

**Form ADV Part 2**  
**DISCLOSURE BROCHURE**

**Integrity Fixed Income Management, LLC**

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January, 2018

This brochure provides information about the qualifications and business practices of Integrity Fixed Income Management, LLC. Please contact us at the number listed above if you have any questions about the contents of this brochure. 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 Integrity Fixed Income Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **MATERIAL CHANGES**

**There have been no material changes since the last annual update of our ADV Part 2. However, various clarifications were made to the Advisory Business, Types of Clients, Client Transactions and Personal Trading, Brokerage Practices, and Client Referrals. The last annual update of our ADV Part 2 was February, 2017.**

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## **Integrity Fixed Income Management, LLC**

### **Disclosure Brochure**

#### **ADVISORY BUSINESS**

##### **A. History and Description of Our Firm**

Integrity Fixed Income Management LLC ("Integrity") is an SEC registered investment adviser focused on the management of fixed income portfolios for institutional investors. Integrity was formed in 2005 and is located in Orlando, Florida. Integrity is 100% employee owned and managed. The principal owners are Michelle A. Denney and L. Earl Denney.

##### **B. Services Offered**

Integrity's primary service is providing separate account management for our clients. Within the philosophies described below, our general investment strategies are to make long term (securities held at least a year) and short term (securities sold within a year) purchases. Our core expertise is active bond management (including corporate, government, government agency, and government agency mortgage backed securities).

In addition to active bond management, Integrity utilizes passive strategies to manage portfolios against Treasury Inflation Protected Securities (TIPS) indices.

Services include the management of domestic fixed income portfolios. In addition to the types of securities described above, we may invest in asset backed securities, commercial mortgage backed securities, municipal bonds, money market instruments and such other securities that we may select, unless expressly limited by written direction or client guidelines.

Each actively managed portfolio is designed to achieve a rate of return in excess of a specified benchmark, while each passively managed portfolio is designed to achieve a rate of return that equals a specified benchmark, before fees. We are primarily a "core manager" and are typically given the responsibility of managing most, if not all, of the client's fixed income investments.

##### **C. Customization of Services Offered**

We have discretionary authority to make determinations regarding the securities that are to be bought and sold, as well as the quantities of such securities, for most clients. Such authority is provided in our contract with each client. In many cases, this discretion is subject to mutually agreed upon investment guidelines relative to the client's portfolio.

Client investment guidelines may or may not limit the scope of potential investments. As a result, clients can impose restrictions on investing in certain securities or types of securities. Within client guidelines and instructions, our portfolio managers make decisions as to the nature and quantity of securities to be bought or sold.

##### **D. Wrap Fee Program**

Integrity does not participate in wrap fee programs.

##### **E. Assets Under Management**

As of December 31, 2017, Integrity managed total client assets of approximately \$397.9 million on a discretionary basis.

## **FEES AND COMPENSATION**

### **A. How We Are Paid/Fee Schedules**

Integrity is paid a fee that is calculated as a percentage of client assets under management. We require fees to be computed and payable quarterly in arrears and computed on the valuation of assets under management as of the last day of the most recent quarterly period. Fees are adjusted to account for external cash flows into and out of the account during the most recent quarterly period. Clients are billed directly by Integrity.

Our fee schedule for separately managed accounts is as follows:

#### **ACTIVE CORE BOND and AGENCY MBS PORTFOLIOS**

On the first \$30,000,000.....0.25% annually  
On the balance.....0.20% annually  
Minimum Fee.....\$2,500 annually

#### **ACTIVE INSURANCE PORTFOLIOS**

On the balance.....0.35% annually  
Minimum Fee.....\$17,500 annually

#### **ACTIVE CASH MANAGEMENT BOND PORTFOLIOS**

On the balance.....0.175% annually  
Minimum Fee.....\$2,500 annually

#### **PASSIVE BOND PORTFOLIOS**

On the balance.....0.15% annually  
Minimum Fee.....\$1,500 annually

Depending on unique circumstances (i.e., another existing account relationship with a client, etc.), fees may be subject to negotiation. We may not change our fees without sixty days' advance written notice. A client may terminate an agreement with us at any time by written notice to us.

### **B. Payment Options**

Fees may be deducted from client assets or they may be paid from a separate account.

### **C. Other Fees You Should Understand**

*Portfolio Transaction Costs.* We do not offer custodianship of client assets. Therefore, each client must appoint a custodian and may be required to pay custodian fees. Also, clients will incur indirect brokerage and other transaction costs in the course of our management of their accounts. (See the section in this brochure entitled, "Brokerage Practices" for a discussion of how we make brokerage decisions that affect client accounts.)

### **D. Basis of Payment**

Fees are payable in arrears and never in advance.

### **E. Fees From the Sale of Securities**

Neither Integrity nor its representatives earn fees on the purchase or sale of securities.

## **PERFORMANCE BASED FEES**

Certain "qualified clients" (as defined by Rule 205-3(d) under the Investment Advisers Act of 1940) may enter into an advisory contract that provides for compensation on the basis of a share of the capital gains upon, or the capital appreciation of, the qualified client's funds. This is commonly referred to as a "performance fee."

We have no present intention of managing client accounts with a performance fee.

#### **TYPES OF CLIENTS**

We provide investment advisory services for a variety of clients including high net worth individuals, defined benefit pension plans, endowments, foundations, corporations or other businesses and other “institutional clients.”

We currently do not have a minimum account size that we accept, however, in order to effectively diversify a fixed income portfolio while minimizing transaction costs, a minimum of \$5,000,000 is encouraged. In addition, we reserve the right to refuse to accept proposed management responsibilities or to resign from the management of any account.

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

##### **A. Our Investment Strategies**

Integrity Fixed Income Management is an active core fixed income manager. The firm's investment strategies encompass the utilization of duration, maturity distribution, sector weighting versus the benchmark, and individual security selection.

We have several investment composites that are specified by the benchmark for which performance is measured against. All actively managed accounts are managed as a member of a composite of accounts that utilize the same benchmark or a benchmark that is similar with regard to return and risk characteristics. All accounts within a similar composite are managed with the goal of minimizing dispersion of returns amongst composite members.

Duration management is one of the investment tools we utilize to enhance returns. Portfolios are typically managed within a duration range that is either 10% above or 10% below portfolio benchmark duration. During periods of extreme interest rate moves, we may take a more aggressive tact and increase the divergence to a maximum of either 25% above or below the portfolio benchmark's duration.

Adjustments to maturity distributions is another investment tool we utilize to enhance returns. By adjusting the maturity distribution, we attempt to take advantage of anticipated changes in the shape of the U.S. Treasury yield curve.

Sector and security selection is a result of a top down economic perspective that we use to identify sectors as being either attractive or unattractive for investment. Once favorable sectors have been identified, further evaluation is performed to review issuer specific credit profiles, relative valuation of the security, and maturity availability so as to ensure the security fits within the context of the overall structure of the portfolio.

Allocation targets for credit risk are set to a 2% target for A rated corporate securities and a 1% target for BBB rated securities. Treasuries, Agencies, and Mortgages can have larger weightings due to minimal credit risk, and therefore decisions for these securities are primarily driven by the position of such securities on the yield curve. Neither leverage nor derivatives are utilized in the management of portfolios.

Our investment strategies do involve frequent trading; however, the frequency may be tailored based on the client's investment strategy.

##### **B. Investment Risks of Investment Strategies**

Although we work hard to preserve capital and achieve real growth of client wealth, investing in securities involves risk of loss that each client should be prepared to bear. Specific risks that are faced as a result of our investment strategies are interest rate risk and credit risk.

Overweighting/Underweighting duration relative to the investment benchmark can result in increased/decreased interest rate risk relative to the investment benchmark. During periods of rising interest rates, one could experience losses in excess of the investment benchmark return if we had a portfolio duration that was greater than the duration of the investment benchmark.

Another source of interest rate risk is present when we adjust the maturity distribution of client portfolios relative to the investment benchmark. If yield curve changes do not occur as we anticipated, client portfolios could have losses that are in excess of the investment benchmark.

Finally, credit risk is present when we have exposure to credit sectors and specific issuers. Credit risks could include a drop in a security's price due to company specific events (such as an earnings disappointment or a downgrade in the rating of a bond) or general market activity (such as a financial crisis that would negatively impact the financial sector bonds).

### **C. Investment Risks of Fixed Income Securities**

Integrity is focused on the management of taxable fixed income securities. The market risk for fixed income securities is typified by a drop in a security's price due to company specific events (such as an earnings disappointment or a downgrade in the rating of a bond) or general market activity (such as a period of rising interest rates that could erode the value of a bond since bond values generally fall as bond yields go up). In general, bonds with longer maturities have greater amounts of interest rate risk, while bonds with lower credit ratings have greater amounts of credit risk.

### **DISCIPLINARY INFORMATION**

There are no legal or disciplinary events to report for the firm or any of its employees at this time.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Integrity and its employees are dedicated to the management of client's fixed income portfolios. Neither the firm nor its management employees are engaged in any other financial industry activities or organizations, including:

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships.

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

#### **A. Code of Ethics**

Our firm has adopted a written Code of Ethics in compliance with SEC regulations. All employees of Integrity are subject to this Code of Ethics. In carrying on its daily affairs, Integrity and all of our associated persons shall act in a fair, lawful and ethical manner, in accordance with the rules and regulations imposed by our governing regulatory authority. The Code of Ethics sets forth standards of conduct and requires compliance with federal securities laws. Our Code of Ethics also addresses personal trading and requires our personnel to report their personal securities holdings and transactions to the Chief Compliance Officer of Integrity.

We have created a Code of Ethics which establishes standards and procedures for the detection and prevention of certain conflicts of interest including activities by which persons having knowledge of the investments and investment intentions of Integrity might take advantage of that knowledge for their own benefit. We have in place Ethics Rules (the "Rules"), which are comprised of the Code of Ethics and Insider Trading policies and procedures. The Rules are designed to ensure that our personnel (i) observe applicable legal (including compliance with applicable state and federal securities laws) and ethical standards in the performance of their duties; (ii) at all times place your interests first; (iii) disclose all actual or potential conflicts; (iv) adhere to the highest standards of loyalty, candor and care in all matters relating to Clients; (v) conduct all personal trading consistent with the Rules and in such a manner as to avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility; and (vi) not use any material non-public information in securities trading. The Rules also establish policies regarding other matters such as outside employment, the giving or receiving of gifts, and safeguarding portfolio holdings information.

Under the general prohibitions of the Rules, our personnel may not: 1) effect securities transactions while in the possession of material, non-public information; 2) disclose such information to others; 3) participate in fraudulent conduct involving securities held or to be acquired by clients; and 4) engage in frequent trading activities that create or may create a conflict of interest, limit their ability to perform their job duties, or violate any provision of the Rules.

The Ethics Rules are available to you and prospective Clients upon request. In the event that you request a copy of our Code of Ethics, we will furnish to you a copy within a reasonable period of time at your current address of record.

#### **B. Participation or Interest in Client Transactions and Personal Trading**

Our personnel are required to conduct their personal investment activities in a manner that we believe is not detrimental to Clients. Our personnel are not permitted to transact in securities except under circumstances specified in the Code of Ethics. The policy requires all personnel to report all personal transactions in securities not otherwise exempt under the policy. Access persons must provide Integrity's Chief Compliance Officer with a list of their personal accounts and an initial holdings report within 10 days of becoming an access person. We also require our access persons to report their securities transactions on a quarterly basis thereafter and disclose their securities holdings on an annual basis. All access persons are provided with a copy of the Code of Ethics and are required to acknowledge receipt and understanding of the Code of Ethics on at least an annual basis. All reportable transactions are reviewed for compliance with the Code of Ethics.

Neither the Company or its related persons recommend securities to you, or buy or sell securities for your accounts at or about the same time that we or our related persons buy or sell the same securities for our accounts. Should the Company or its related persons buy or sell for themselves investment products that are also recommended to clients, or buy or sell the same securities as their clients, the Company and related persons will ensure that the clients' accounts are given priority. They should further ensure that client transactions are placed before entering trades for their own accounts. Records of all securities bought or sold by related persons will be maintained by the Company. Integrity's Chief Compliance Officer will review all securities transactions of our related persons to ensure no conflicts exist with client executions. All employees of the Company must comply with the firm's Written Supervisory Procedures, which impose restrictions on the purchase or sale of securities for their own accounts and the accounts of certain related persons.

Integrity Fixed Income and its employees do not directly buy from or sell to clients, securities in which we have a material financial interest.

We do not execute transactions on a principal or agency cross basis.

## **BROKERAGE PRACTICES**

### **A. General Brokerage Practices**

Unless we receive specific directions from a client regarding the placement of brokerage business, we will select the brokers and dealers to effect client transactions. Our first consideration in selecting a broker is whether the broker will provide the best execution of the desired transaction. Should we receive instructions to include a directed broker, we will include that directed broker in the competitive bidding process outlined below.

The vast majority of bonds are not traded on exchanges, but rather are purchased from or sold to brokers or dealers. Most brokers/dealers maintain an inventory of bonds (bond "positions") that it owns as a principal and holds for resale to its customers, while others can act as agents in facilitating a transaction between two parties. The number and value of bonds that each broker holds varies, depending on the brokerage firm's size, financial strength and involvement in the bond market. No one firm dominates this market or provides substantially all the buying/selling needs of a particular money manager for all of its clients.

We typically trade bonds in one of two ways. 1) If there is a particular bond we wish to purchase or sell, we will put out a bid/offer list to relevant broker/dealers in our broker/dealer network. Our current broker/dealer coverage totals more than 25 firms, however not all of the broker/dealers are suitable to execute each trade. As a result, we will typically send our bid/offer lists to only a portion (usually no less than three) of our broker/dealer network. If we receive pricing that we find attractive, we will execute the trade with the broker that has the most attractive pricing. If we are not satisfied with the pricing levels received, we will not execute the transaction. 2) However, there are times when one broker has a position and is the only available source for a desired bond. In this instance, we may purchase the security without receiving quotes from other broker/dealers if we believe the bond is being offered at an attractive level.

### **B. Research and Soft Dollar Benefits**

Obtaining the best price and execution of trades is of utmost importance in placing transactions. Research services furnished by brokers may be used in servicing all of our accounts and all clients benefit from the research received from all brokers with whom we deal. However, trades are executed without regard to research services provided by broker dealers, and instead our policy is to select the broker that provides our clients with the best bid or offer price for every transaction.

Integrity utilizes both internal and external research in the management of client investment portfolios. We approximate that 90% of our research is provided by independent third party external sources paid for with hard dollars by Integrity Fixed Income Management. Typical third-party research providers include Creditsights, Inc., Bloomberg and Gluskin Sheff - all of which are paid for directly by Integrity Fixed Income. We estimate an additional 5% of our external research is provided by broker-dealers, and would consist of proprietary research (for example, research provided by broker analysts and employees about a specific security or industry or region). We estimate the remaining 5% of research is generated internally.

External research assists Integrity in the evaluation of economic analysis, sector analysis, and company specific financial statement analysis. Internal research efforts focus on analyzing the attractiveness of fixed income sectors, the shape of the yield curve, and the attractiveness of specific fixed income securities within the context of the portfolios we manage.

Integrity Fixed Income Management's trading process is designed to implement the portfolio construction changes as efficiently as possible while minimizing overall transaction costs. Typically, competitive bids and offers are obtained in order to achieve the best possible execution. By utilizing a broad array of primary and regional dealers, we are assured access to efficient execution and competitive prices. Additionally, bids and offers are reviewed before execution to ensure they are competitive to similar securities currently on the market.

**C. Brokerage for Client Referrals**

When selecting brokers and dealers to effect client transactions, we do not consider whether we or a related person receive client referrals from the broker, dealer or a third party.

**D. Directed Brokerage**

We typically do not have directed brokerage arrangements. However, should a client direct us to execute transactions through a specified broker, we will include that directed broker in the competitive bidding process described above.

**E. Trade Aggregation**

To ensure that the allocation of trades does not systematically advantage or disadvantage one client over that of another, the Company has established the following procedures for allocating securities and/or recommendations among clients. The Company will:

1. Bunch purchase or sell orders in the same security on behalf of two or more clients to ensure all clients receive equal treatment;
2. Allocate, in the event a full order is not executed, the total number of shares received on a pro rata basis among those client accounts participating in the block order; and,
3. Allocate the price and commissions to be paid for the block trade equally among those client accounts participating in the block trade.

In some instances, staff portfolios may participate in block trades with client portfolios when a security is appropriate for the investment objectives of client and staff portfolios. Trades done in this manner would be executed just as outlined in the preceding paragraph. Trades will not be executed in such a manner that staff portfolios are given advantage or preferential treatment over client portfolios.

**Cash Management**

Each client custodian “sweeps” non-invested cash balances in client accounts every business day into a money market or some other cash account selected by the client and offered as a service by the custodian. At the client’s request, we will recommend the sweep vehicle among the choices offered by the custodian. In that case, we make a recommendation based on our understanding of the client’s tax status and risk preferences. Cash sweeps generally fall into two categories: government money market funds; and (2) prime rated money market funds (commercial paper).

You should understand that the money market fund itself pays the manager of the fund an investment advisory fee like most other investment companies. Therefore, to the extent we utilize money market mutual funds for your account, in addition to the fee you pay to us to manage your account, you will indirectly pay your *pro rata* portion of the management fee of the money market fund in which your account is invested. That fee is described in the offering materials (prospectus) for the money market fund.

**REVIEW OF ACCOUNTS**

We review our client accounts at least annually. We do not have a limitation on the number of client accounts assigned to any particular account officer, nor is there a precise sequence or review schedule. Accounts are reviewed by our Chief Compliance Officer. The review includes holdings and sector weightings and comparison to any relevant benchmarks and investment policies. Triggering factors could be major market moves, new information regarding specific holdings, or the passage of time. Portfolios are reviewed for any changes that might be needed due to strategy shifts developed in the investment strategy meeting.

All of our clients receive separate monthly statements from their portfolio custodian detailing all cash and asset transactions and activity. In addition, we provide clients with separate monthly statements detailing all holdings, transactions, and investment performance for their account. On a quarterly basis, we provide our clients with a

report detailing all holdings, transactions, investment performance and our economic outlook. In general, we attend meetings with clients quarterly or less frequently, according to the stated desires of each client

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

In some instances, Integrity pays cash compensation in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940 for client referrals, including the requirement that the relationship be disclosed to the client at the time of the solicitation or referral. Compensation paid is a percentage of the fee payable by the referred clients and may continue for the length of the client's advisory contract. In any such case, applicable state laws may require the solicitor to become either licensed as our IARs or as an independent investment adviser. The client will be requested to acknowledge this arrangement prior to acceptance of the clients' funds. We currently do not have any clients through this arrangement. We do not receive compensation for any other services outside of our primary business of investment management.

#### **CUSTODY**

We do not offer custodianship of client assets. Therefore, each client must appoint a custodian and may be required to pay custodian fees. Clients will receive account statements from the qualified custodian and clients should carefully review those statements. We will also send statements to our clients annually, at a minimum, and we urge clients to compare the account statements they receive from the qualified custodian with those they receive from us.

#### **INVESTMENT DISCRETION**

We have discretionary authority to make determinations regarding the securities that are to be bought and sold, as well as the quantities of such securities. We also have the discretionary authority to choose the broker or dealer to be used for a purchase or sale of securities for a client's account. Such authority is provided in our contract with each client. In many cases, this discretion is subject to mutually agreed upon investment guidelines relative to the client's portfolio.

Client investment guidelines may or may not limit the scope of potential investments. As a result, clients can impose restrictions on investing in certain securities or types of securities. Within client guidelines and instructions, our portfolio managers make decisions as to the nature and quantity of securities to be bought or sold.

Before accepting discretionary authority, we require a signed acceptance of an Investment Management Agreement naming Integrity as the Investment Manager, in addition to an Investment Policy Statement that will set forth the guidelines of our discretionary management.

#### **VOTING CLIENT SECURITIES**

As fixed income specific investment advisors, Integrity Fixed Income Management does not exercise voting authority over client proxies. Should Integrity ever receive a proxy, the Company's policy is to vote any proxy in the best interest of its clients. Accordingly, the Company will vote any proxy in a manner intended to promote the client's investment objective, usually to maximize investment returns, following the investment restrictions and policies of the client.

#### **FINANCIAL INFORMATION**

Integrity does not require prepayment of investment management fees. All invoices are billed quarterly in arrears. As such, we do not include financial statements in our form ADV. However, financial statements are available on request.

Additionally, we have no financial condition that is reasonably likely to impair our ability to meet contractual commitments to you given that we do not have custody of client funds or securities, or require or solicit prepayment of fees greater than \$1,200 per client and six months or more in advance. In addition, we are not currently, nor at any time in the past ten years been, subject of a bankruptcy petition.