

**Form ADV Part II**  
**DISCLOSURE BROCHURE**

**Integrity Fixed Income Management, LLC**

651 Bryn Mawr Street  
Orlando, Florida 32804  
407-481-2420 [contact@integrityfi.com](mailto:contact@integrityfi.com)

[www.integrityfi.com](http://www.integrityfi.com)

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This brochure provides information about the qualifications and business practices of Integrity Fixed Income Management, LLC. Please contact us at 407-481-2430 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 II. The last annual update of our ADV Part II was March, 2014.**

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

### **Disclosure Brochure**

#### **ADVISORY BUSINESS**

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

Integrity Fixed Income Management LLC (“Integrity”) is a SEC registered investment advisor 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.

##### **Our People**

Our company works as a team dedicated to serving our clients and their fixed income investment needs. Our staff is highly experienced and motivated to produce outstanding performance and service.

The management team and senior personnel at Integrity consists of the following individuals:

##### *L. Earl Denney, CFA – Chief Investment Officer*

Mr. Denney, the firm’s founder, serves as Chief Investment Officer. With over 25 years of experience managing fixed income portfolios; he is the former Managing Director and Fixed Income Strategist of Trusco Capital Management, a \$65 billion money management firm. Prior to that, he served as Director of Fixed Income for STI Capital Management. Throughout his career Earl has successfully managed taxable fixed income mutual funds, pension funds, public funds, union, and endowment portfolios. Mr. Denney holds a BA in Business from Carson Newman College, and an MBA from the University of Georgia.

##### *Christopher J. Caputo, CFA – Portfolio Manager*

Mr. Caputo is a Principal of the firm and serves as Portfolio Manager whose emphasis is on credit research. Previously, Mr. Caputo worked for Trusco Capital Management, where he was responsible for portfolio analysis of taxable fixed income mutual funds and individually managed accounts. Formerly, he served as Senior Financial Analyst for a CNL Retirement Corp, a \$4 Billion REIT, where he was responsible for underwriting the acquisition of healthcare real estate portfolios. Prior to this, Mr. Caputo served as a Credit Analyst for a commercial bank. Chris earned an MBA with a Finance concentration from Rollins College in Winter Park, Florida.

##### *Michelle A. Denney – Secretary/Treasurer*

Michelle Denney serves as Secretary and Treasurer of the firm. In addition, she is the majority owner of the firm. Prior to founding Integrity, Ms. Denney served on the board of charitable organizations in the Greater Orlando area.

##### *James R. Wood*

James R. Wood serves as Strategic Director for the firm, bringing over 25 years of investment experience. Concurrent to Mr. Wood’s involvement with Integrity Fixed Income Management, he is a senior partner of JRW Partners, a nationally recognized money management consulting firm. Previously, he was President and Chief Operating Officer for five years at STI Capital Management, a US\$15 billion money manager in Orlando, Florida. Mr. Wood served seven years at Templeton Investment Counsel, Inc., where he led in the doubling of institutional assets under management as the Director and Executive Vice President of Institutional Marketing. Before joining Templeton Investment Counsel, Mr. Wood was senior vice president and head of investment management consulting at SEI Corporation, from 1985-1988.

### **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.

### **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.

### **Wrap Fee Program**

Integrity does not participate in wrap fee programs.

### **Assets Under Management**

As of December 31, 2014, Integrity managed total client assets of approximately \$235 million on a discretionary basis.

## **FEES AND COMPENSATION**

### **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:

#### **ALL ACTIVE CORE BOND PORTFOLIOS**

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

**ALL ACTIVE CASH MANAGEMENT BOND PORTFOLIOS**

On the balance.....0.175% annually

Minimum Fee.....\$2,500 annually

**ALL 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 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 \$1,000,000 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, and as a result our strategies are most appropriate for taxexempt portfolios.

### **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 taxable 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. Our Code of Ethics and Trade Allocation Policies**

Employees of the firm are subject to the firm's Insider Trading Policy and Code of Ethics. Our Insider Trading Policy prohibits trading on material, non-public information. Our Code of Ethics requires that employees:

- Act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, employers, employees, and fellow staff;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on our staff;
- Strive to maintain and improve their competence; and
- Use reasonable care and exercise independent professional judgment where appropriate.

In addition, all staff shall not, in connection with the purchase or sale of a security within the most recent 3 days that is either held or being considered for any Client:



- employ any device to defraud such Client
- make any untrue statement or omit a material fact
- engage in any manipulative practice with respect to Client; or trade while in possession of material non-public information.

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.

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

A copy of our firm's Code of Ethics is available upon request.

## **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 wanted 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.

There are occasions when we need to sell securities in one account while at the same time we need to purchase the same security in another account. Typical reasons an account would need to sell a security can include, but are not

limited to, a change in asset allocation, a need for funds to cover retirement plan distributions, and to adjust portfolio duration. Simultaneously we may have other client accounts that either do not own the security or do not own the security in the same percentage as accounts within their respective composites. This is known as a “cross trade.”

Our process for conducting a cross trade begins by requesting a bid for the security via a bid list with the brokers on our coverage list. Once we receive bid responses, we take the highest bid. Rather than selling the security to a brokerage where it would be placed into their inventory and then sold with full markup, we sell them to a broker who then sells it back to our other client’s account with only a small markup to cover brokerage ticketing costs. This allows us to benefit both accounts by allowing us to use the best bid available for the account needing to raise cash while at the same time benefiting the purchasing account that can buy the securities at less than the full brokerage markup.

#### **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 fixed income 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.

#### **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. All portfolios are reviewed continuously rather than periodically. Accounts are reviewed by our portfolio management professionals. 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 accounting reports from their portfolio custodian detailing all cash and asset transactions and activity. In general, meetings with clients are held quarterly or less frequently, according to the stated desires of each client. Reports include an analysis of all assets under management, current investment objectives and investment performance.

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

Integrity and its employees are dedicated to the management of client's taxable fixed income portfolios. Neither the firm nor its management employees are engaged in any other financial industry activities that would conflict with the focus of our business. In addition, Integrity is 100% employee owned and is not affiliated with any other companies or individuals outside the firm. We do not engage in the payment to any third parties for client referrals. 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, 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.

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**

We are not responsible for the voting of proxies and handling or otherwise processing any potential "class action" claims or similar settlements that clients may be entitled to for securities held in client accounts. Clients will receive the paperwork for such claims directly from their account custodians. Each client should verify with his/her/its

custodian or other account administrator whether such claims are being made on the client's behalf by the custodian or if the client is expected to file such claims directly.

**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.

