

# Disclosure Brochure

April 1, 2018

## **Quantum Capital Management**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of QCM, LLC doing business as Quantum Capital Management (hereinafter “Quantum Capital Management” or the “Firm”). If you have any questions about the contents of this brochure, please contact the Firm at (415) 738-0288. 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 Quantum Capital Management is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Quantum Capital Management is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes that have occurred since Quantum Capital Management's last annual update dated March 31, 2017. The Firm has amended Item 4 to reflect changes in its ownership.

## Item 3. Table of Contents

Item 1. Cover Page .....	i
Item 2. Material Changes .....	ii
Item 3. Table of Contents .....	iii
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation .....	7
Item 6. Performance-Based Fees and Side-by-Side Management .....	10
Item 7. Types of Clients .....	10
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss .....	11
Item 9. Disciplinary Information .....	14
Item 10. Other Financial Industry Activities and Affiliations .....	14
Item 11. Code of Ethics .....	14
Item 12. Brokerage Practices .....	15
Item 13. Review of Accounts .....	18
Item 14. Client Referrals and Other Compensation .....	19
Item 15. Custody .....	20
Item 16. Investment Discretion .....	20
Item 17. Voting Client Securities .....	21
Item 18. Financial Information .....	21

## Item 4. Advisory Business

Quantum Capital Management provides investment advisory services through two channels: 1) direct to clients of the Firm; and 2) as a separate account manager for other financial services firms. For direct clients, the Firm provides financial planning, consulting, and investment management services. As a separate account manager, the Firm provides wealth management services which combine asset management and financial planning services under the Firm's fee-only advisor structure, keeping Quantum Capital Management's success tied to the success of its clients.

The Firm strives to provide consistently superior investment disciplines while maintaining a client-centric business model. Quantum Capital Management manages portfolios on a team-oriented basis for private clients, family offices, endowments, foundations and select financial intermediary platforms. The Firm's founders are actively involved in daily management and research along with a team of professionals that follow a disciplined approach to building superior long term investment results.

Prior to engaging Quantum Capital Management to provide any of the foregoing services, the client is required to enter into one or more written agreements with Quantum Capital Management setting forth the terms and conditions under which Quantum Capital Management renders its services (collectively the "Agreement").

Quantum Capital Management has been in business since 1996. The Firm is a wholly owned subsidiary of Sterling Bancorp, Inc. As of December 31, 2017, Quantum Capital Management had \$495,967,409 of assets under management, of which \$452,525,349 was managed on a discretionary basis and \$43,442,060 was managed on a non-discretionary basis.

This Disclosure Brochure describes the business of Quantum Capital Management. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Quantum Capital Management's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Quantum Capital Management's behalf and is subject to Quantum Capital Management's supervision or control.

### **Investment Management and Wealth Management Services**

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Clients can engage Quantum Capital Management to manage all or a portion of their assets on a discretionary or a non-discretionary basis. In addition, Quantum Capital Management provides clients with wealth management services which may include a broad range of comprehensive financial planning services as well as discretionary or non-discretionary management of investment portfolios.

Quantum Capital Management primarily allocates clients' investment management assets among individual debt and equity securities, mutual funds, and exchange-traded funds ("ETFs") in accordance with the investment objectives of the client. Quantum Capital Management also provides advice about any type investment held in clients' portfolios at the outset of their relationship with the Firm.

# Quantum Capital Management Disclosure Brochure

Quantum Capital Management tailors its advisory services to the individual needs of clients. The Firm consults with clients initially and on an ongoing basis to develop an investment policy statement which determines risk tolerance, time horizon and other factors that may impact the clients' investment needs. Quantum Capital Management ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance. Clients are advised to promptly notify Quantum Capital Management if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Quantum Capital Management's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in Quantum Capital Management's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## **Separate Account Management Services**

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In addition to serving its own direct clients, the Firm provides investment advisory services to the clients of other investment advisors or financial services firms as a separate account manager. In this role, the Firm is hired directly by the financial services firm. Quantum Capital Management's services are made available through the separate account manager platforms maintained by various organizations such as (but not limited to) FDX Advisors, Inc., Citi Private Bank Access, Fidelity Investment Institutional Wealth Services, Envestnet Asset Management, Schwab Access, Schwab Market Place, T.D. Ameritrade Separate Account Exchange, and Sawtooth Solutions, LLC.

The Firm manages a broad range of accounts for institutional and individual clients on a discretionary or non-discretionary basis. The investment advisory services provided are based upon the individual needs of the client and stated objectives and guidelines of the account based on information received from the client's advisor. These services include, but are not limited to, management of equity, fixed income, balanced and other proprietary investment portfolios.

Generally, clients of Quantum Capital Management's separate account manager services will be placed into one of the Firm's proprietary investment portfolios: Large Cap Growth, Dividend Growth, International Equity, Mid Cap Growth, Small Cap Growth, Small Cap Growth and Micro Cap Growth. The Firm manages these accounts on a discretionary basis. In certain circumstances, Quantum Capital Management provides information relating to its model portfolios to clients, and such clients are free to accept or reject the information provided.

## **Financial Planning and Consulting Services**

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Quantum Capital Management provides its clients with a broad range of comprehensive financial planning and consulting services. These services include business planning, retirement planning, estate planning, tax and investment planning, and employee benefit analysis. These services may be included as part of Quantum Capital Management's wealth management services, described above.

## Quantum Capital Management Disclosure Brochure

In performing its services, Quantum Capital Management is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Quantum Capital Management recommend the services of itself, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Quantum Capital Management recommends its own services. The client is under no obligation to act upon any of the recommendations made by Quantum Capital Management under a financial planning or consulting engagement or to engage the services of any such recommended professional, including Quantum Capital Management itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Quantum Capital Management's recommendations. Clients are advised that it remains their responsibility to promptly notify Quantum Capital Management if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Quantum Capital Management's previous recommendations and/or services.

## Item 5. Fees and Compensation

Quantum Capital Management offers its services on a fee basis, which include hourly fees, as well as fees based upon assets under management or the performance of the client's portfolio depending on the client engagement.

### **Investment Management and Wealth Management Fees**

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Quantum Capital Management generally provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Quantum Capital Management. Generally, the Firm's investment management services include basic financial planning. Quantum Capital Management's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Quantum Capital Management on the last day of the previous quarter. The annual fee varies (between 0.55% and 1.20%) depending upon the market value of the assets under management, as follows:

#### *Equity and Balanced Accounts:*

<b>PORTFOLIO VALUE</b>	<b>BASE FEE</b>
up to \$1,000,000	1.20%
Next \$1,000,000	1.00%
Next \$4,000,000	0.80%
Next \$5,000,000	0.75%
Next \$15,000,000	0.65%
On the balance	0.55%

#### *Fixed Income Accounts:*

<b>PORTFOLIO VALUE</b>	<b>BASE FEE</b>
up to \$5,000,000	0.75%
On the balance	0.50%

# Quantum Capital Management Disclosure Brochure

*Concentrated Stock Position Management* (per year):

<b>PORTFOLIO VALUE</b>	<b>BASE FEE</b>
For the service	1.00%*
*Certain legacy clients may be charged a lesser fee.	

## Performance Fee

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In one circumstance, Quantum Capital Management renders investment management services to a *qualified client* for a performance-based fee in accordance with the requirements set forth in applicable laws, rules, and regulations. For such a client, Quantum Capital Management charges a performance fee of 15% of the realized and unrealized net gains with respect to the client account, subject to a high watermark, as well as an asset-based fee of 0.75% per annum based on the market value of the client's assets. Quantum Capital Management's annual *base fee* is prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter. Quantum Capital Management's *performance fee* is charged quarterly, in arrears, based on the net gains of the client's portfolio at the end of the calendar period.

## Separate Account Management

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Quantum Capital Management fees for separate account management services to other advisors ranges from 0.25% to 1.00% of the assets managed under such a program, depending on the size of the program, services to be performed for the program sponsor, particular investment strategy, pre-existing relationship with the program sponsor or other factors. Fees for fully bundled separate account managed account programs may be less than partially bundled or unbundled arrangements (including institutional separate accounts). In a partially bundled arrangement, the client pays a fee to the program sponsor for trade execution, custody and consulting services and a separate fee to the Firm for the investment management of its account. The minimum size of a separate account management program account is typically \$100,000.

## Financial Planning and Consulting Fees

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Quantum Capital Management provides financial planning services on an hourly rate basis. These services include retirement planning, estate planning, business, tax and investment planning and employee benefit analysis. These fees are \$350 per hour. If the client engages Quantum Capital Management for additional investment advisory services, Quantum Capital Management may offset all or a portion of its fees for those services based upon the amount paid for the financial planning and/or consulting services.

Prior to engaging Quantum Capital Management to provide financial planning and/or consulting services, the client is required to enter into a written agreement with Quantum Capital Management setting forth the



# Quantum Capital Management Disclosure Brochure

terms and conditions of the engagement. Generally, Quantum Capital Management requires one-half of the estimated financial planning fee payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

## Negotiation of Fees

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Quantum Capital Management, in its sole discretion, may negotiate to charge lesser investment management and performance-based fees based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client status, account retention, *pro bono* activities, etc.).

## Additional Fees and Expenses

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In addition to the advisory fees paid to Quantum Capital Management, clients may incur certain charges imposed by other third parties, such as broker-dealers, custodians, trust companies, banks and other financial institutions (collectively "*Financial Institutions*"). These additional charges include securities brokerage commissions and other transaction costs, custodial fees, charges imposed directly by a mutual fund or ETF in a client's account, as disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), reporting charges, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees and other fees and taxes on brokerage accounts and securities transactions. The Firm's brokerage practices are described at length in Item 12, below. Quantum Capital Management does not, however, receive any portion of these commissions, fees, and costs.

## Fee Debit

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Clients generally provide Quantum Capital Management with the authority to directly debit their accounts for payment of the Firm's investment advisory fees. The *Financial Institutions* that act as qualified custodians for client accounts have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Quantum Capital Management.

## Fees for Management During Partial Quarters of Service

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis, based upon the date that client assets are transferred to the Firm.

The *Agreement* between Quantum Capital Management and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Quantum Capital Management's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to Quantum Capital Management's right to terminate an account. Additions may be in cash or securities provided that

Quantum Capital Management reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Quantum Capital Management, subject to the usual and customary securities settlement procedures. However, Quantum Capital Management designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Quantum Capital Management consult with its clients about the options and ramifications of transferring securities as necessary. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will not be adjusted or prorated.

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

As discussed in response to Item 5, above, where appropriate, Quantum Capital Management renders investment management services to *qualified clients* for a performance-based fee. This fee arrangement raises conflicts of interest. The performance fee creates an incentive for Quantum Capital Management to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In addition, where Quantum Capital Management charges performance-based fees and also provides similar services to accounts not being charged performance-based fees, a conflict of interest exists because there is an incentive to favor accounts paying a performance-based fee.

Quantum Capital Management has procedures in place to ensure that any recommendations made are in the best interest of clients regardless of whether the client is paying a performance-based fee or different type of fee.

## **Item 7. Types of Clients**

Quantum Capital Management provides its services to individuals, trusts, estates, corporations, business entities and other financial services firms.

### **Minimum Account Size and Fee**

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As a condition for starting and maintaining a relationship directly with the Firm, Quantum Capital Management generally imposes a minimum portfolio size of \$500,000 and a minimum fee of \$5,000. Clients opening more than one account must have aggregate account assets that meet the minimum requirement.

In its sole discretion, the Firm may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client status, account retention, and

*pro bono* activities. Quantum Capital Management only accepts clients with less than the minimum portfolio size if, in the sole opinion of Quantum Capital Management, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Quantum Capital Management may aggregate the portfolios of family members to meet the minimum portfolio size.

## **Minimum Account Size for Separately Managed Account Programs**

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As a condition for hiring the Firm as a separate account manager, a financial services firm must typically invest a minimum of \$100,000 in client assets with Quantum Capital Management.

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

### **Investment Strategies**

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The Firm's investment philosophy is based on time-tested fundamental analysis that is devoid of emotional decision-making. Quantum Capital Management believes that many conventional managers fail because they tend to overlook fact-based fundamentals in favor of attractive, colorful stories. Still others fail because they simply don't invest in a deep understanding of how the capital markets work, instead relying upon trying to out-guess what the general investing public might do based on price movement methods or technical analysis.

The Firm's investment process begins and ends with in-depth research. The underpinnings behind the Firm's investment process come from a thorough economic understanding of capital investment; that is, not money itself, but the productive capital investments and activities of businesses as well as their associated risks across economic cycles. To this end, Quantum Capital Management is intently focused on understanding how companies invest and manage their investments in order to create future wealth for the companies and its shareholders.

### **Methods of Analysis**

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Quantum Capital Management primarily employs a fundamental method of analysis, which involves the fundamental financial condition and competitive position of a company. Quantum Capital Management will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

### **Risks of Loss**

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#### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

# Quantum Capital Management Disclosure Brochure

## *Market Risks*

All securities, particularly individual equity and debt securities, are subject to market volatility, economic factors and certain other market risks. The success of an investment may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that the Firm will be able to predict those price movements accurately.

## *Volatility Risks*

The prices and values of investments can be highly volatile, and are influenced by, among other things, interest rates, general economic conditions, the condition of the financial markets, the financial condition of the issuers of such assets, changing supply and demand relationships, and programs and policies of governments.

## *Cash Management Risks*

The Firm may invest some of a client's assets temporarily in money market funds or other similar types of investments, during which time an advisory account may be prevented from achieving its investment objective.

## *Equity-Related Securities and Instruments*

The Firm may take long and short positions in common stocks of U.S. and non-U.S. issuers traded on national securities exchanges and over-the-counter markets. The value of equity securities varies in response to many factors. These factors include, without limitation, factors specific to an issuer and factors specific to the industry in which the issuer participates. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments, and the stock prices of such companies may suffer a decline in response. In addition, equity securities are subject to stock risk, which is the risk that stock prices historically rise and fall in periodic cycles. U.S. and non-U.S. stock markets have experienced periods of substantial price volatility in the past and may do so again in the future. In addition, investments in small-capitalization, mid-capitalization and financially distressed companies may be subject to more abrupt or erratic price movements and may lack sufficient market liquidity, and these issuers often face greater business risks.

## *Fixed Income Securities*

Fixed income securities are subject to the risk of the issuer's or a guarantor's inability to meet principal and interest payments on its obligations and to price volatility.

## *Mutual Funds and ETFs*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains,

as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

### *Options*

Options allow investors to buy or sell a security at a contracted "strike" price (not necessarily the current market price) at or within a specific period of time. Clients may pay or collect a premium for buying or selling an option. Investors transact in options to either hedge (limit) losses in an attempt to reduce risk or to speculate on the performance of the underlying securities. Options transactions contain a number of inherent risks, including the partial or total loss of principal in the event that the value of the underlying security or index does not increase/decrease to the level of the respective strike price. Holders of options contracts are also subject to default by the option writer which may be unwilling or unable to perform its contractual obligations.

### *Management Through Similarly Managed Accounts*

As part of its separate account management services, Quantum Capital Management generally manage portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as "*investment strategy*"). In so doing, Quantum Capital Management buys, sells, exchanges and/or transfers securities based upon the *investment strategy*.

Quantum Capital Management's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides

similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

The *investment strategy* may involve an above-average portfolio turnover that could negatively impact upon the net after-tax gain experienced by an individual client. Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client's individual tax ramifications. Certain investment opportunities that become available to Quantum Capital Management's clients may be limited. As further discussed in response to Item 12 (below), Quantum Capital Management allocates investment opportunities among its clients on a fair and equitable basis.

### Item 9. Disciplinary Information

Quantum Capital Management is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Quantum Capital Management does not have any required disclosures to this Item.

### Item 10. Other Financial Industry Activities and Affiliations

Quantum Capital Management is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

#### Sub-Adviser to a Mutual Fund

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Quantum Capital Management currently serves as the sub-investment manager to the Transamerica Partners Mid Growth Funds (the "*Funds*"), unaffiliated investment companies (i.e. mutual funds) sponsored by Transamerica Funds through a sub-advisory relationship with Transamerica Asset Management, Inc. ("*Transamerica*"). Neither *Transamerica* nor the *Funds* are *related persons* of Quantum Capital Management. Quantum Capital Management may direct the placement of certain client assets into the *Funds*. However, in such event, the client will not pay a "dual" fee to Quantum Capital Management (i.e., an investment management fee to Quantum Capital Management pursuant to the terms of the *Agreement* between Quantum Capital Management and the client and a mutual fund investment management fee paid by the *Funds* to Quantum Capital Management which is based on the client's assets invested in the *Funds*). Rather, the client will pay a single investment management fee that is based solely on those client assets invested in the *Funds*.

### Item 11. Code of Ethics

Quantum Capital Management has adopted a code of ethics in compliance with applicable securities laws ("*Code of Ethics*") that sets forth the standards of conduct expected of its *Supervised Persons*. Quantum Capital Management's *Code of Ethics* contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its *Supervised*

*Persons* and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The *Code of Ethics* also requires certain of Quantum Capital Management's personnel (called "*Access Persons*") to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, Quantum Capital Management *Supervised Persons* are permitted to buy or sell securities that it also recommends to clients if done in a manner consistent with the Firm's policies and procedures. This *Code of Ethics* has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by *Access Persons* to be completed without any appreciable impact on the markets of such securities. Therefore, under certain limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no *Access Person* may knowingly effect for themselves or for their immediate family (i.e., spouse, minor children and adults living in the same household as the *Access Person*) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the *Access Person* is completed as part of a batch trade (as defined below in Item 12) with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by open-end mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more open-end mutual funds.

Clients and prospective clients may contact Quantum Capital Management to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

Quantum Capital Management generally recommends that clients utilize the brokerage and clearing services of Schwab Advisor Services™ ("*Schwab*") and TD AMERITRADE Institutional, a division of TD AMERITRADE, Inc. ("*TD Ameritrade*") for investment management accounts.

Factors which Quantum Capital Management considers in recommending *Schwab*, *TD Ameritrade* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. The commissions and/or transaction fees charged by *Schwab*, *TD Ameritrade* may be higher or lower than those charged by other *Financial Institutions*.



## Quantum Capital Management Disclosure Brochure

The commissions paid by Quantum Capital Management's clients comply with the Firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Quantum Capital Management determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates and responsiveness. Quantum Capital Management seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Quantum Capital Management periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Quantum Capital Management in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution* and the Firm will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Quantum Capital Management (as described below). As a result, the client may pay higher transaction costs (i.e., brokerage commissions or spreads) or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Quantum Capital Management may decline a client's request to direct brokerage if, in the Firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Quantum Capital Management decides to purchase or sell the same securities for several clients at approximately the same time. Quantum Capital Management may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Quantum Capital Management's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Quantum Capital Management's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Quantum Capital Management determines to aggregate client orders for the purchase or sale of securities, including securities in which Quantum Capital Management's *Supervised Persons* may invest, the Firm does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Quantum Capital Management does not receive any additional compensation or remuneration as a result of the aggregation. In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares will be allocated to the account



with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when such account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares will be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations will be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Quantum Capital Management will exclude the account(s) from the allocation; the transactions will be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares will be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Quantum Capital Management in its investment decision-making process. Such research generally will be used to service all of the Firm's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Quantum Capital Management does not have to produce or pay for the products or services.

Quantum Capital Management considers the receipt of client referrals from *Schwab*, *TD Ameritrade* or any other third party in selecting or recommending such custodians. This results in a conflict of interest as there is an incentive to select or recommend *Schwab* or *TD Ameritrade* over other broker-dealers that may provide better execution. Quantum Capital Management has policies and procedures in place to ensure that clients receive best execution, as discussed above, without regard to any referrals received by Quantum Capital Management.

### **Software and Support Provided by Financial Institutions**

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Quantum Capital Management receive from *Schwab* and *TD Ameritrade*, without cost to Quantum Capital Management, computer software and related systems support, which allow Quantum Capital Management to better monitor client accounts maintained at such *Financial Institutions*. Quantum Capital Management receives the software and related support without cost because Quantum Capital Management renders investment management services to clients that maintain assets at *Schwab* and *TD Ameritrade*. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit Quantum Capital Management, but not its clients directly. In fulfilling its duties to its clients, Quantum Capital Management endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Quantum Capital Management's receipt of economic benefits from a broker-dealer creates a conflict of

interest since these benefits create an incentive for Quantum Capital Management to choose one broker-dealer over another broker-dealer that does not furnish similar software, systems support or services.

Additionally, Quantum Capital Management may receive the following benefits from *Schwab* and *TD Ameritrade*: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

These products or services may assist Quantum Capital Management in managing and administering client accounts, including accounts not maintained at any of the *Financial Institutions*. Other services made available by each of the *Financial Institutions* are intended to help Quantum Capital Management manage and further develop its business enterprise. These benefits received by Quantum Capital Management do not depend on the amount of brokerage transactions directed to any of the *Financial Institutions*. Clients should be aware, however, that the receipt of economic benefits by Quantum Capital Management or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Quantum Capital Management's recommendation of the *Financial Institutions*, respectively, for custody and brokerage services.

### **Receipt of Soft Dollars**

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In addition to the research services described above, Quantum Capital Management is offered other non-monetary benefits by broker-dealers that it may engage to execute securities transactions on behalf of clients. These benefits may take the form of eligible research and/or brokerage services under the safe harbor provided in section 28(e) of the Securities Exchange Act of 1934, as amended. The availability of these benefits creates an incentive for Quantum Capital Management to choose one broker rather than another based on Quantum Capital Management's interest rather than on client's interests in receiving most favorable execution. Nevertheless, Quantum Capital Management will assure that the fees and costs for services provided to clients by brokers offering these benefits are not materially greater than they would be if the services were performed by brokers not offering these services.

The use of brokerage commissions to obtain research products and/or other services and to pay for other non-research services creates a conflict of interest because clients pay for such products and services that are not exclusively for the benefit of clients and may be primarily or exclusively for the benefit of Quantum Capital Management.

## **Item 13. Review of Accounts**

### **Account Reviews**

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For those clients to whom Quantum Capital Management provides investment management services, Quantum Capital Management monitors those portfolios as part of an ongoing process while regular

account reviews are conducted on at least a quarterly basis. Daily reviews of account activity will be provided by one of the Firm's portfolio managers. For those clients to whom Quantum Capital Management provides financial planning and/or consulting services, reviews are conducted on an "as needed" basis.

Reviews are conducted by one of Quantum Capital Management's investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Quantum Capital Management and to keep Quantum Capital Management informed of any changes thereto. Quantum Capital Management contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

## **Account Statements and Reports**

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Quantum Capital Management provides investment advisory services will also receive a quarterly report from Quantum Capital Management that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance. Clients should compare the account statements they receive from their custodian with those they receive from Quantum Capital Management.

Those clients to whom Quantum Capital Management provides financial planning services only will receive reports from Quantum Capital Management summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Quantum Capital Management.

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

### **Client Referrals**

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In the event a client is introduced to Quantum Capital Management by an unaffiliated solicitor, the Firm may pay that solicitor a referral fee in accordance with applicable state securities laws. Unless otherwise disclosed, any such referral fee is paid solely from the Firm's investment management fee and does not result in any additional charge to the client. If the client is introduced to the Firm by an unaffiliated solicitor, the solicitor is required to provide the client with the Firm's written brochure(s) and a copy of a solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement.

### **Schwab Advisor Network**

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Quantum Capital Management previously entered into an agreement with *Schwab*, an independent and unaffiliated broker-dealer, to participate in Schwab Advisor Network™ ("SAN"), an advisor referral service designed to help investors find an independent professional investment manager in their area. Quantum

Capital Management agreed to pay *Schwab* a fee for participating in *SAN*. This fee covers all client referrals made to Quantum Capital Management by *Schwab* and may be increased, decreased or waived by *Schwab* from time to time. Quantum Capital Management will not charge clients introduced through *SAN* fees or costs greater than the fees or costs Quantum Capital Management charges its advisory clients who were not introduced through *SAN* and who have similar assets under management with Quantum Capital Management and receive similar services. Quantum Capital Management's participation in *SAN* may raise potential conflicts of interest. Quantum Capital Management's referral fee to *Schwab* is lower if accounts thereafter remain in the custody of *Schwab* rather than another broker-dealer. Any recommendation to use *Schwab* as the broker-dealer will be consistent with Quantum Capital Management's duty of best execution as further discussed above.

### **Other Economic Benefits**

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In addition, Quantum Capital Management is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

## **Item 15. Custody**

Quantum Capital Management's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Quantum Capital Management through such *Financial Institution* to debit the client's account for the amount of Quantum Capital Management's fee and to directly remit that management fee to Quantum Capital Management in accordance with applicable custody rules.

The *Financial Institutions* recommended by Quantum Capital Management have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Quantum Capital Management. In addition, as discussed in Item 13, Quantum Capital Management also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Quantum Capital Management.

## **Item 16. Investment Discretion**

In most circumstances, Quantum Capital Management is given the authority to exercise discretion on behalf of clients. Quantum Capital Management is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Quantum Capital Management is given this authority through a power-of-attorney included in the agreement between Quantum Capital Management and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Quantum Capital Management takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made;
- The *Financial Institutions* to be utilized; and
- The commission rate to be paid to the broker-dealer that executes the transaction.

### Item 17. Voting Client Securities

Where agreed upon with clients, Quantum Capital Management votes client securities (proxies) on behalf of its clients. When Quantum Capital Management accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in the Firm's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in the Firm's Proxy Voting Policies and Procedures, as they may be amended from time to time. Clients may contact the Firm to request information about how CRA voted proxies for that client's securities or to get a copy of the Firm's Proxy Voting Policies and Procedures. The Firm has engaged Broadridge Financial Solutions, Inc. ("Broadridge") to provide electronic proxy voting services. Through Broadridge, the Firm has access to research, analysis, and recommendations on the various proxy proposals for the client securities that the Firm manages from a third-party, independent proxy advisory firm. Quantum Capital Management's Chief Investment Officer is responsible for monitoring the proxy voting process. The Chief Investment Officer strives to ensure that any third-party proxy service is making voting decisions in the best interest of clients and that proxy votes are submitted in a timely manner. Where the Firm is responsible for voting proxies on behalf of a client, the client cannot direct the Firm's vote on a particular solicitation. The client, however, can revoke the Firm's authority to vote proxies.

### Item 18. Financial Information

Quantum Capital Management does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Quantum Capital Management is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Quantum Capital Management has no disclosures pursuant to this Item

## **Quantum Capital Management**

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