

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

March 26, 2018

This brochure provides information about the qualifications and business practices of CapSouth Partners, Inc., dba CapSouth Wealth Management. If you have any questions about the content of this brochure, please contact us at: (334) 673-8600, or by email at [mbolden@capsouthpartners.com](mailto:mbolden@capsouthpartners.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state security authority. Registration with the SEC or a state regulatory authority does not imply a certain level of skill or expertise.

Additional information about CapSouth Partners, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number known as a CRD number. The CRD number for CapSouth Partners is 132517.

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## **Item 2 - Material Changes**

### **Annual Update**

The Material changes section of this brochure will be updated at least annually when material changes occur since the previous release of the Firm Brochure.

### **Material Changes since the March 2017 Annual Filing**

CapSouth now offers trust services through National Advisors Trust Company. More information regarding this relationship can be found in Item 10 - Other Financial Industry Activities & Affiliations.

CapSouth is now utilizing an automated investment program through which clients are invested in a range of investment strategies, constructed and managed by CapSouth, that each consist of a portfolio of ETFs (exchange traded funds) and a cash allocation. This type platform is sometimes referred to as a robo platform in industry terminology. More information about this program can be found in these sections:

Item 4 - Advisory Business, Section B - Types of Advisory Services Offered

Item 5 - Fees & Compensation, Section A – Description & Standard Fee Schedule

Item 5 - Fees & Compensation, Section B - Client Payment of Fees.

### **Full Brochure Available**

If you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at (334) 673-8600 or by email at [mbolden@capsouthpartners.com](mailto:mbolden@capsouthpartners.com).

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## **Item 4 - Advisory Business**

### **4.A - Firm Description**

CapSouth Partners, Inc. (“CapSouth”, “ADVISER”, “we”, or “us”) was founded in 2001 by Donald P. Bolden. There are currently 15 employees, including 1 independent contractor. This team includes 8 investment advisory representatives, 1 technology consultant, and 6 administrative staff employees; included in this team is one Certified Financial Planner® designee, one Chartered Financial Analyst® designee, one attorney and one accountant. The firm is federally registered with the SEC (Securities and Exchange Commission) as a Registered Investment Advisor (Neither the term “registered” nor being registered with the SEC implies a certain level of skill or expertise).

Donald P. Bolden is the Principal Owner of CapSouth Partners, Inc.

### **4.B - Types of Advisory Services Offered**

CapSouth offers one or more of the following advisory services, where appropriate, to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates or charitable organizations, corporations or other business entities:

- Investment management services (Discretionary & Non-discretionary)
- Financial planning services
- Institutional consulting services
- Consulting services to individual clients
- Investment monitoring services

At the start of a client relationship, CapSouth will identify a client's financial background, prior investment experience, investment objectives, goals, restrictions (if any), and risk tolerances, among other things. This information is used in determining which planning recommendations are appropriate for the client and/or which investment recommendations are suitable for the client. CapSouth will update this information on a periodic basis. We also advise all clients to notify us immediately if there are any changes to their financial situation, investment objectives, and/or goals.

#### **4.B.i - Investment Management Services**

##### **Discretionary Investment Management**

CapSouth manages some client's assets on a discretionary basis. A client who has given CapSouth discretionary management over an account is granting to CapSouth the discretion to select securities, asset amounts to be invested in a security, and the timing of any trades, so long as CapSouth maintains the account within the risk level selected by the client for the account. CapSouth manages accounts that are under discretion in the following ways:

1. CapSouth managed investment strategies
2. Automated investment program managed by CapSouth
3. Advisor managed investment strategies
4. Utilization of a sub-advisor (“Sub-Manager”) to perform the investment selection, allocation of investments and trading within the account.

1. The investment strategies managed and offered by CapSouth include four portfolios that primarily focus on active management and four portfolios that primarily focus on indexing or passive management. Each portfolio is designed to meet a particular investment goal. These portfolios may contain stocks, bonds, no-load mutual funds, eligible load-waived mutual funds, ETFs and other investments. Discretionary portfolios are managed by Marshall P. Bolden, Chief Investment Officer. Client accounts invested in a CapSouth portfolio are managed under the guidelines of the Investment Policy Statement agreed to and signed by the client.
2. CapSouth offers an automated investment program (“Program”) through which clients are invested in a range of investment strategies we have constructed and manage, each consisting of a portfolio of exchange-traded funds (“ETFs”) and a cash allocation. The client may instruct us to exclude up to three ETFs from their portfolio. The client’s portfolio is held in a brokerage account opened by the client at Charles Schwab & Co., Inc. (“CS&Co”). We use the Institutional Intelligent Portfolios® platform (“Platform”), offered by Schwab Performance Technologies (“SPT”), a software provider to independent investment advisors and an affiliate of CS&Co., to operate the Program. We are independent of and not owned by, affiliated with, or sponsored or supervised by SPT, CS&Co., or their affiliates (together, “Schwab”). We, and not Schwab, are the client’s investment advisor and primary point of contact with respect to the Program. We are solely responsible, and Schwab is not responsible, for determining the appropriateness of the Program for the client, choosing a suitable investment strategy and portfolio for the client’s investment needs and goals, and managing that portfolio on an ongoing basis. We have contracted with SPT to provide us with the Platform, which consists of technology and related trading and account management services for the Program. The Platform enables us to make the Program available to clients online and includes a system that automates certain key parts of our investment process (the “System”). The System includes an online questionnaire that helps us determine the client’s investment objectives and risk tolerance and select an appropriate investment strategy and portfolio. Clients should note that we will recommend a portfolio via the System in response to the client’s answers to the online questionnaire. The client may then indicate an interest in a portfolio that is one level less or more conservative or aggressive than the recommended portfolio, but we then make the final decision and select a portfolio based on all the information we have about the client. The System also includes an automated investment engine through which we manage the client’s portfolio on an ongoing basis through automatic rebalancing and tax-loss harvesting (if the client is eligible and elects).
3. Certain advisors of CapSouth may be approved to manage client accounts on a discretionary basis. Approval is subjective and is based on CapSouth management’s assessment of an advisor’s investment and portfolio construction knowledge. Currently Donald Bolden is the only advisor approved to manage client accounts on a discretionary basis. These accounts usually contain stocks, no-load mutual funds, eligible load-waived mutual funds, and ETFs. Occasionally these accounts contain

options or CDs. These accounts are managed based on the client's specific goals and objectives for the account and for tax selling purposes. The risk level, investment objective, and potentially the target allocation of such accounts is specified within the Account Profile form signed by the client.

4. CapSouth may outsource the investment management of an account to a Sub-Manager. Currently the only Sub-Manager that we utilize for the investment management of accounts is United Capital Financial Advisers, LLC ("United Capital"). United Capital is an investment adviser not affiliated with ADVISER, who serves as a Sub-Manager. United Capital is granted limited discretionary investment authority over assets that ADVISER assigns to United Capital. For the assets directed to Sub-Manager for services, its responsibility includes the authority to:

- exercise discretion to determine the types of securities bought and sold, along with the percentage allocation
- apply its discretion as to when to buy and sell
- apply its discretion as to the timing of transactions
- select the broker-dealer for execution of securities transactions, if appropriate, and
- take other portfolio management actions ADVISER delegates or deems appropriate

Any authority of United Capital only applies to the specific assets, within the Client's custodial account, for which United Capital has been appointed as the discretionary manager. United Capital shall not provide investment advice, or have any advisory responsibility to the Client, beyond the assets for which it is appointed as Sub-Manager. The terms of services provided by United Capital are directed in accordance with a separate written agreement entered into between the ADVISER and United Capital. United Capital also provides separate services to ADVISER under its division FinLife Partners, as described below in the FinLife Partners Service Offering section.

Upon request, ADVISER will provide Clients with information about any Sub-Manager that ADVISER has referred Client assets. This information may include content provided by a Sub-Manager explaining its investment style, or an explanation from ADVISER describing the Sub-Manager's investment style. Additionally, upon request, ADVISER will provide Clients with a copy of the Sub-Manager's Form ADV, Part 2A.

Client has the right to request reasonable restrictions on the management of their assets, including restricting the appointment of any and all Sub-Managers to manage their assets. ADVISER has the right to reject Client restriction requests if it cannot reasonably comply with the request based on ADVISER's service offerings and capabilities. Client should look to ADVISER, rather than the Sub-Manager, with respect to carrying out any restrictions set forth by Client.

See additional information about the costs for Sub-Manager services and potential conflicts of interests of the ADVISER in the Fees and Compensation section below.

### **Nondiscretionary Investment Management**

We provide nondiscretionary portfolio management services to clients. Investment Advisor Representatives use the client's investment objectives and risk tolerance when making recommendations to clients. Trades are entered only with the consent and approval of the client. We may also enter non-solicited trades per the client's request.

### **4.B.ii - Financial Planning Services**

#### **Wealth Management Services (previously titled Navigator Services)**

These services include the Guidance program detailed below, assistance with implementation of recommendations, estate planning, and asset monitoring services (when requested by the client). Depending on the client, these services may include identification of financial problems, cash flow and budget analysis, tax planning, social security planning, risk exposure review, education funding, retirement planning, charitable planning, special needs planning, life insurance and disability insurance planning. These services may also include other areas that are specific to the client. Client's may obtain online access to MoneyGuidePro so that they can view their financial plan. A hard copy may be provided upon request. This service includes periodic meetings, additional meetings as circumstances dictate them, a periodic update of the financial plan, and a three to four year (or as needed) review of the client's estate plan. If the client has asked CapSouth to monitor assets to which we are not the investment advisor, this will be done as agreed upon by the client and the advisor.

#### **Guidance Program (Financial Planning)**

CapSouth may provide Guidance services independently of systems made available through United Capital's FinLife Partners program or may choose to offer Guidance through the FinLife Partners program depending upon the needs and situation of each individual client. These services are usually structured under an ongoing agreement as opposed to building a point in time plan.

For Guidance offered independently of FinLife, the Guidance program generally addresses retirement planning, education planning, and risk management. The Guidance program is provided through MoneyguidePro. Clients may generally receive online access to MoneyguidePro from which they can view details of their plan. The plan is updated every two to three years, or as needed, as long as the client provides us with updated personal information.

When providing a consolidated financial summary of accounts to Clients, whether using the FinLife Partners' Guidance program or not, data included may contain information about accounts for which ADVISER does not manage or advise the Client. As such, no inference should be drawn that ADVISER serves as the adviser on any or all securities listed in these consolidated financial summaries. For Client assets that ADVISER is not contracted to manage, it will not actively supervise those assets.

If CapSouth utilizes the FinLife Partners' systems provided by United Capital in order to provide the Guidance Program to a client, the remainder of the description in this Guidance Program section will generally apply.

ADVISER's Financial Guidance services are generally delivered through the Guidebook which may include, but are not necessarily limited to, the following services (not all services are offered or applicable to all Clients):



- Money Mind® Analyzer:  
Help to identify and understand your dominant Money Mind®.
- Honest Conversations®  
Help to create a clearly defined set of priorities, in an effort to help improve financial life decisions.
- Financial Control Scorecard®  
Assess if you are on track to meet your financial life goals.
- A net worth summary
- A portfolio snapshot
- Financial goals review and analysis
- Portfolio construction (recommending appropriate investment strategies)
- Asset allocation recommendations
- Consolidated financial summaries

ADVISER offers modular planning services designed to meet individual Clients' specific needs. These services may include one or more of the following:

- Cash flow management
- Investment management recommendations for non-supervised assets (i.e. 401k's and 403b's)
- Retirement planning
- Insurance needs analysis
- Education planning
- Estate planning
- Tax planning
- Divorce planning

Certain Clients, for example, that are small businesses may require specialized needs analyses, planning, or business performance reviews or other services.

Clients may hire ADVISER to provide Financial Guidance services on a one-time basis or continually until canceled. For ongoing services, with the Client's cooperation, ADVISER normally meets with Clients no less than annually to monitor their risk profiles and objectives, updating the financial guidance provided to account for changes. Meetings may occur in-person or remotely by telephone or webinar. If Clients choose not to meet with ADVISER, financial guidance will be provided based on information received during prior meetings.

Although ADVISER generally recommends long-term investment strategies, ADVISER may recommend various short-term investment strategies to accommodate certain Client goals or objectives.

ADVISER performs Financial Guidance services for Clients with varying needs and circumstances, which may differ from, or contradict, financial guidance it may follow in the management of their own assets.

**One Time Guidance Plan (no ongoing review or updates)**

This service is designed to build a point in time plan with no ongoing assistance, planning reviews, or plan updates. This service may include financial planning, assistance with the initial implementation of recommendations as accepted by the client, estate planning, and a

one-time review of the client's investment assets. Financial planning may include identification of financial problems, cash flow and budget analysis, tax planning, social security analysis, risk exposure review, education funding, retirement planning, charitable goals, special needs planning, life insurance and disability insurance planning. Financial planning may also include other areas that are specific to the client. Online access to MoneyGuidePro may be provided so the client can view their financial plan. A hard copy may be provided upon request. The one-time Guidance plan may be created through United Capital's FinLife Partners systems depending on the client's desires and situation. The One Time Guidance Plan can be transitioned to ongoing Wealth Management or Guidance services per the client's request at the completion of the One Time Guidance Plan. Clients also have the option of engaging in a contract with CapSouth on an hourly basis or as needed for specific issues that the client would like assistance with.

#### **Tax Guidance**

Currently Lewis Robinson, who holds the CPA designation, is the only CapSouth team member permitted to give tax guidance. Should any further CapSouth team member earn the CPA designation, they would also be eligible to offer tax guidance. This service can be included as part of the Wealth Management, Guidance or one time planning programs. Several potential strategies may be created or addressed in Tax Guidance; these may include charitable giving, Roth conversion, income tax reduction of Social Security income, generational wealth transfers, etc. Results are offered as suggestions only, and clients are encouraged to consult their tax professional before taking any action.

#### **4.B.iii - Institutional Consulting Services**

CapSouth provides several advisory services separately or in combination to institutional clients. The primary clients for these services are defined benefit and defined contribution pension retirement plans. Institutional Consulting Services are comprised of several distinct services. Clients may choose from any or all the services offered by CapSouth.

##### *Investment Policy Statement (IPS)*

We will meet with the client to determine the investment goals, objectives, policies, constraints and risk tolerance. We will then prepare a written IPS stating those goals and objectives. The IPS will provide guidance for the selection of investment options and the procedures and timing interval for the monitoring of the selected investment options. The client is responsible for review and final approval of the IPS. No assurance can be given that the client will achieve the investment objectives in the IPS.

For clients with existing pension or profit sharing plans, we will evaluate any existing IPS and current investment options. We will then meet with the client to discuss and revise, as necessary, the plan's investment objectives and to revise the IPS if necessary.

##### *Investment Manager / Mutual Fund Search Report (for non 3(38) clients or non-discretionary clients)*

We will provide an Investment Manager/Mutual Fund Search Report consistent with the mutually agreed upon level of analysis. This report will be designed to provide the client with a list of investment managers whose investment philosophies and policies are, in the judgment of CapSouth Partners, compatible with the client's investment objectives, policies, constraints and risk tolerance, as stated in the IPS. It is the client's decision as to which investment managers to retain, and CapSouth does not assume responsibility for the client's selection of an investment manager or the manager's investment decisions or

performance. An investment manager's past performance is not necessarily indicative of future performance.

*Ongoing Investment Manager Due Diligence*

CapSouth will perform ongoing monitoring of the investment managers to ensure policy compliance within the established guidelines of the IPS.

*Performance Monitoring Reports*

CapSouth will periodically provide Performance Monitoring Reports based on the procedures and timing intervals stated in the IPS. The Performance Monitoring Reports will evaluate the performance of the client's investments over various time periods as well as comparing various aspects of such performance to benchmarks and peer groups, as established in the IPS.

*Discretionary Fiduciary Services (ERISA Section 3(38) Investment Manager)*

We can also provide discretionary fiduciary services, acting as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended (ERISA), solely with respect to the provision of investment advice as that term is defined under ERISA and will serve as an "investment manager" as defined in Section 3(38) of ERISA. A responsible plan fiduciary ("RPF") (or an authorized delegate of this fiduciary) must first develop an investment policy statement ("IPS"). Once the IPS is established and approved, we can review the investment options available through the plan and will notify the plan's record-keeper (platform provider) providing instructions to add, remove or replace specific "core" investment options to be offered to plan participants in accordance with the IPS guidelines. We can monitor the core investment options and, on a regular basis, provide reports to the RPF and provide instructions to the plan's record-keeper (platform provider) to remove or replace investments as appropriate in light of the IPS criteria.

When we are retained to provide discretionary fiduciary services, we will act as an Investment Manager and we will have the final decision-making authority with respect to removing or replacing investment alternatives in the core lineup, and the RPFs will not have any further responsibility to communicate instructions to any third-party service provider. This authority is limited to the plan's core lineup. Should the client or a plan sponsor request investment options not recommended by CapSouth, these investment options will be considered non-core options.

*Employee Education and Communication*

For pension, profit-sharing and 401(k) plan clients where participants exercise control over their own assets, CapSouth may also provide periodic educational support and investment workshops designed for the participants. The nature of the topics to be covered will be agreed upon by the client and CapSouth. The educational support and investment workshops will not provide Plan participants with individualized, tailored investment advice unless the Participant Advice feature detailed directly below is included in the services that CapSouth is contracted by the client to perform.

*Participant Advice*

For plans where the individual participant is exercising control over their own assets, CapSouth offers a service to provide investment advice regarding the participant's retirement plan assets. Each participant should complete a questionnaire regarding their goals and objectives and risk tolerance. The advisor will use this information to make the investment recommendations for the participants' individual retirement plan account.

An advisor will be available for participants to contact with questions via phone, on site meetings, or email. The decision to implement the recommendation is the complete responsibility of the participant. CapSouth does not guarantee the future performance of any specific investment or investment allocation. It is the responsibility of the participant to notify CapSouth of any changes in their investment objective or financial condition that may require a change in their allocation. The fee for this service may be paid by the participant or by the plan sponsor according to the consulting agreement which must be signed by the participant or the plan sponsor. We are compensated for this service based on a flat fee or a percentage of assets in order to avoid a conflict of interest when making investment recommendations.

#### *Asset Allocation Models*

CapSouth may provide investment advice to the client with respect to the establishment and management of asset allocation models. The models shall:

- A. be based on generally accepted investment theories that take into account the historic, long term returns of different asset classes;
- B. assure that all material facts and assumptions on which the models are based accompany the models when presented to participants;
- C. be accompanied by a statement indicating that other investment alternatives having similar risk and return characteristics may be available under the plan and identifying where information on those investment alternatives may be obtained; and
- D. be accompanied by a statement indicating that, in applying particular asset allocation models to their individual situations, participants or beneficiaries should consider their other assets, income, and investments in addition to their interests in the plan.

The participants have the option of selecting their own asset allocation and managing the investments themselves or to select one of the asset allocation models. These models are mostly made up of the funds that the participant has access to through the plan. CapSouth will notify the plan provider to make changes to these models without the participant's prior approval. The Client (Plan Sponsor) retains, and will exercise, final decision-making authority over the selection and monitoring of the investment options within the plan. Participants may transfer their accounts out of the models per the Plan's administrative guidelines and per any trading restrictions, requirements, or applicable fees. Participants can enroll in this program either at the time of plan enrollment or online after initial plan enrollment. Marshall P. Bolden, Chief Investment Officer and Anthony B. McCallister, Director of Retirement Plans determine the asset allocations and make investment decisions for these models.

#### *Additional Services for Employee Benefit Plans:*

We can also consult with the plan sponsor in the areas of plan design, administration, and provider due diligence, request for proposals, fee negotiations, enrollment packages, and fiduciary responsibilities. The services to be offered will be determined by the client and will be specifically outlined in the contract.

#### **4.B.iv - Consulting Services to Individual Clients**

Services may be provided that are not described in other types of agreements including but not limited to special estate planning needs, business management, buy-out negotiations,

review of client's benefits package, or life and disability policies only. These special services will be clearly defined in the client's contract.

#### **4.B.v - Investment Monitoring Program**

The Investment Monitoring Program allows a client to contract with CapSouth to monitor client accounts for which CapSouth is not the investment advisor. Based on the information obtained from the client, including the client's goals, risk tolerance and objectives, CapSouth will review the investments, taking into consideration the information obtained from the client. We will meet with the client at least annually to review the account, allocation of the assets, and to make any necessary changes to the client profile to reflect any changes in the client's circumstance.

Depending on the custodian of the client account(s) for which CapSouth is providing Investment Monitoring Services, CapSouth may have the ability to place trades in accounts in this program. If CapSouth does have trading access, the client has the option to grant CapSouth investment discretion over the account. For accounts for which CapSouth cannot obtain trading access, investment recommendations will be made to the client, but it is the client's responsibility to have any recommendations implemented.

CapSouth generally cannot have direct trading access to the client's account(s) unless the account custodian can provide CapSouth with unique advisor access that allows for both account trading authority and no authority to withdraw funds. The client is responsible for providing CapSouth with duplicate statement copies as necessary.

#### **4.C - Tailored Relationships**

Our advisory services or recommendations are tailored to the individual needs of clients. Client goals and objectives are discussed in meetings or through correspondence and are used to determine the recommendations to the client. The goals and objectives for each client are maintained electronically or in hard copy format.

CapSouth will accept limited security restrictions from clients on accounts invested in the CapSouth managed investment strategies, discussed in section 4.B.i (1) above.

CapSouth will accept limited security restrictions (up to 3 ETFs) from clients on accounts that CapSouth manages in the automated investment program (Program) as referenced in section 4.B.i (2) above.

For accounts managed by CapSouth in which a Sub-Manager is utilized, reasonable client security restrictions may be permitted depending upon the investment strategy of the Sub-Manager that is selected by the client and the types of restrictions the client would like.

#### **4.D – Wrap Fee Programs**

CapSouth does not participate in or sponsor any wrap fee programs.

#### **4.E - Managed Assets**

As of December 31, 2017, CapSouth Partners, Inc. managed approximately:

\$748,840,706 in assets for approximately 1105 accounts and 30 defined contribution plans.

Approximately \$137,041,582 is managed on a discretionary basis.

Approximately \$20,786,238 is managed on a non-discretionary basis.

Approximately \$591,012,886 is in defined contribution plans to which CapSouth provides continuous and regular supervisory services.

#### **4.F – Miscellaneous Items**

##### **FinLife Partners Service Offering**

In an effort to enhance the quality and breadth of services that ADVISER provides to its Clients, ADVISER utilizes a suite of digitally powered technology solution offered by FinLife Partners, a division of United Capital Financial Advisers, LLC (“FinLife Partners”). FinLife Partners provide access to its technology platform to the ADVISER that includes use of certain technology platform, training relating to use of such technology platform, and if elected by ADVISER certain clerical document and data compilation services. FinLife Partners is not in any way involved in, or responsible for, the individual investment management or guidance provided to Clients. The ADVISER pays FinLife Partners a flat fee for its technology implementation services and fees calculated per percentage-basis formula in accordance with the volume of clients for whom ADVISER utilizes such services and/or products. As such, for certain services offered, Clients indirectly contribute to the payment of cost of services paid to FinLife Partners. Relating to the cost for services, ADVISER is financially incentivized to refer clients to United Capital, creating a conflict of interest. Financial incentives are described in section 10.D below.

##### **ByAllAccounts**

CapSouth has the ability, through services provided by ByAllAccounts, Inc., to provide reporting services on investment assets that are not managed by CapSouth (“Excluded Assets”). CapSouth does not have trading access to these assets; as such, the client and any other advisor to these assets maintain all responsibility for trading of these assets and for the performance of these assets. CapSouth’s obligation(s) related to Excluded Assets is limited to performance reporting and potentially, if contracted to provide, to investment consulting. Implementation of any recommendations that CapSouth provides to a client related to Excluded Assets is the responsibility of the client or the advisor to the Excluded Assets. The client or their advisor to the Excluded Assets, and not CapSouth, is responsible for any trading errors, timing of trades, and/or any other errors related the trading or lack of trading of Excluded Assets.

##### **Client Responsibilities**

CapSouth does not verify the accuracy of information received from clients or from other professionals who work with clients. CapSouth will assume this information is accurate; it



is the responsibility of the client to provide accurate information or to notify CapSouth if inaccurate information has been provided to us. Various planning services offered by CapSouth rely on the client providing requested information. The quality of these planning services may be adversely affected should the client not provide requested information, and CapSouth may not be able to complete some planning services should the client fail to provide requested information. In such cases, CapSouth will complete planning services to which we have contractually agreed to the extent possible; CapSouth will not be obligated to refund any portion of planning fees should we not be able to complete all the agreed upon services due to a client's failure to provide requested information. It is also the responsibility of the client to promptly notify CapSouth of any pertinent changes in their financial situation, goals, and/or investment objectives.

### **Retirement Plan Participants that are also Investment Management Clients & Retirement Plan Rollovers – Conflicts of Interest**

CapSouth Partners may be named as the Investment Advisor on a retirement plan in which a participant is also a private client of CapSouth. This dual relationship could create a conflict of interest if the client expresses interest in moving assets from the retirement plan into an account(s) for which CapSouth would provide Investment Management services.

CapSouth does not give participant distribution or rollover advice to participants in an ERISA plan. CapSouth will provide education as to the options a person has upon leaving an employer through which they have an account in an ERISA plan. These options generally include:

1. Leave their account in the former employer's plan
2. Rollover their account to the new employer's plan
3. Rollover their account to an IRA and/or Roth IRA
4. Cash out the account
5. Some combination of the above options

If a client or potential client elects to use CapSouth as the advisor for a rollover to an IRA or Roth IRA from an account in an ERISA plan, a rollover disclosure form must be signed by the client and the CapSouth advisor of the client.

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

### **5.A - Description & Standard Fee Schedule**

CapSouth Partners, Inc. bases its fees on a percentage of client assets under management, assets under advisement, or net worth, or may charge flat fees or hourly fees. All fees are negotiable and fees among clients may differ depending on the services provided to them and the complexity of their situations. Fees for each service are explained in more detail below.

#### **5.A.i – Investment Management Services Fees (excluding the Automated Investment Program)**

This section applies to the following services described in Item 4:

1. CapSouth managed investment strategies
2. Advisor managed investment strategies

3. Utilization of a sub-advisor (“Sub-Manager”) to perform the investment selection, allocation of investments and trading within the account.

The standard fee for investment management is charged as a percentage of assets under management. There is a minimum annual fee of \$1,500 per household. The minimum fee may be waived under certain circumstances. A client may be charged a flat percentage fee based on the type of assets in the account. An increase or decrease can be applied to the fee schedule based on the services a client would like CapSouth to provide and the client’s assets under management with CapSouth. The client’s exact fee schedule is shown on the client’s signed contract.

- Fees are charged in advance at the beginning of each quarter.
- Fees are based on the account values as of the end of the previous quarter (unless otherwise stated on the contract).
- Fees are prorated based on the number of days in which the account was under management for the quarter.
- Additions and withdrawals of \$20,000 or more will result in a prorated fee adjustment during the quarter of the addition or withdrawal.
- Account Balances are totaled together for clients in the same household to determine the blended fee (see the sample fee calculation below).
- For households that generate at least \$4950 in fees to Capsouth, Guidance Services may be offered at no additional cost. Each client will choose whether or not to participate in the Guidance program. Fees will not necessarily be reduced if a client chooses to decline Guidance. See the Guidance section below for more details.
- Some clients may be grandfathered into older fee schedules that CapSouth has used in the past. In order for Guidance to potentially be included as part of their fees, clients must generally move to the Combined Fee Schedule shown below. Advisors may choose, at their discretion, to waive this requirement.

**Investment Management Fee Schedule (does not apply to accounts in the Automated Investment Program)**

| <b>AUM</b>                 | <b>Fee</b> |
|----------------------------|------------|
| \$0 to \$250,000           | 1.50%      |
| \$250,001 to \$1,000,000   | 1.20%      |
| \$1,000,001 to \$2,500,000 | 1.00%      |
| Over \$2,500,001           | 0.75%      |

**Sample Fee Calculation Based on the Investment Management Fee Schedule:**

A typical quarterly fee for a client with two investment management accounts and who is subject to this fee schedule would be calculated as follows:

|                                      |                             |                |
|--------------------------------------|-----------------------------|----------------|
| Acct # 1                             | Balance as of billing date: | \$350,000      |
| Acct # 2                             | Balance as of billing date: | \$400,000      |
| Total Assets Under Management (AUM): |                             | \$750,000      |
| Blended Fee Rate                     |                             | 1.30% per year |
| Quarterly fee                        |                             | \$2437.50      |
| Annual Fee                           |                             | \$9750         |



### **5.A.ii – Investment Management Services Fees - Automated Investment Program**

- The standard fee applied to accounts invested in the Automated Investment Program is 0.50%; this fee is not negotiable.
- CapSouth's fees are collected monthly in arrears.
- Fee calculations will be based on the account value at the end of the month
- Fees for the first month a client places an account in the Program will be prorated based upon how many days the account was in the Program.
- Incoming & outgoing cash flows will not result in fee adjustments. Fee will be applied to the month end balance of participating accounts regardless of cash flows.

### **5.A.iii – Financial Planning Services Fees**

#### **Wealth Management Services (previously titled Navigator Services)**

The fee for this service can be a flat fee or be based on a percentage of the client's total assets or net worth. The fees are adjusted based on the complexity of each case. Initial fees are determined at the beginning of the relationship and are stated in the signed client contract. If a client has assets under management with CapSouth there may be a discount applied to the cost of this service. If the fee is based on the client's net worth or assets the fee may be determined annually or quarterly depending on the types of assets that need to be valued. The fee is billed to the client quarterly in advance.

At the advisor's discretion and depending on the complexity of the client needs, the fees for this service may be included in the services CapSouth offers under its Investment Management Fee schedule (detailed in section 5.A.i above) if the client has at least \$1 million of assets under management with CapSouth. In such a case, whether or not the Wealth Management Services fee will be covered by fees collected through Investment Management fees will be determined by the scope of the work CapSouth is to perform and the total fees the client pays under the Investment Management fee schedule. The fee arrangement will be detailed in the advisory agreement with CapSouth that the client signs. If a client is on a grandfathered Investment Management fee schedule, has assets under management with CapSouth of under \$1 million, or has Assets Under Advisement to be included in the plan that CapSouth does not manage such that CapSouth manages less than 50% of a client's Assets Under Advisement, a separate Wealth Management fee will normally apply and will be detailed in the Wealth Management agreement or Financial Guidance agreement the client signs.

A typical Wealth Management Fee ranges from \$2,500 per year to \$10,000 per year.

#### **Guidance Program**

The Guidance Program can be priced in multiple ways depending on various factors and the client's specific situation. Guidance costs are generally based upon analysis of the Client's financial goals & needs and case complexity. A Client's specific pricing is described in the CapSouth Consulting Services & Planning Agreement and/or an additional Guidance or consulting agreement executed between ADVISER and the Client.

The costs assessed are based on a number of criteria, which may include, but are not limited to:

- Investable assets / assets subject to the agreement,
- Client net worth,
- Case complexity,
- Services provided / Client needs,
- The amount of time spent and/or anticipated to be spent with the Client,
- Preparation work prior to engagement, and/or
- Customization and whether or not services were requested on an expedited basis.

Costs may be charged in a number of ways depending on the specific services being rendered and the client's specific situation, including:

- A flat fee
- A percentage of the client's assets under advisement, net worth or assets under management

The cost is negotiated between ADVISER and the Client and may be subject to certain minimums, as described in the Client agreement. Cost of Services will normally be calculated and billed in advance at the beginning of each quarter. Fees may be billed or deducted from an account under CapSouth management. Rates vary depending on the agreed upon services.

Relating to how CapSouth prices Guidance services, Assets Under Advisement (AUA) shall generally mean all assets that are included in the Guidance Program and that are not considered "Other Assets" in the Guidance Program. Other Assets may include any assets to be included in a client's Guidance Plan for which CapSouth provides no management or advisory services.

Any client may choose to utilize the Guidance Program regardless of their Assets Under Management (AUM) with CapSouth, the amount of their AUA that CapSouth manages, or the fee amount CapSouth receives from managing the client's assets. If a client becomes eligible for the Guidance Program at no additional cost above the fees generated by the Investment Management Fee Schedule detailed in section 5.A.i above, we will normally discuss the program with the client. The client can determine if they would like to participate in the Guidance program or not. The decision to not participate may not decrease the fees that the client pays.

#### *Cost of Services*

- If fees generated through the CapSouth Guidance & Investment Services Agreement ("Client Agreement") exceed \$4950 and CapSouth manages more than 50% of your Assets Under Advisement (AUA), the ADVISER will prepare and provide you with a formal Guidance plan at no additional charge above those generated from the Investment Management Fee Schedule shown in section 5.A.i.
- If the fees generated through the Investment Management Fee Schedule shown in section 5.A.i are less than \$4950, a fee increase, that will be detailed in the Client Agreement, may be applied to the Investment Management Fee Schedule or a separate contract may be required in order to provide Guidance Planning.
- If the Client hires CapSouth for Guidance Planning only (client has no assets managed by CapSouth), the guidance costs shall be detailed in a separate contract with the Client. The minimum Guidance Planning Fee in such cases is typically \$2500 if Guidance is delivered through the FinLife Partners' program or \$1500 if the FinLife Partners' program is not utilized.

- iv. If CapSouth manages less than approximately 50% of Client's AUA and Guidance is delivered through the FinLife Partners's Guidance program, the Guidance Planning Fee shall be a separate fee from those assessed through the Client Agreement; this separate fee will be detailed in a separate contract with the Client. The minimum Guidance Planning Fee in such cases is \$2500.
- v. Money Back Guarantee for Financial Guidance Services: If, for any reason, Client is not satisfied with the Financial Guidance services delivered by ADVISER through the FinLife Partners' Guidance Platform, within the first year of executing a new advisory agreement, Client may request to have any cost for Financial Guidance services that they have paid reimbursed. This offer is only for Financial Guidance services and does not include investment management services. When a combination of services is provided, only the portion of fees attributed to Financial Guidance services are available to be reimbursed. If Client has received these Guidance services at no additional cost to them above the Investment Management Fee Schedule shown in section 5.A.i, the only amount that may be subject to a money back guarantee is the amount that CapSouth has paid to FinLife Partners for use of their program in providing the Guidance program to the client.

To pay for Guidance services, Clients may pay by check or provide ADVISER with written authorization to debit an investment account on the Client's behalf.

Guidance services are typically provided on an ongoing basis as described in the CapSouth Portfolio Services & Planning Agreement or a separate agreement unless otherwise designated as a One Time Guidance Plan.

#### **One Time Guidance Plan**

The fee for a One Time Guidance Plan is charged based on a flat fee, hourly fee, or the Assets Under Management or the Assets Under Advisement a client has with CapSouth. The fee will be adjusted based on the complexity of each case. The fee is determined at the beginning of the relationship and stated in the signed contract. The terms of payment are also specified in the client contract. Hourly clients are billed monthly or quarterly in arrears at the beginning of each month or quarter. For hourly clients, estimates are provided and a deposit is requested. Estimates for hourly work are not guaranteed.

A typical One Time Guidance Plan fee ranges \$1,000 to \$4,000

Sample hourly rates:

|   |                |
|---|----------------|
| Wealth Advisors and Wealth Managers               | up to \$350/hr |
| Chief Investment Officer/Chief Operating Officer  | up to \$300/hr |
| Relationship Manager & Other Administrative Staff | up to \$150/hr |

#### **5.A.iv – Fees for Consulting Services to Individual Clients**

Consulting fees will be based on an hourly charge ranging up to \$350 per hour or a flat fee. The fee will depend on the nature and complexity of the client's consulting needs. All fees are agreed upon prior to entering into a contract. CapSouth has a minimum consulting fee of \$1,000. The minimum fee may be negotiable. For clients paying a flat fee, all of the fee or a portion of the fee may be invoiced in advance; amounts not invoiced in advance will be invoiced at time periods and amounts specified in the consulting agreement. The client will be invoiced in arrears on a monthly or quarterly basis for hourly fees. An upfront

deposit on hourly fee contracts may be requested. All terms of payment are specified in the consulting contract.

Sample hourly rates:

|   |                |
|---|----------------|
| Wealth Advisors and Wealth Managers               | up to \$350/hr |
| Chief Investment Officer/Chief Operating Officer  | up to \$300/hr |
| Relationship Manager & Other Administrative Staff | up to \$150/hr |

### **5.A.v – Fees for Institutional Consulting Services**

CapSouth is deemed to be a fiduciary to advisory clients that are employee benefit plans pursuant to the Employee Retirement Income and Securities Act. Our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid prohibited transactions, we may only charge fees for investment advice about products for which our firm and/or related persons do not receive any commissions or 12b-1 fees.

#### **Standard Institutional Consulting Services Fees**

The fee for Institutional Consulting Services will be an asset based fee expressed as a percentage of plan assets or a flat annual fee. The fee will be based on the services requested, plan size, plan demographics, and investment complexity. Typically, a minimum annual fee of \$5,000 applies. Plan sponsors will normally be invoiced in advance at the beginning of each quarter based upon the value of the plan at the end of the previous quarter or the agreed upon flat fee; certain recordkeepers may require CapSouth to bill in arrears. Plan sponsors may elect to have the fee taken out of the assets of the plan by the record keeper or to have the fee paid by the plan sponsor. These fees are negotiable.

For clients whose fees are assessed as a percentage of assets the current fee schedule used by CapSouth for Institutional Consulting Services is:

| <b>Asset Level:</b>          | <b>Fee:</b> |
|------------------------------|-------------|
| \$0 - \$999,999              | 1.0%        |
| \$1,000,000 to \$1,999,999   | 0.35%       |
| \$2,000,000 to \$4,999,999   | 0.25%       |
| \$5,000,000 to \$9,999,999   | 0.10%       |
| \$10,000,000 to \$19,999,999 | 0.05%       |
| Above \$20,000,000           | 0.02%       |

Certain services offered to plan sponsors may result in an additional fee depending upon the scope of the services to be provided; any such fees can be paid from plan assets or directly by the plan sponsor. Services that may have additional fees include:

#### **Participant Education Meeting Fees**

Additional fees may apply for CapSouth to conduct such meetings, the fee typically starts at \$500 per day plus any expenses related to providing the education meeting(s); associated expenses include such items as travel, lodging, and dining expenses. Any fees for participant education meetings that are in addition to CapSouth's consulting fee will be detailed in the consulting contract. These fees can be paid from plan assets or directly by the plan sponsor.

### **Fees for the Production and Mailing of Enrollment Kits**

Should a plan sponsor contract with CapSouth to produce and mail enrollment materials to plan participants and/or to plan sponsor employees who will soon be eligible for participation in the plan, CapSouth may charge a fee for this service. The typical fee is \$7 per enrollment kit produced and mailed. If an additional fee for this service is charged, it will be detailed in the consulting contract. These fees can be paid from plan assets or directly by the plan sponsor.

### **Participant Advice Fees**

If set up for the participant to pay the fee: The fee for advice to individual participants of a corporate retirement plan ranges from 0.25% to 1.0% per year based on the complexity of the individual's situation or the agreement with the plan sponsor. In general, a minimum fee of \$100 applies, however this can be waived at CapSouth's discretion. The Participant Advice fee is charged directly to a participant's account.

If set up for the plan sponsor to pay the fee: Fees for participant advice may be included in the standard fee CapSouth charges for Institutional Consulting Services if the plan sponsor opts for this. This will generally result in higher fee to the plan sponsor. See the Standard Institutional Consulting Services Fees section directly above for more details.

### **Asset Allocation Models**

The fee for the Asset Allocation Models service will be paid under one of following fee arrangements. If paid at the plan level, the fee will be a percentage fee per year, not to exceed .15% per year of the fair market value of the assets of the retirement plan. If paid at the participant level, the fee will be a percentage fee per year of the fair market value of the individual's account that elects to use the service. The participant level fees range from .01% - .60% per year. This fee is charged in advance and may be paid by direct invoice or it may be deducted from the plan assets.

### **5.A.vi - Investment Monitoring Program Fees**

The fee for the Investment Monitoring Program is calculated as a percentage of assets being monitored or a flat annual fee. This percentage fee may be up to 2.0%. The fee will depend on the nature and complexity of the client's circumstances. The fee will be agreed upon in advance of services being rendered. Clients will be invoiced quarterly in advance or the fee may be deducted from an account specified in their investment contract. The percentage fee will be based on the value of the account at the end of the previous quarter.

## **5.B – Client Payment of Fees**

### **Investment Management Fees (does not apply to fees related to the CapSouth Automated Investment Program)**

Clients may choose to have fees deducted from a designated brokerage account at Charles Schwab or TD Ameritrade. The client must approve in writing the direct debiting of their investment account. Private clients may also choose to be invoiced directly. All fees are charged quarterly in advance.

### **Automated Investment Program Fees**

All fees for this program are deducted from the client's account. Client must approve this by electronically signing our client agreement prior to CapSouth beginning management of an account. Fees are billed monthly in arrears.

### **Financial Planning Services Fees**

Any fees for planning services that are in addition to the fees a client pays for Investment Management Services are detailed in an agreement signed by the client. Flat rate annual fees and fees based upon AUM, AUA or net worth are invoiced quarterly in advance. Hourly fees are charged either monthly or quarterly, per the client planning contract, in arrears; an estimated fee may be charged in advance.

### **Institutional Consulting Fees**

For Institutional clients CapSouth normally invoices the plan sponsor in advance at the beginning of each quarter. Certain recordkeepers require CapSouth to bill in arrears and primarily on a monthly basis. Plan sponsors may elect to have the fee taken out of the assets of the plan by the record keeper or the plan sponsor may pay the fee themselves. To have fees deducted from the plan it must be approved in writing by the client and a copy of the invoice will be sent to the Plan Sponsor and to the record keeper.

### **Individual Consulting Fees**

Flat rate annual fees and fees based upon AUM, AUA or net worth are invoiced quarterly in advance. Hourly fees are charged either monthly or quarterly, per the client planning contract, in arrears; an estimated fee may be charged in advance.

## **5.C – Other Fees Paid by Clients**

### **Sub-Manager Fees**

When ADVISER refers Client assets to a Sub-Manager, the Client is assessed an additional cost. The Sub-Manager fees will be paid directly from the client account. The fee is based on a percent of the Client's assets and ranges from 0.15% to 0.75%, depending on the manager and services provided. Sub-Managers also impose minimum investment requirements. The minimum amounts vary. In addition to Sub-Manager costs, the investment vehicles that Client assets are invested in may have their own associated cost. For instance, costs are charged to shareholders of mutual funds and exchange traded funds by the fund manager and deducted directly from the net asset value of the investment vehicle.

### **Mutual Fund Fees, Exchange Traded Fund (ETF) Fees, and Similar Investment Vehicle Fees**

Investment advisory services are separate and distinct from fees and expenses charged by mutual funds, ETFs, ETNs, closed end funds and other similar investment vehicles. The fees charged to the client for these type investment vehicles are described in the prospectus or similar documents. Fees will generally include management fees, other fund expenses and may include distribution fees. We encourage our clients to review any prospectus or similar document carefully. Clients can invest in certain funds directly, without the service of CapSouth.

### **Custodial & Trading Fees**

Custodians may charge transaction fees on purchases or sales of certain mutual funds, stocks, bonds, and exchange traded funds. In some cases, custodians also charge an annual



custody fee. Fees for trading & custody are disclosed to the clients prior to the client opening an account with a custodian. Please see the Item 12 below for more information.

## **5.D – Prepayment of Fees**

### **Investment Management Fees (does not apply to fees related to the CapSouth Automated Investment Program)**

If the advisory contract is terminated during a quarter, the client will receive a pro-rated refund for the fee paid during the quarter the contract was terminated. Clients should terminate their contract in writing. We will take the last fee charged to the client and pro-rate it based on the number of days the client was in the program for that particular quarter. The refund will be received as a credit to the client's account or the client could receive a reimbursement check.

### **Automated Investment Program**

Not applicable as fees are paid in arrears.

### **Financial Planning Services Fees**

For clients paying these fees in advance, if the planning contract is terminated during a quarter, the client will receive a pro-rated refund for the fee paid during the quarter the contract was terminated. Clients should terminate their contract in writing. We will take the last fee charged to the client and pro-rate it based on the number of days the client was in the program for that particular quarter. The refund will be received as a reimbursement check.

Clients who pay hourly planning fees may be entitled to a refund if they prepay an estimated cost. This would occur when the total fee for hours actually worked in association with the planning engagement is less than the prepaid estimated cost. In such cases, the refunded amount would equal the prepaid amount less the fees for actual hours worked. The refund will be received as a reimbursement check.

### **Institutional Consulting Fees**

If the consulting contract is terminated during a quarter and fees were paid in advance, the client will receive a pro-rated refund for the fee paid during the quarter the contract was terminated. Clients should terminate their contract in writing. We will take the last fee charged to the client and pro-rate it based on the number of days the client was in the program for that particular quarter. If the plan sponsor pays our fees, the refund will be received as a reimbursement check to the plan sponsor. If our fees are paid from plan assets, we will work with the recordkeeper to reimburse the plan.

### **Individual Consulting Fees**

If the consulting contract is terminated during a quarter, the client will receive a pro-rated refund for the fee paid during the quarter the contract was terminated. Clients should terminate their contract in writing. We will take the last fee charged to the client and pro-rate it based on the number of days the client was in the program for that particular quarter. The refund will be received as a reimbursement check.

Clients who pay hourly consulting fees may be entitled to a refund if they prepay an estimated cost. This would occur when the total fee for hours actually worked in association with the consulting engagement is less than the prepaid estimated cost. In such

cases, the refunded amount would equal the prepaid amount less the fees for actual hours worked. The refund will be received as a reimbursement check.

## **5.E – Compensation for Product Sales**

CapSouth employees receive no compensation, fees, commissions or similar benefits from the sale of mutual funds to individual clients or from mutual funds being placed as an investment option in a corporate retirement plan.

Employees of CapSouth may also be licensed insurance agents and may recommend that a client purchase an insurance or annuity product. Clients are under no obligation to purchase these products through CapSouth employees. If a client does decide to purchase an insurance or annuity product recommended by a CapSouth employee, the client should be aware that the employee and the firm may receive additional compensation. It is our goal at all times to put the interest of the client first; however, clients should be aware that the receipt of additional compensation itself creates a conflict of interest and may affect the judgment of these individuals when making recommendations.

CapSouth utilizes insurance and annuity disclosure forms that present product information and disclose the conflict of interest inherent in the client purchase of such products through CapSouth. An advisor will review this form with the client and have both the client and a member of the CapSouth management team sign the form prior to the placement of an insurance or annuity product.

Clients always have the option to purchase insurance & annuity products that we recommend through other brokers or agents that are not affiliated with CapSouth. Sometimes these products may be purchased at a lower cost than they would be through CapSouth.

## **Item 6 - Performance Based Fees**

CapSouth does not charge or participate in any type of performance based fees.

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

CapSouth generally provides investment advice to individuals, trusts, corporations (both for profit and non-profit), and pension plans.

A minimum of \$100,000 is generally required for an individual, trust or corporation to open a relationship with CapSouth; the exception to this would be clients utilizing our Automated Investment Program which has a \$5000 minimum account size. These minimums are negotiable at an advisor's discretion. Should a client fall below these minimum levels, CapSouth may opt to resign as the advisor.

CapSouth has no minimum size limits for corporate retirement plans.



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

### **8.A - Methods of Analysis**

In evaluating equities, we primarily use fundamental analysis. The main sources of our information are Morningstar, company websites, and financial websites. We primarily take a long term approach to investing and maintain diversified accounts and investment strategies.

Mutual funds and ETFs (exchange traded funds) are selected by screening for funds that meet certain criteria. We look at manager tenure, past performance, risk levels, expenses, investment philosophy, etc. The main sources of our information are Morningstar and fund company websites.

CapSouth may also recommend the use of a Sub-Manager for client accounts. Sub-Manager strategies are evaluated based upon manager tenure, past performance, risk levels, expenses, investment philosophy, etc. The main source of information regarding the strategies of Sub-Managers is normally information provided by the Sub-Manager. CapSouth will, in most cases, not be able to verify the accuracy of such information.

Our investment analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

#### **Risk of Loss**

All investment programs have certain risks. CapSouth manages portfolios with a goal of obtaining an appropriate rate of return for the amount of risk taken. We believe that the pain of losing money is greater than the joy of making money. The following risks may be associated with our investments and strategies and with portfolios that United Capital manages for us as a Sub-Manager: loss of principal, interest rate risk, market risk, inflation risk, currency risk, reinvestment risk, liquidity risk, credit risk, counterparty risk, financial risk and emerging markets risks including, but not limited to, political risk, less developed and/or efficient trading markets, differing accounting and legal standards, etc.

Securities investments are not guaranteed, and you may lose money on your investments.

### **8.B - Investment Strategies**

We have four Active Portfolios that primarily utilize investments that seek to outperform a given index over time. All four portfolios use the same or similar mutual funds and/or ETFs, but each one has a unique asset allocation or mix of investments. Each portfolio has a designated risk level and a target return. The asset allocations will change periodically based on our evaluation of market and economic conditions.

We have four Low Cost Portfolios that focus primarily on the reduction of investment costs by utilizing investments that seek to track a given index. All four primarily invest in ETFs and use the same or similar ETFs, but each one has a unique asset allocation or mix

of investments. Each portfolio has a designated risk level and a target return. The asset allocations will change periodically based on our evaluation of market and economic conditions.

Other investment strategies are available through the use of Sub-Managers. These include but are not limited to strategies designed with a primary focus of reducing taxes, reducing investment costs, reducing volatility, or outperforming an appropriate index.

### **8.C – Primary Security Types Utilized by CapSouth**

CapSouth primarily utilizes mutual funds and exchange traded funds (ETFs) in the investment management of client assets. The funds that we use are almost entirely diversified funds or funds that hold many different stocks and/or bonds. However, most funds we utilize tend to focus on a particular area of the market (Ex – US large cap growth, mortgage backed bonds, emerging market stocks, etc.); this leads to risks that the given area or sector of the market may underperform the broader stock or bond market. Many of the funds we utilize are considered active funds, or funds that seek to outperform a given index. These type funds tend to have higher expenses and be less tax efficient. There is also no guarantee these type funds can outperform the index and there is the possibility they may lag an appropriate index, sometimes by a significant amount. These type funds often rely heavily on the expertise of the management team or single manager in seeking to meet their objectives; changes in the management of these funds could adversely affect these funds.

ETFs that are thinly traded or have a low average trading volume have additional potential risks in that they may have high price spreads so that frequent trading could have a significant impact on returns.

## **Item 9 - Disciplinary Information**

### **9.A – Criminal or Civil Actions**

CapSouth has no items to report.

### **9.B – SEC or Regulatory Agency Proceedings**

CapSouth has no items to report.

### **9.C – Self-Regulatory Organization (SRO) Proceedings**

CapSouth has no items to report.

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

### **10.A – Broker Dealer or Register Representative Registrations**

CapSouth is not registered as a broker-dealer nor has any application pending to register as one. No CapSouth employees are registered as broker-dealer representatives, and no employees have pending applications to register as one.

## **10.B – Futures and/or Commodities Registration**

Neither CapSouth nor any of its employees are registered as a futures commission merchant, a commodity pool operator, a commodity trading adviser, or an associated person of the foregoing entities. There are no pending registration applications that would change this.

## **10.C – Relationships Material to Advisory Business**

Related persons of CapSouth may also be insurance agents for insurance companies. In this capacity individuals may receive revenue from the sale of fixed insurance and annuity products. These related persons may sell insurance products to CapSouth clients and non-clients. It is our goal at all times to put the interest of the client first; however, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations. Clients are under no obligation to purchase these products through CapSouth employees. CapSouth discloses this conflict of interest to clients. See Item 5.E above for more information.

## **10.D – Recommendation of Other Investment Advisors or Other Types of Professionals and Associated Conflicts of Interest**

CapSouth may at times recommend clients use certain legal or tax professionals based on the client's needs, however we do not receive any separate compensation for these referrals and have no agreement in place with any such professional by which they provide referrals back to CapSouth.

### **Trust Services – National Advisors Trust Company**

National Advisors Trust Company ("NATC") a national trust company, supports the fiduciary needs of clients who, through their estate planning efforts, prefer to continue to maintain their relationship with their financial advisory firm. NATC is a wholly owned subsidiary of National Advisors Holdings, Inc. ("NAH"). The mission of NATC is to support the delivery of trust and custody services to clients of the advisory firms it works with.

CapSouth may recommend NATC to its advisory clients seeking trust services. The grantor in a trust agreement would name CapSouth as the investment manager with discretion to manage the trust estate, and the agreement would also provide that NATC discharge the administrative, distribution, and, potentially, the custodial responsibilities of the trust. CapSouth's primary owner, Donald Bolden, has the right to purchase a small (less than 1%) ownership stake in NAH; over 120 other advisory firms or their owners, located around the U.S., also own equity interests in NAH. Donald Bolden, as a potential owner, may benefit by realizing future profits in the form of dividends or corporate distributions from NAH, in addition to any investment advisory fees paid under the trust agreement.

### **FinLife Partners**

ADVISER has a financial incentive to refer Clients to United Capital rather than manage the assets on its own or refer them to another adviser, creating a conflict of interest. When

ADVISER refers clients to United Capital for Sub-Manager services it receives various incentives, including:

- ADVISER will receive warrants to purchase United Capital parent company stock, if they transition a predetermined percent of their client assets under United Capital's management and place a predetermined percent of their clients into financial guidance offering that utilizes FinLife Partners' technology solutions, which is described in the "FinLife Partners Service Offering" section of this ADV.
- Certain technology implementation fees incurred by ADVISER in connection with ADVISER's use of FinLife Partners' technology solutions will be waived if a predetermined number of ADVISER's clients subscribe to ADVISER's guidance services that utilize such technology solutions and United Capital's Sub-Manager services.
- If ADVISER does not utilize predetermined threshold volume of Sub-Manager services or technology solutions offered by United Capital or FinLife Partners, as applicable, then the relationship with FinLife Partners may be terminated due to insufficient revenue generation.

To address this conflict, if the Client does not want to invest their assets with United Capital as the Sub-Manager or receive ADVISER's financial guidance services that require access to the FinLife platform, the Client may discuss alternative options with ADVISER.

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

### **11.A - Code of Ethics**

CapSouth has a Code of Ethics in place. This Code of Ethics is reviewed on an annual basis for any necessary revisions and signed and acknowledged by the employees on an annual basis. Our Code of Ethics outlines the established rules of conduct for all CapSouth employees. It is designed to govern personal securities trading for employees, the acceptance and delivery of gifts and entertainment from or to clients, the protection of client information, and our fiduciary duty to our clients among other things. Clients may request a copy of our Code of Ethics by emailing Marshall Bolden at [mbolden@capsouthpartners.com](mailto:mbolden@capsouthpartners.com) or by calling 334-673-8600.

### **11. B – Investment Recommendations Involving Securities in which CapSouth or its Employees have a Material Financial Interest**

CapSouth does not engage in principal trading, does not act as a general partner in any partnership in which it solicits client participation, and does not act as an investment advisor to any investment company. CapSouth does not recommend securities to clients in which it has a proprietary or ownership interest.

### **11. C - Participation or Interest in Securities Held by Clients**

Employees of CapSouth may buy or sell securities that are also held by clients or recommend to clients. This creates a potential conflict of interest in that an employee could purchase the same security as the client at a similar time or could trade ahead of a client

(front run a client). See 11.D directly below for more information as to how CapSouth attempts to prevent this from occurring.

## **11. D – Employee Trading in Securities Traded by Clients or Recommended to Clients**

Employees may not enter trades for a security in their own personal account before entering trades for the same security in client accounts. Employee trades should be placed after 2:45pm Central Time, or within 15 minutes of the closing of securities markets, to minimize the risk of accidentally frontrunning a client trade. Marshall reviews all trades with special attention being paid to employee or employee related trades. Marshall is the Chief Compliance Officer and the Chief Investment Officer. Marshall's personal trades are reviewed by Donald Bolden to ensure compliance with our Code of Ethics.

## **Item 12 - Brokerage Practices**

### **12.A - Selecting Broker-Dealers/Custodians**

CapSouth does not maintain custody of your assets that we manage although we may be deemed to have custody of your assets if you give us authority to withdraw our fee from your account (see Custody, below). Your assets must be maintained in an account at a "qualified custodian", generally a broker dealer or bank. In order for CapSouth to directly transact business on behalf of our clients, accounts must be held at Charles Schwab & Co., Inc. or TD Ameritrade, Inc. Both are a registered broker dealer & custodian.

We are independently owned and operated and are not affiliated with Charles Schwab or TD Ameritrade in any way. The custodian will hold your assets in a brokerage account and buy and sell securities when we or you instruct them to. You will determine if you want to use Charles Schwab or TD Ameritrade. You will open your account by entering into an account agreement with the custodian. We do not open the account for you, although we will assist you in doing so. If you do not wish to place your assets with Charles Schwab or TD Ameritrade then CapSouth likely will not be able to directly manage your account.

When selecting custodians/broker dealers to recommend to clients we consider a wide range of factors, including among others:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.)
- Availability of investment products (stocks, bonds, mutual funds, exchange traded funds, etc.)
- Quality of services
- Competitiveness of the prices of services and the willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our customers

## **12.A.i - Soft Dollars**

CapSouth endeavors to act in each of its client's best interest. However, CapSouth's requirement that clients maintain assets in accounts at Charles Schwab or TD Ameritrade may be based in part on the benefit to CapSouth of the availability of products and services provided by the custodian to CapSouth and not solely on the nature, cost or quality of custody and brokerage services provided, which may create a potential conflict of interest.

### **Charles Schwab**

For our client accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. Schwab's commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10,000,000 of their assets in accounts at Schwab.

### Products and Services Available to Us from Schwab

Schwab Advisor Services is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to institutional brokerage-trading, custody, reporting, and related services, many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of these services help us manage or administer our clients' accounts; while others help us manage and grow our business. Schwab's support services generally are available on an unsolicited basis (we don't have to request them) and at no charge to us so long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200.

### Services That Benefit You

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

### Services That May Not Directly Benefit You

Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research that we do have access to and can use to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

#### Services That Generally Benefit Only Us

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers.

Schwab may provide some of these services itself; in other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees.

CapSouth does not utilize all of these benefits however they are available.

#### Our interest in Schwab's Services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services as long as our clients collectively keep a total of at least \$10,000,000 of their assets in accounts at Schwab. The \$10,000,000 minimum may give us an incentive to recommend you maintain your account with Schwab, based on our interest in receiving Schwab's value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. Our decision to offer Schwab as a custodian and broker to our clients is supported by the scope, quality, and price of Schwab's services (see *Selecting Brokers/Custodians*) and not Schwab's services that benefit only us.

#### **TD Ameritrade**

CapSouth Partners, Inc. is not a party to any formal soft dollar arrangements with TD Ameritrade. CapSouth does receive certain products and services from TD Ameritrade free of charge.

#### Services That May Directly Benefit You

TD Ameritrade provides CapSouth with access to their institutional trading and custody services. They also provide us access to some investments that may not be available through their retail division, or could possibly have a higher transaction fee if traded through the retail division. The availability of these services and products is not contingent upon CapSouth having any specific amount of assets in custody or any volume or frequency of trading.

#### Services That May Not Directly Benefit You

TD Ameritrade also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts.

- Software and other technology that provide access to client account data
- Access to electronic order entry, including the simultaneous entry of trades for multiple accounts
- Pricing information
- The receipt of duplicate trade confirmations, statements, and tax forms
- Direct advisory fee debiting capabilities
- Access to market and industry research
- Assistance with back-office functions, recordkeeping, and client reporting



#### Services That Generally Benefit Only Us

TD Ameritrade also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers.

TD Ameritrade may provide some of these services itself; in other cases, it will arrange for third-party vendors to provide the services to us. They may also discount or waive its fees for some of these services or pay all or a part of a third party's fees.

CapSouth does not utilize all of these benefits however they are available.

#### **12.A.ii - Brokerage for Client Referrals**

Neither CapSouth nor any related person of CapSouth receives referrals from a broker-dealer or third party.

#### **12.A.iii - Directed Brokerage**

CapSouth does not offer directed brokerage. Clients have the option to determine if they would like their accounts held with Charles Schwab or TD Ameritrade. We will provide the client with information on the custodian/broker dealer however the client has the final decision on where to maintain their account. If a client would like to have their trades executed through another broker we will generally not be able to directly manage the account (enter trades, make requests on your behalf, etc).

### **12.B – Trade Aggregation**

CapSouth does not consider aggregating trades in its normal day to day activities due to the low volume of trades that we enter most days. However, when we are rebalancing or changing the allocations of any of our investment strategies in which multiple accounts are invested, we do consider aggregating trades. For securities that are not thinly traded or that have higher average trading volumes, the size of the trades we enter usually has little to no market impact. Aggregation is generally not used for trades in such securities. This has the potential result of clients receiving execution prices that are slightly different. For securities that are thinly traded, or have a low average trading volume, we may aggregate trades in an attempt to receive a better execution price and so that each client receives the same execution price.

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

### **13.A - Periodic Reviews**

- (1) Account Review Meetings: the frequency of this type of review is determined on a client by client basis. These meetings are usually set up quarterly, semi-annually or annually based on the needs of the client. These meetings usually cover topics that include: changes to the client's financial situation, goal changes, Guidance plan status,



performance reviews, investment reviews and recommendations, cash flow monitoring, risk tolerance, market discussion, etc. For clients in the Wealth Management program, there is normally one meeting per year that is focused on updating and reviewing their long-range plan. For Guidance Clients at least one meeting every two to three years will be used to update their Guidance Plan. In some cases the review schedule may be altered based on the specific needs of the client; this will be agreed upon by the client.

- (2) Discretionary Account Reviews: accounts that are in the CapSouth discretionary investment strategies are reviewed on at least an annual basis in order to ensure that the accounts are within the guidelines of the Investment Policy Statements. These reviews are conducted separately from a review meeting with a client.

Account Reviews, Guidance Reviews and Wealth Management reviews may be performed by any Wealth Advisor or Wealth Manager of CapSouth. Discretionary Account Reviews are conducted by Marshall Bolden or Donald Bolden for accounts in investment strategies managed by CapSouth.

### **13.B - Review Triggers**

Account reviews may be performed outside of the standard procedures when a client's investment objectives or life circumstances change, when a client requests a review, and, in the case of discretionary accounts, when the target asset allocation of the underlying portfolio is changed.

### **13.C - Regular Reports**

Performance reports on all billed accounts are prepared on a quarterly basis. At a minimum the reports contain performance information for the quarter and year to date, and market values.

Wealth Management clients will receive an annual or bi-annual update report related to their Wealth Management Plan. This report will normally contain an update of their assets and liabilities, stated goals, various scenarios summarizing the results of their plan and any recommended changes. This report is available as a hard copy or online through the planning program MoneyGuidePro (if the report is generated through MoneyGuidePro). The ability to provide these reports is dependent upon the client providing us the information necessary to produce the report. As such, some reports may not contain all the information normally presented in these reports if we have been unable to obtain all pertinent information.

Guidance clients will usually receive a report that updates their Guidance Plan every two to three years or more often depending on the client's situation. This report will normally contain an update of their assets and liabilities, their retirement and education goals, and various scenarios summarizing the results of their plan and any recommended changes. This report is available as a hard copy and generally online through the planning program MoneyGuidePro. For Guidance clients whose plan is provided in conjunction with the FinLife Partners' Guidance program, a Guidebook may also be provided. The ability to provide these reports is dependent upon the client providing us the information necessary to produce the report. As such, some reports may not contain all the information normally presented in these reports if we have been unable to obtain all pertinent information.

Custodians of client accounts provide regular account statements directly to the client on a monthly to quarterly basis. The custodian's periodic statements are considered the official record and they supersede any statement or report that CapSouth provides to the client.

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

### **14.A – Benefits Provided to CapSouth from External Sources and Related Conflicts of Interest**

As detailed in Item 12.A.i above, our custodians make products and services available to us that may not benefit the client in exchange for our use of their custody and brokerage services for client accounts. Examples include:

- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting
- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers.

Clients should be aware that the receipt of these benefits creates a conflict of interest; CapSouth would not receive these benefits if we did not place client assets with our custodians. Clients can direct CapSouth to custody their account(s) at any custodian we currently utilize. If, due to this conflict of interest or for any other reason, a client or potential client requests to utilize a custodian we do not have a custodial relationship with and still have CapSouth provide planning and/or investment services, we will consider such requests, but acceptance will be at our sole discretion.

### **14.B - Incoming Referrals**

CapSouth is very pleased to accept referrals from clients, attorneys, accountants, friends or other sources. We do not pay for these referrals. Certain employees may receive a bonus for helping CapSouth obtain a new client.

### **14.C - Referrals to Other Professionals**

CapSouth does not accept any referral fees from other professionals when we refer a prospect or a client to them.

## **Item 15 - Custody**

For accounts held with Charles Schwab or TD Ameritrade, under government regulations, we are deemed to have custody of your assets, because you authorize us to instruct the custodian to deduct our advisory fees directly from your account. Charles Schwab and TD Ameritrade maintain actual custody of your assets.

CapSouth may also be deemed to have custody of client assets since we will forward checks to custodians on behalf of our clients.

We will prepare quarterly performance reports for billed accounts for which we provide investment management services, and we will prepare period reports for planning clients that relate to their Guidance or estate plan, net worth, assets & liabilities, etc. We urge you to compare these reports that CapSouth provides with the periodic account statements that you receive from your qualified custodian.

Reports related to our planning services may contain bank account balances, liability information, real estate values and other financial data. This information is obtained from the client or through a direct link that the client has established between their institution and Envestnet or MoneyguidePro. Some of these assets may be hard to value, and we will rely on the client to confirm this information. This type of information is used in long range planning for the client. Clients are urged to confirm this information periodically. CapSouth does not accept client login credentials to obtain any such information.

## **Item 16 - Investment Discretion**

### **Discretionary Authority for Trading**

CapSouth accepts discretionary authority to manage securities on the behalf of clients. We use discretion in determining the securities to be bought and sold, the quantity to be bought and sold, and the timing of the transactions. Discretion means we can act on your behalf without your approval for each transaction. If discretionary authority has not been given to us by the client we will obtain the client's approval prior to each transaction. Discretionary trading allows us to efficiently process trades in client accounts once changes in portfolios have been approved. Clients receive confirmations of all trades and may call to discuss the transactions with us at any time.

### **Discretionary Authorization**

In order for CapSouth to have discretionary authority over a client's account the client must sign an agreement giving CapSouth this authority. This agreement must be then approved by an Investment Advisor Representative. Each custodian also requires a client signature giving the Advisor trading authorization over their account. This is usually done at the time the account is opened using account applications.

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

CapSouth generally does not have the authority to vote proxies on behalf of its clients. Clients will receive proxies or other solicitations directly from the custodian or transfer agent, not from CapSouth. If a client has a specific question relating to voting on securities and would like to discuss it with an Investment Advisor Representative, they may do so.

## **Item 18 - Financial Information**

### **18.A – Balance Sheet**

Since we do not require prepayment of more than \$1,200 in fees per client, six months or more in advance, a balance sheet is not required to be provided.

**18.B - Financial Condition Likely to Impair CapSouth's Ability to Meet Client Commitments**

CapSouth does not have any financial condition that is reasonably likely to preclude us from meeting our contractual commitments to our clients.

**18.C – Bankruptcy Petitions in Last 10 Years**

CapSouth has no items to report.