

# Disclosure Brochure

February 29, 2016

## **Peddock Capital Advisors, LLC**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Peddock Capital Advisors, LLC (hereinafter "PCA" or the "firm"). If you have any questions about the contents of this brochure, please contact Peter E. Simmons at (781) 848-0288. 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 Peddock Capital Advisors, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Peddock Capital Advisors, LLC 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 PCA's last annual update dated February 24, 2015. PCA does not have any material changes to disclose in this Item.

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## Item 4. Advisory Business

Since September 2008, PCA has been in business as an employee-owned, SEC registered investment adviser dedicated to providing its clients with comprehensive and coordinated wealth management solutions. The firm was founded by PCA's current principal owner, Peter E. Simmons, to counsel clients through a variety of market cycles and economic settings. The firm's service offerings encompass a range of wealth management components, which include an assortment of consultative and family office functions, as well as portfolio management.

As of February 16, 2016, PCA has approximately \$200,279,650 in assets under management, all of which was managed on a discretionary basis.

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

This Disclosure Brochure describes the business of PCA. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of PCA'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 PCA's behalf and is subject to PCA's supervision or control.

### Family Office and Consulting Services

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PCA's family office and consulting services are typically reserved for the firm's investment management clients and rendered as part of PCA's comprehensive wealth management program. PCA provides these services to existing clients either pursuant to a formal engagement or on an ad hoc basis. These services may include a range of investment and non-investment related functions, including, without limitation:

- Bill pay;
- Wealth transfer;
- Philanthropy;
- Estate planning;
- Trust administration;
- Real estate transfers;
- Succession planning;
- Educational funding;
- Insurance needs;
- Retirement planning;
- Family governance; and
- Risk management.

Under limited circumstances, the firm may also render certain family office and/or consulting services to non-investment management clients under a separate written agreement. These standalone services may include any of those functions listed above, as well as the rendering of expert witness testimony pertaining to market analysis and other financial and investment-related topics.

In performing its services, PCA 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. PCA may recommend the services of itself and/or other professionals to implement its

recommendations. Clients are advised that a conflict of interest exists if PCA recommends its own services. The client is under no obligation to act upon any of the recommendations made by PCA under a consulting engagement or to engage the services of any such recommended professional, including PCA itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of PCA's recommendations. Clients are advised that it remains their responsibility to promptly notify PCA if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising PCA's previous recommendations and/or services.

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

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PCA manages all or a portion of its clients' assets on a discretionary or non-discretionary basis. In conjunction with portfolio management, investment management clients may also receive certain family office and consulting services, as part of the firm's comprehensive wealth management program.

PCA primarily allocates clients' investment management assets among mutual funds, exchange-traded funds ("ETFs"), individual debt and equity securities and/or options in accordance with the investment objectives of the client. In addition, PCA may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. PCA also provides advice about any legacy positions or investments otherwise held in clients' portfolios.

Additionally PCA may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, PCA either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

PCA tailors its advisory services to the individual needs of clients. PCA consults with clients initially and on an ongoing basis to develop an Investment Policy Statement ("*IPS*") which determines risk tolerance, time horizon and other factors that may impact the clients' investment needs. PCA strives to ensure that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify PCA if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon PCA'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 PCA's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

## Item 5. Fees and Compensation

PCA generally provides services for an annual fee based on a percentage of assets under management. In limited situations, the firm may also render services for an hourly fee.

### Family Office and Consulting Fees

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PCA's family office and consulting services are generally included under an investment management engagement, and provided as part of the annual asset-based fee set forth below. PCA may, however, pass along certain administrative or overhead costs to clients that the firm incurs in the course of providing these services (e.g., expenses for an audit of the accounts over which PCA maintains custody).

Under limited circumstances, PCA may also charge an hourly fee for its family office and/or consulting functions. PCA charges this hourly fee in the event 1) a non-investment management client engages the firm to provide these services, or 2) an existing client engages PCA to provide services requiring an excessive amount of time and/or substantial resources.

The hourly rate is negotiable, but generally ranges from \$100.00 to \$250.00 per hour. This fee is largely determined by the level and scope of the services and the professional engaged to render them. If the client engages PCA for additional investment advisory services, PCA may offset all or a portion of its fees for those services based upon the amount paid for the family office and/or consulting services.

Prior to engaging PCA to provide family office and/or consulting services, the client is required to enter into a written agreement with PCA setting forth the terms and conditions of the engagement. Generally, PCA requires one-half of the estimated hourly fee payable upon entering the written agreement. The balance is generally due upon completion of the agreed upon services.

### Investment Management Fees

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PCA provides investment management services for an annual fee equal to a percentage of assets being managed by PCA. The annual fee varies depending upon the market value of the assets under management, as follows:

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
First \$3,000,000	1.00%
Next \$4,000,000	0.75%
Above \$7,000,000	0.50%

PCA's annual fee is prorated and charged monthly or quarterly, in arrears, based upon the market value of the assets being managed by PCA on the last day of the previous month or quarter.

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PCA's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. PCA does not, however, receive any portion of these commissions, fees, and costs.

## Fee Discretion

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PCA, in its sole discretion, may negotiate to charge a lesser management fee 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, account retention, *pro bono* activities, etc.).

## Fees Charged by Financial Institutions

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As further discussed in response to Item 12 (below), PCA generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*").

PCA may only implement its investment management recommendations after the client has arranged for and furnished PCA with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity*, any other broker-dealer recommended by PCA, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers*, custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), 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. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to PCA's fee.

## Fee Debit

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PCA's *Agreement* and the separate agreement with any *Financial Institutions* authorize PCA or *Independent Managers* to debit the client's account for the amount of PCA's fee and to directly remit that management fee to PCA or the *Independent Managers*. Any *Financial Institutions* recommended by PCA 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 PCA.

## Fees for Management During Partial Months or Quarters of Service

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between PCA and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. PCA'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 PCA's right to terminate an account. Additions may be in cash or securities provided that PCA 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 PCA, subject to the usual and customary securities settlement procedures. However, PCA designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. PCA may consult with its clients about the options and ramifications of transferring securities. 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 month or quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the month or quarter.

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

PCA does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

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

PCA provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

#### **No Minimums**

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The firm does not impose a minimum account size or minimum annual fee for new or existing investment management relationships.



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

### Methods of Analysis

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PCA relies primarily on a combination of inherently fundamental and technical methods of analysis. The resulting metrics serve as the foundation for substantially all of the firm's investment decisions.

*Fundamental analysis* involves an examination of the fundamental financial condition and competitive standing of a company. PCA analyzes 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.

*Technical analysis* involves the examination of past market data rather than specific issuer or company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that PCA will be able to accurately predict such a reoccurrence.

### Investment Strategies

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PCA determines an appropriate asset allocation target for each client, consisting of target weightings for both equity and fixed income holdings. The target allocation is based upon an evaluation of the client's individual investment goals, risk tolerance, and anticipated liquidity needs. In consultation with the client, PCA records the target allocation within an *IPS*, which the client then approves. The allocation mix is generally kept as close to the target as possible, giving consideration to the transaction costs of rebalancing. The firm uses a tactical allocation approach when relative market valuations fall outside a certain threshold, but these tactical over/underweights generally do not exceed +/- 15 percent of the target allocation.

PCA generally retains discretion over client assets and, where liquidity and account size are sufficient, invests client assets directly in a portfolio of stocks and bonds. The equity portion of client portfolios is concentrated in large capitalization U.S. stocks, and is generally benchmarked against the S&P 500 Index. The firm strives to maintain a diversification among sectors that is reflective of the S&P 500 Index, with tactical over/underweights permitted up to +/- 20 percent of the corresponding S&P sector weighting. PCA's security selection process is guided by an outside research service subscribed from the Applied Finance Group ("AFG"). AFG's process is based upon a modified version of Economic Value Added analysis. This seeks to identify companies that are earning a return on equity in excess of their cost of capital. The difference between return on equity and weighted average cost of capital is the company's economic margin. As such, AFG seeks to identify companies with improving economic margins and a

growth or policy that is consistent with the direction of their economic margin (companies with widening economic margin are growing their asset base, which then drives earnings growth).

Within this universe of companies, AFG's research team endeavors to identify those with attractive valuations relative to the market and their industry. AFG conducts bottom-up research in an effort to determine whether business fundamentals (e.g., products, strategy, etc.) are attractive. Those companies that meet all of these criteria are included on AFG's list of recommended stocks. While PCA relies in part on the recommendations it receives from AFG, the firm also consults a variety of other data points and metrics, which also factor into its allocation decisions.

Generally, between zero and 25 percent of a client's target equity allocation (depending on individual client circumstances) may be allocated to a "Global Macro" investment program. This consists of liquid, U.S. traded vehicles, such as ETFs or mutual funds. The Global Macro investment process is intended to reflect the firm's top-down or macroeconomic investment views. PCA develops said views through a variety of channels, including wide reading (newspapers, third-party research, blogs, SEC filings, etc.), primary research on economic data gathered from the Federal Reserve and/or Eurostat. This portion of a client's portfolio is designed in an effort to take advantage of *alpha* generating ideas and is not intended to be income tax sensitive. Depending upon the client's situation, this portion of the portfolio may be relatively small as compared to portfolio-wide holdings.

When constructing client bond portfolios, PCA considers the client's tax status to determine whether tax-exempt municipal bonds, U.S. Treasury bonds, or taxable corporate or agency bonds are most appropriate. Once tax issues have been addressed, the firm selects individual bonds with yield, liquidity, duration, and time-to-maturity that meet the client's individual goals and needs. For those clients with large, identifiable cash outflows on the horizon, PCA attempts to coordinate these cash needs using bonds of equal maturity. Accordingly, PCA generally does not invest in bonds below investment grade (i.e., BBB or lower).

In those client accounts for which a portfolio of direct stock and bond investments is impractical (due to small account size), PCA uses liquid, U.S. traded ETFs or mutual funds to attain the target equity and fixed income allocations.

### **Risks of Loss**

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#### *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 actual NAV during periods of market volatility.

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.

### *Market Risks*

The profitability of a significant portion of PCA's recommendations 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 PCA will be able to predict those price movements accurately.

### *Use of Private Collective Investment Vehicles*

PCA may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of

regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

### *Use of Margin*

To the extent that a client authorizes the use of margin, and margin is thereafter employed by PCA in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to PCA are increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase the management fee payable to PCA. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

### *General Risk of Loss*

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

## **Item 9. Disciplinary Information**

PCA 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. PCA does not have any required disclosures to this Item.

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

PCA is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. PCA does not have any required disclosures to this Item.

## Item 11. Code of Ethics

PCA and persons associated with PCA (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with PCA’s policies and procedures.

PCA has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by PCA or any of its associated persons. The *Code of Ethics* also requires that certain of PCA’s personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in PCA’s *Code of Ethics*, none of PCA’s *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of PCA’s clients.

When PCA is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when PCA is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. 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 mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

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

## Item 12. Brokerage Practices

As discussed above, in Item 5, PCA generally recommends that clients utilize the brokerage and clearing services of *Fidelity*.

Factors which PCA considers in recommending *Fidelity* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Fidelity* enables PCA to obtain many mutual funds without transaction charges and other securities at nominal transaction

charges. The commissions and/or transaction fees charged by *Fidelity* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by PCA's clients comply with PCA'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 PCA 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. PCA seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom PCA and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. PCA 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 PCA 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 PCA 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 PCA (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, PCA may decline a client's request to direct brokerage if, in PCA's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless PCA decides to purchase or sell the same securities for several clients at approximately the same time. PCA 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 PCA's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among PCA's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that PCA determines to aggregate client orders for the purchase or sale of securities, including securities in which PCA's *Supervised Persons* may invest, PCA generally 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. PCA does not receive any additional compensation or remuneration as a result of the aggregation. In the event that PCA 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 may 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 one 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 may 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 may 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, PCA may exclude the account(s) from the allocation; the transactions may 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 may 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 PCA in its investment decision-making process. Such research generally will be used to service all of PCA'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 PCA does not have to produce or pay for the products or services.

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

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PCA may receive from *Fidelity*, without cost to PCA, computer software and related systems support, which allow PCA to better monitor client accounts maintained at *Fidelity*. PCA may receive the software and related support without cost because PCA renders investment management services to clients that maintain assets at *Fidelity*. The software and related systems support may benefit PCA, but not its clients directly. In fulfilling its duties to its clients, PCA endeavors at all times to put the interests of its clients first. Clients should be aware, however, that PCA's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence PCA's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, PCA may receive the following benefits from *Fidelity* through the Fidelity Institutional Wealth Services Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Institutional Wealth Services Group 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.



### Item 13. Review of Accounts

For those clients to whom PCA provides investment management services, PCA monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom PCA provides family office and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by the firm’s Investment Policy Committee. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with PCA and to keep PCA informed of any changes thereto. PCA 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.

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.

### Item 14. Client Referrals and Other Compensation

PCA is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. PCA may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

In addition, PCA is required to disclose any direct or indirect compensation that it provides for client referrals. If a client is introduced to PCA by either an unaffiliated or an affiliated solicitor, PCA may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from PCA’s investment management fee, and does not result in any additional charge to the client. If the client is introduced to PCA by an unaffiliated solicitor, the solicitor provides the client with a copy of PCA’s written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor’s disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of PCA discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of PCA’s written disclosure brochure at the time of the solicitation.

### Item 15. Custody

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



The *Financial Institutions* recommended by PCA 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 PCA. Clients should carefully review the statements sent directly by the *Financial Institutions*.

### **Surprise Independent Examination**

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As PCA is deemed to have custody over clients' cash, bank accounts or securities (for reasons other than those discussed above), the Firm is required to engage an independent accounting Firm to perform a surprise annual examination of those assets and accounts over which it maintains custody. Any related opinions issued by an independent accounting Firm are filed with the SEC and are publicly available on the SEC's Investment Adviser Public Disclosure website. PCA does not have direct access to client funds as they are maintained with an independent qualified custodian.

### **Item 16. Investment Discretion**

PCA may be given the authority to exercise discretion on behalf of clients. PCA 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. PCA is given this authority through a power-of-attorney included in the agreement between PCA and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). PCA 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 rates paid to *Financial Institutions* for client transactions.

### **Item 17. Voting Client Securities**

PCA may vote client securities (proxies) on behalf of its clients. When PCA 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 PCA's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in PCA's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact PCA to request information about how PCA voted proxies for that client's securities or to get a copy of PCA's Proxy Voting Policies and Procedures. A brief summary of PCA's Proxy Voting Policies and Procedures is as follows:

- PCA has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to PCA's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, PCA devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct PCA's vote on a particular solicitation but can revoke PCA's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that PCA maintains with persons having an interest in the outcome of certain votes, PCA takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 18. Financial Information**

PCA is not required to disclose any financial information pursuant to this Item due to the following:

- The firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The firm has not been the subject of a bankruptcy petition at any time during the past ten years.

## **Peddock Capital Advisors, LLC**

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