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This brochure provides information about the qualifications and business practices of Phocas Financial Corporation. If you have any questions about the contents of this brochure, please contact us at (510) 523-5800 or [information@phocasfinancial.com](mailto:information@phocasfinancial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Phocas Financial Corporation also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

Being a registered investment adviser with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

THERE HAVE BEEN NO MATERIAL CHANGES SINCE OUR LAST ANNUAL UPDATE

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## **ADVISORY BUSINESS**

### **The Firm**

Phocas Financial Corporation (“Phocas”) is an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). Phocas, founded in 2005, is an emerging institutional asset manager who accepted its first institutional account in June of 2006.

As of December 31, 2010, Phocas manages approximately \$679.7 million on a discretionary basis.

Although all portfolio managers are stockholders of Phocas, the principal owner is William F. K. Schaff.

The portfolio managers at Phocas have been managing institutional assets since 1986 and have been a stable investment team for over 12 years. They formerly managed assets for institutional investors at the then Bay Isle Financial Corporation.

### **Advisory Services**

Phocas provides investment advisory services to institutions, private clients, other investment advisors, and mutual funds. Phocas specializes in:

- Small Cap Value equities;
- Large Cap Value equities;
- Real Estate Investment Trusts ("REITs"); and

Portfolios are designed to meet criteria established by client investment policies and guidelines. Phocas’ goal is to deliver attractive long-term returns with low turnover and moderate risk.

To enable individual investors to benefit from the expertise we provide to our institutional clients Phocas also offers The Phocas Real Estate Fund (PHREX) which invests in securitized commercial real estate stocks. It is a “no load” mutual fund offered at Charles Schwab and US Bancorp. Please see the Prospectus and Statement of Additional Information for more information.

## **FEES AND COMPENSATION**

Phocas’ fees are calculated as a percentage of the total market value of assets under management and are generally billed quarterly in arrears. Institutional clients are billed accordingly. Fees may be negotiable and may vary according to particular arrangements with clients. Clients may terminate an investment advisory agreement upon formal written notice to Phocas. In the event a client terminates the relationship prior to quarter-end, client will pay a pro-rated fee calculated to termination date.

Our fees may be directly debited from individual client's custodial account. Clients provide us with written authorization to directly debit advisory fees from their account. We will send the client an invoice showing the amount of the fee, the value of the client's assets on which the fee was based, and the specific manner in which our fee was calculated. We will send the custodian a similar invoice indicating only the amount of the fee to be paid by the custodian. It is the client's responsibility to verify the fee calculation. The custodian will not determine whether the fee is properly calculated. The custodian will send to the client a statement, at least quarterly, indicating all amounts disbursed from the account including the amount of the advisory fees paid directly to us.

The account Custodian may charge fees, which are in addition to and separate from the investment advisory service fee. Custodians may charge accounts for various transaction costs, retirement plan and administration fees. In addition, some mutual fund assets deposited in the account may have been subject to deferred sales charges and 12 (b)(1) fees and other mutual fund annual expenses as described in the fund's prospectus. Advisory clients should also note that fees for comparable services vary and lower fees for comparable services may be available from other sources.

The fee schedules, subject to negotiation, are as follows:

**A. Institutional Clients (\$10 MM Minimum):**

- First \$50 million: 1.00%
- Next \$50 million: 0.85%
- Remainder over \$100 million: 0.75%

**B. Institutional Clients with a Performance-Based Fee (\$10 MM minimum):**

- For Long-Only accounts: 0.65% per annum, payable quarterly, plus 15% of excess return over mutually accepted benchmark return, payable annually.
- For Long and Short accounts: 1.0% per annum, payable quarterly, plus 20% of excess return over mutually accepted benchmark return, payable annually.

**C. High Net Worth Clients (\$5 MM minimum):**

- 1.0% per annum

While the above normally applies for High Net Worth Clients, Phocas may agree to a different fee based upon certain circumstances such as the amount of assets under management, the nature of such assets, the services provided, and other factors.

**D. Mutual Funds**

Phocas receives fees as a sub-adviser to certain mutual funds. For its services as sub-adviser, Phocas receives a fee calculated as a percentage of the total market value of assets under management which is a portion of the investment advisory fee charged by the investment adviser

to each of the mutual funds. Management fees offered to those with individually managed accounts may be lower/higher than the management fee Phocas receives from the mutual funds for managing similar assets.

Phocas, on behalf of its clients, may also purchase and sell shares of the Phocas mutual fund for which it acts as investment advisor. Where applicable, such purchases and sales by clients of the firm which are subject to ERISA are done in accordance with DOL Prohibited Transactions Exemption 77-4.

Phocas reserves the right to waive management fees for any accounts.

### **PERFORMANCE-BASED FEES**

Phocas manages assets pursuant to a performance-based incentive fee that is combined with an asset-based fix fee. Therefore, Phocas can be said to have an incentive to favor accounts. This conflict is addressed primarily because the total amount of the assets in question is less than one percent (1%) of Phocas' total AUM.

### **TYPES OF CLIENTS**

Phocas' clients include:

- High net worth individuals,
- Investment Companies,
- Pension and profit sharing plans,
- Charitable organizations,
- Corporations and/or other businesses, and
- State and/or municipal government entities.

Phocas subscribes to a minimum account size of \$5 million for High Net Worth Individuals and \$10 million for institutional clients. Minimum account size may be waived under certain circumstances.

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

#### **U.S. Small Capitalization Value Equity and U.S. Large Capitalization Value Equity**

These strategies employ fundamental research, GICS sector-peer decile ranking algorithms, and various ratio analyses to value investment candidates and portfolio holdings. At the portfolio level, risk is managed by observation of fundamental information, valuations, and portfolio diversification.

**Real Estate Investment Trusts (REITs)**

This strategy depends on fundamental research, compound valuation and various ratio analyses to value investment candidates and portfolio holdings. At the portfolio level, risk is managed by observation of fundamental information, valuations, and portfolio diversification.

**Risk**

These strategies may invest in foreign securities which involve political, economic and currency risks, greater volatility, and differences in accounting methods. The REIT strategy is non-diversified, meaning it may concentrate its assets in one asset class and/or fewer individual holdings than a diversified strategy. Therefore, the REIT strategy is more exposed to individual stock volatility than a diversified strategy.

The Small Cap Value strategy invests in small-cap companies, which involves additional risks such as limited liquidity and greater volatility. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.

***There is an inherent risk of loss of both income and principal that is associated with investing in any securities, including mutual funds.***

**DISCIPLINARY INFORMATION**

Neither Phocas nor any management persons has been involved in any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our advisory business or the integrity of its management.

**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Phocas offers The Phocas Real Estate Fund (PHREX) which invests in securitized commercial real estate stocks.

This Fund is a "no load" mutual fund offered at Charles Schwab and US Bancorp. Please see the Prospectus and Statement of Additional Information for more information.

Phocas, on behalf of its clients, may also purchase and sell shares of the Phocas mutual funds for which it acts as investment advisor. Where applicable, such purchases and sales by clients of the firm which are subject to ERISA are done in accordance with DOL Prohibited Transactions Exemption 77-4.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.**

Phocas has adopted a Code of Ethics (the “Code”) for the purpose of instructing its personnel in their ethical obligations and to provide rules for their personal securities transactions. Phocas and its personnel owe a duty of loyalty, fairness and good faith towards their clients, and the obligation to adhere not only to the specific provisions of the Code but to the general principles that guide the Code. The Code covers a range of topics that may include general ethical principles, reporting personal securities trading, exceptions to reporting securities trading, reportable securities, initial public offerings and private placements, reporting ethical violations, distribution of the Code, review and enforcement processes, amendments to Form ADV and supervisory procedures. Phocas will provide a copy of the Code to any client or prospective client upon request.

### **Participation or Interest in Client Transactions – Applicant Has Financial Interest:**

Phocas will not double charge its advisory clients fees when recommending the Phocas Real Estate Fund (PHREX) and/or the Frontegra Phocas Small Cap Value Fund (PHSVX). Phocas clients owning PHREX and/or PHSVX will only be charged the expense ratio of the Funds.

### **Personal Trading Policy:**

Priority on all purchases and sales of securities are first given to clients. All personal trades must be conducted in a way that does not conflict with the interests of a client.

Phocas requires that all security trading in Proprietary Accounts be pre-approved by the CCO, CEO or their designee (“Authorized Person”). If necessary, the Authorized Person may cancel any trade and allocate the trade to a client account at the end of the day. Employees will promptly be notified of approvals or denials of personal trades verbally or via email. If approved, the Employee will have the balance of the trading day to complete the approved trade.

Phocas also has procedures to ensure that no front-running of client accounts takes place. Transactions in options, derivatives or convertible instruments that are related to a transaction in an underlying Security for a client account (“inter-market front running”), are also subject to the same procedures and restrictions.

Neither Phocas nor an Employee may engage in principal transactions between a Proprietary Account and a client account without first obtaining the prior written approval of the Authorized Person and the consent of the client.

No Employee may acquire, directly or indirectly, beneficial ownership of any Security in a private placement or in an initial public offering without the prior approval of the Authorized Person.

It is unlawful for any person, acting alone or with others, to affect a series of transactions in any security registered on a national securities exchange creating actual or apparent active trading in such security or raising or depressing the price of the security, for the purpose of inducing the purchase or sale of such security by others. Buy or sell programs may cause stock prices to rise

or fall, and price changes resulting from supply and demand factors are not prohibited. Activities where there is a purpose to affect the price of a security artificially through trading or apparent trading, not where such change is an incidental result of a change in supply, demand, or in the intrinsic value of a security is prohibited.

Each person associated with the Phocas is required to maintain a standard of conduct in effecting securities transactions for his or her own account or on behalf of others, that avoids both the reality and the appearance of gaining personal advantage on the basis of material, nonpublic information or at the expense of any third party, including Phocas' clients or end-users.

Violations to Phocas' Trading Policy are subject to various sanctions, ranging up to, and including, dismissal or termination at the discretion of the CCO and/or CEO.

## **BROKER PRACTICES**

Generally, Phocas has discretionary authority to determine the securities to be bought and sold for clients, the amount of such securities, the broker-dealer to be used and the commission to be paid, subject to a client's established guidelines. Phocas will use best efforts to obtain the best available price and most favorable execution ("best execution") with respect to all portfolio transactions executed on behalf of its clients.

In selecting a brokerage firm and negotiating commission rates when placing a trade on behalf of a client account(s), Phocas considers the full range and quality of brokerage services available, in conjunction with a security's price, liquidity, and order size. These include but are not limited to: capable floor brokers or traders, competent block trading coverage, good communications, ability to position, financial condition, general research services, retail distribution and underwriting, use of automation, research relating to a specific transaction, arbitrage skills, administrative ability or provision of market information relating to a security. Phocas will make periodic evaluations of the quality of brokerage services provided by firms selected. Brokerage services will be obtained only from those firms which meet Phocas' standards, are financially sound, and can be expected to supply such services reliably and continuously. In addition, Phocas may use alternative trading systems and/or Electronic Communications Networks (ECNs), e.g. Instinet, to facilitate best execution efforts.

### **Allocation of Client Transactions**

While investment decisions for clients managed Phocas are made independently, the same investment decisions may be made for more than one client. In this circumstance, should purchase and sell orders of the same class of security be in effect on the same day, the orders for such transactions may be combined in order to seek the best combination of net price and execution for each. Client orders partially filled will, as a general matter, be allocated pro-rata in proportion to each client's original order, although exceptions may be made to avoid, among other things, odd lots and de-minimis allocations. Execution prices for a combined order will be averaged so that each participating client receives the average price paid or received.



### **Cross Transactions**

There may be circumstances under which Phocas deems it appropriate to cause one of its clients to sell a security and another of its clients to purchase same security at or about the same time. Consistent with its fiduciary obligations to each client and the requirements of best price and execution, Phocas may, under such circumstances, arrange to have the purchase and sale transaction effected directly between its clients ("cross transactions"). A cross transaction would be effected on the basis of the current market price of the security or at a price reasonably determined to reflect the fair value of the security, which may be based on the independent dealer quotes or information obtained from recognized pricing services. Cross transactions may also be executed through third party brokers. Phocas will not receive compensation (other than its advisory fee), directly or indirectly, for effecting a cross transaction between clients, and accordingly will not be deemed to have acted as a "broker" within the meaning of Section 206(3) of the Investment Advisers Act of 1940 with respect to the transaction. Cross transactions may not currently be effected with any client account that is subject to ERISA.

### **Directed Brokerage Arrangements**

Certain clients may request that Phocas allocate brokerage to specific broker-dealers that have agreed to pay expenses for which the client would otherwise be responsible, or to provide services directly to that client. Such direction may prevent the client's order from receiving execution terms as favorable as those enjoyed by other clients in such instances with respect to the same securities. Phocas highlights the following possible consequences of directed brokerage: (1) trades would not obtain the cost and execution benefits of participating in aggregated trades with other clients; (2) the client's transactions may not be executed until after Phocas executes transactions for accounts that do not direct brokerage; and (3) by directing brokerage to a particular broker-dealer, the client may not always be receiving the best execution of its trades.

### **Block Trading**

In placing its orders to purchase or sell securities in accounts, principals of Phocas may elect to aggregate orders. In so doing, Phocas will not aggregate transactions unless aggregation is consistent with its duty to seek best execution and the terms of Phocas' investment advisory agreement with each client for which trades are being aggregated; no advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all Phocas' transactions in that security on a given business day, with transaction costs shared pro-rata based on each client's participation in the transaction; Phocas will prepare, before entering an aggregated order, a written statement ("Allocation Statement") specifying the participating client accounts and how it intends to allocate the order among those clients.

If the aggregated order is filled in its entirety, it will be allocated among clients in accordance with the Allocation Statement; if the order is partially filled, it will be allocated pro-rata based on the Allocation Statement; notwithstanding the foregoing, the order may be allocated on a basis different from that specified in the Allocation Statement if all client accounts receive fair and equitable treatment and the reason for different allocation is explained in writing and is approved in writing by Phocas' compliance officer no later than one hour after the opening of the markets on the trading day following the day the order was executed.

Phocas' books and records will separately reflect, for each client account, the orders of which are aggregated, the securities held by, and bought and sold for that account; funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the client's cash nor their securities will be held collectively any longer than is necessary to settle the purchase or sale in question on a delivery versus payment basis; cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement; Phocas will receive no additional compensation of any kind as a result of the proposed aggregation; and individual investment advice and treatment will be accorded to each advisory client.

## **REVIEW OF ACCOUNTS**

All portfolios will be formally reviewed weekly by investment personnel. This will include a review of portfolio performance versus benchmarks by sector and security. Exceptional performers, both up and down, will be noted and discussed in detail by investment personnel. Reviewing investment personnel will include, at minimum, one Portfolio Manager but, in most cases, will include two Portfolio Managers. Company performance is measured and monitored daily to note exceptional performances. Any daily exceptional price moves, considered +/- 5% change in value from prior day close, will be immediately noted by monitoring Investment Personnel and reviewed for significance and/or potential action. Any action or inaction will be noted. Clients, at times, may request exceptions either at the security and/or sector level. The limit on number of accounts will be dependent upon the size of the accounts placed, total assets under management, and the impact on security marketability and liquidity.

Clients will receive a quarterly report summarizing their portfolio performance from inception, year-to-date and quarter-to-date based on GIPPS performance standards. The report will include all portfolio positions, including cash and money market funds. Quarterly report will also include security market value and cost basis as well as overall portfolio market value. Each quarterly report will have a general financial summary and explanation of performance for latest quarter.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Phocas has arrangements, orally and in writing, with various persons and entities under which Phocas will pay for client introductions. Most of the arrangements are on a "sliding" basis, on which these payments are calculated as a portion of fees paid to Phocas for managing the assets introduced by the specific person or entity in question, and are typically paid over three or four years. For example, for the three-year arrangements, 15%, 10%, and 5% of the fees paid for each of the first three consecutive 12-month periods for which Phocas manages assets introduced by a specific person or entity are paid to said person or entity. One arrangement is "perpetual". Pursuant to that agreement, Phocas will pay a portion of any fees paid to Phocas for managing the assets in question for the entire time that those assets remain under management by Phocas.

## **CUSTODY**

As stated in Fees and Compensation (Pages 1 - 3), our individual clients may provide us with written authorization for us to debit their custodial accounts for our management fees.

We strongly recommend that the client compare the account statement they receive from the custodian to the one they receive from us to ensure that the calculation of the management fee is accurate. If the client sees a discrepancy or an error, the client should notify us immediately.

## **INVESTMENT DISCRETION**

Generally, Phocas has discretionary authority to determine the securities to be bought and sold for clients, the amount of such securities, the broker-dealer to be used and the commission to be paid, subject to a client's established guidelines. Prior to accepting any client account, Phocas requires that an Investment Management Agreement (the "Agreement") be executed by the client and Phocas. The Agreement details the client's investment objectives and restrictions if any.

## **VOTING CLIENT SECURITIES**

Clients of Phocas may authorize us to vote proxies on their behalf or they may retain the authority to do so themselves.

Phocas has outsourced and adopted the Institutional Shareholder Services Inc. ("ISS") 2011 U.S. Proxy Voting Policy. Accordingly, all proxies shall be submitted to ISS directly from the custodian and available for review and vote by Phocas personnel. Phocas will generally vote in-line with the ISS recommendations, but reserves the right to go against the recommendation if management deems it is in the best interest of the shareholders.

The 2011 U.S. Policy Guidelines as published by Institutional Shareholder Services is available online at [http://www.issgovernance.com/policy/2011/policy\\_information](http://www.issgovernance.com/policy/2011/policy_information).

If you have any questions about our proxy voting policy, please email us at [info@phocasfinancial.com](mailto:info@phocasfinancial.com).

## **FINANCIAL INFORMATION**

We do not require nor solicit our clients to prepay management fees at any time for any amount.

## **OTHER DISCLOSURE**

Employees of Phocas may from time to time, personally invest in private investments that are not suitable for our clients. There may be instances where these private investments may decide to go public, and as such may pass through our screens and become a security that is suitable to invest for our clients. As with all securities we invest in on behalf of our clients, these securities would also have to go through our investment process to ensure that they are suitable investments for our clients.

Prior to an employee selling the security (that went public), the employee would have to seek pre-approved as required by our Code of Ethics and Personal Trading Policies (See Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – pages 5 – 6).