. Both private investment funds are closed to new investors.

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

BAM has adopted a Code of Ethics consistent with Rule 204A-1 of the Advisers Act. BAM's Code of Ethics provides for a high ethical standard of conduct for all professionals, compliance with federal securities laws, and policies and procedures for the reporting of certain personal securities transactions on a quarterly basis and initial and annual security holdings by BAM's professionals. Among other things, BAM's Code of Ethics also requires the prior approval of any IPO and private placement investment, supervisory reviews, enforcement and recordkeeping. A copy of BAM's Code of Ethics is available to BAM's advisory clients upon written request to the Compliance Officer at BAM's principal office address.

BAM and its employees may buy and sell the same or different securities than may be recommended to clients. If the possibility of a conflict of interest occurs, the client's interest will prevail. It is BAM's policy that priority will always be given to the client's orders over the orders of an employee of BAM.

BAM has established the following additional restrictions in order to address these conflicts of interest and to ensure its fiduciary responsibilities:



- A member, officer or employee of BAM shall not buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her affiliation with BAM or any of its affiliates, unless the information is also available to the investing public on reasonable inquiry. No person shall prefer his or her own interest to that of the advisory client.
- BAM discloses that certain BAM individuals may receive separate compensation when effecting securities and/or insurance-related transactions during the implementation process, when applicable.
- BAM maintains records of all securities holdings for itself and anyone associated with BAM's advisory services. Personal securities transactions and holdings are reviewed by the Chief Compliance Officer to ensure compliance with BAM's policies.

BAM requires all individuals to act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.

In accordance with Section 204A of the Investment Advisers Act of 1940, BAM also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by any person associated with BAM.

## **Item 12 - Brokerage Practices**

When a client agrees to discretionary management, BAM will be responsible for selecting the securities and the amount of securities to be bought and sold. The only limitations on the investment authority will be those limitations imposed in writing by the client.

In the course of providing our services, we will execute trades for our clients through broker-dealers. When a client has given us brokerage discretion, there is no restriction on the brokers we may select to execute client transactions. Our general guiding principle is to trade through broker dealers which offer the best overall execution under the particular circumstances.

With respect to execution, we consider a number of factors, including if the broker has custody of client assets, commission rates, the actual handling of the order, the ability of the broker-dealer to settle the trade promptly and accurately, the financial standing of the broker-dealer, the ability of the broker-dealer to position stock to facilitate execution, our past experience with similar trades, and other factors which may be unique to a particular order. Based on these judgmental factors, we may trade through broker-dealers that charge fees that are higher than the lowest available fees.

In addition, broker-dealer fees may vary and be greater than those typical for similar investments if we determine that the research, execution and other services rendered by a particular broker merit greater than typical fees. Also, in certain instances we may execute over the counter securities transactions on an agency basis, which may result in advisory clients incurring two transaction costs for a single trade: a commission paid to the executing broker-dealer plus the market maker's mark-up or mark-down.





Orders for the same security entered on behalf of more than one client may be aggregated (bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders; filled orders shall be allocated separately from subsequent orders. All clients participating in each aggregated order shall receive the average price and if applicable, pay a pro-rata portion of commissions. BAM or its employee or access persons may participate in aggregated orders under the same conditions as set forth above. Transactions are usually aggregated to seek a lower commission, lower costs, or a more advantageous net price.

A client may direct BAM in writing to use a particular broker/dealer to execute all transactions for the client's account. When a client selects the broker to be used for his account, the commission rates are decided upon between the client and his broker. In addition, BAM does not have any responsibility for obtaining for the client from any such broker the best prices or particular commission rates as low as it might otherwise obtain if BAM had discretion to select broker-dealers other than those chosen by the client.

Clients that restrict BAM to using a particular broker/dealer (or direct us to use a particular broker/dealer) for executing their transactions generally will be unable to participate in aggregated orders and will be precluded from receiving the benefits, if any, of an aggregation which other clients may receive. BAM will generally execute aggregated orders for non-directed clients before executing orders for clients that direct brokerage. BAM is not obligated to acquire for any account any security that we or our officers, partners, members or employees may acquire for their own accounts or for the account of any other client, if in BAM's absolute discretion it is not practical or desirable to acquire a position in such security.

We use research and trading services furnished by brokers with respect to the securities market, the economy, particular industries, individual issues, and similar topics having broad applications to client accounts. We use research and trading services for the benefit of all BAM's clients, including clients whose securities transactions are not affected by the broker providing such services. We have the option to use "soft dollars" generated by our clients to pay for research related services. The term "soft dollars" refers to us receiving products or services provided by brokers, without any cash payment from us, based on the volume of brokerage commission revenues generated from securities transactions executed through those brokers on behalf of our clients. We are specifically authorized to direct brokerage to firms which furnish or pay for quotation and/or office equipment, recordkeeping, research, research-related services, and other services with the "safe harbor" provided by Section 28(e) of the United States Securities Exchange Act of 1934.

We may use soft dollars to pay for newswire and quotation services such as, Reuters, Bloomberg, Bridge, First Call, periodical subscription fees, software for brokerage or research purposes and other reasonable expenses as determined by us. The use of brokerage commission to obtain investment research services and to pay for our research related costs creates a conflict of interest between us and our clients, because the clients pay for such products and services that are not exclusively for the benefit of clients that may be primarily or exclusively for our benefit. To the extent that we are able to acquire these products and services without expending BAM's own resources, our use of soft dollars would tend to increase our profitability. In addition, the availability of these non-monetary benefits will influence us to select one broker rather than another to perform services for clients.



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

Client accounts are monitored on an ongoing basis for consistency with client objectives and restrictions. In these reviews, every position in each client account is compared to the weights in our investment strategy model. All client accounts are reviewed to ensure an appropriate allocation based upon BAM's assessment of market conditions and individual circumstances. General conditions in the capital markets are continuously monitored. Factors triggering reviews may also include a change in general capital market conditions, changes in management of funds or stocks owned by clients, and exceptional short term volatility in broad capital markets or individual securities. All accounts are reviewed by BAM's Chief Investment Officer.

BAM also issues periodic written reports to its investment advisory clients. Quarterly emails provide clients with updated composite performance statistics and a snapshot of model portfolio positioning. More formal, annual reviews contain a list of assets, investment results, and statistical data related to each client's account. Clients are encouraged to carefully review these reports and compare the statements that they receive from their custodian to the reports that BAM provides. The information in BAM's reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

BAM may use arrangements with independent consultants who act as "Solicitors" whereby BAM provides compensation to Solicitors for referring clients by sharing a portion of each referred client's advisory fee. In all cases, these arrangements shall be fully disclosed to the clients affected in accordance with the cash solicitation Rules, 206(4)-3 of the Investment Advisors Act. Any conflict of interest that may exist will be fully disclosed to any client via the rules governing the solicitor relationship. At a minimum, the client will receive BAM's disclosure document and a separate Solicitor's disclosure statement.

As compensation for any referrals, including the referral of clients, a portion of the annual fee paid to BAM may be directed to the referring investment advisers or representatives. BAM's policy for any referral arrangements is to pay an adviser, BAM investment professionals or other person a percentage of the client's annual advisory fee referred to BAM. Client advisory fees are not increased as a result of any referral arrangements. BAM currently has solicitor agreements with Stradford Advisors and Wharton Hill Investment Advisors.

## **Item 15 - Custody**

Broyhill Asset Management, LLC does not provide custodial services to its clients. Client assets are held with banks or registered broker-dealers that are "qualified custodians." Clients will receive statements directly from the qualified custodians at least quarterly. Broyhill Asset Management, LLC urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you.



## **Item 16 - Investment Discretion**

Broyhill Asset Management, LLC accepts discretionary authority to manage the assets in the client's account. We observe investment limitations and restrictions that are outlined in each account's investment management agreement.

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

BAM maintains a written Proxy Policy which reflects the firm's fundamental duty as a fiduciary to vote proxies in the best interests of our clients. For ERISA plan clients, proxies are voted solely in the interests of the plan participants and beneficiaries.

Certain clients have expressly retained proxy voting authority and in such instances, BAM has no responsibility and may not take any action regarding those clients' proxies. In the event of any actual or potential conflicts of interests in the voting of any client proxies, BAM will make appropriate disclosures to clients and either request that the client vote the proxy(s), abstain from voting or vote the client proxies, depending on the circumstances.

BAM maintains relevant and appropriate proxy records as part of the firm's Proxy Policy. Our Proxy Policy and information about the voting of a client's proxies, where BAM has proxy voting responsibility, are available to a client upon written request sent to the Chief Compliance Officer.

## **Item 18 - Financial Information**

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition in this Item. Broyhill Asset Management, LLC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.

