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## **Part 2A of Form ADV**

### **The Brochure**

**Updated: December 2014**

This brochure provides information about the qualifications and business practices of Holderness Investments Company (Holderness). If you have any questions about the contents of this brochure, please contact us at (336)574-1400. 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 Holderness Investments Company is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Statement of Material Changes to Form ADV

Since our last Part 2A Form ADV amendment filing in March of 2014, the following material changes have been made to this brochure:

<b>Advisory Business; Methods of Analysis, Investment Strategies and Risk of Loss; Brokerage Practices</b>	Holderness now provides two levels of service to an unaffiliated investment manager, Linda P. Erickson, CFP, Inc., doing business as Erickson Advisors ("Erickson"). Holderness provides Erickson with its investment models for application to its own client accounts, and Erickson executes transactions in its clients' accounts at its discretion. In addition, Erickson periodically provides Holderness with portfolio information for certain of its clients and Holderness responds with customized recommendations, which Erickson may execute at its discretion.
<b>Brokerage Practices</b>	<p>Holderness has amended its trade rotation procedures. Specifically, we inform each UMA sponsor and Erickson of the transaction to be placed in that UMA sponsor's client accounts by providing changes to our models. These model changes are conveyed only after all discretionary accounts following those models have been traded and all non-discretionary clients have been notified.</p> <p>Holderness provides Erickson with customized recommendations in a reasonable period of time upon receiving account level information.</p>
<b>Review of Accounts</b>	With respect to accounts managed by Erickson for which Holderness provides customized recommendations, Erickson will provide quarterly copies of account statements to Holderness. Upon receipt, the Holderness will make the investment advisory firm aware of recommendations, if any are pertinent, for the account(s) as soon as possible by phone, email, fax, or regular mail. During a particular quarter, the investment advisory firm may call Holderness for recommendations regarding activity in the account(s).

A copy of Holderness Investment's complete Form ADV Brochure and Brochure Supplement is available without charge by contacting Holderness at (336) 574-1400 or at our website [www.holdernessinvestments.com](http://www.holdernessinvestments.com). Additional information about Holderness is also available on the SEC's website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Advisory Business

Holderness primarily provides customized investment management services to high-net-worth individuals and associated trusts, estates, pension and profit sharing plans, and other legal entities. Holderness generally invests client assets in domestic and international stocks, bonds, mutual funds, and exchange traded funds (“ETFs”).

Holderness also provides its investment models to a Unified Managed Account (UMAs) sponsor but does not execute transactions for the UMA clients since the UMA sponsors implement the investment model by executing transactions in the UMA accounts at their discretion. Please see Methods of Analysis, Investment Strategies and Risk of Loss, and Brokerage Practices below for more information.

In addition, Holderness provides two levels of service to an unaffiliated investment manager, Linda P. Erickson, CFP, Inc., doing business as Erickson Advisors (“Erickson”). Holderness provides Erickson with its investment models for application to its own client accounts, and Erickson executes transactions in its clients’ accounts at its discretion. In addition, Erickson periodically provides Holderness with portfolio information for certain of its clients and Holderness responds with customized recommendations. And similarly, Erickson executes transactions in these client accounts at its discretion. Please see Methods of Analysis, Investment Strategies and Risk of Loss, and Brokerage Practices below for more information.

Holderness works with each client to establish an appropriate investment profile. Clients choose from equity, growth, balanced, conservative, and income based strategies, and can impose reasonable restrictions on Holderness’s management of their accounts.

Holderness was founded in 1995 and is owned by Richard Holderness. As of December 31, 2013 Holderness managed **\$115,467,126** on a discretionary basis on behalf of approximately **244** clients, and \$431,144 on a non-discretionary basis for approximately 16 clients.

## Fees and Compensation

### General

Holderness charges most of its clients an annual investment management fee based on the following schedule:

	Assets Under Management	Annual Fee
First	\$ 3,000,000	1.00%
Next	\$ 3,000,000	.75%
Next	\$ 3,000,000	.60%
Next	\$ 3,000,000	.50%
Next	\$ 10,000,000	.40%

Holderness has the right to waive or negotiate lower fees depending on the circumstances.

Holderness charges fees quarterly in arrears based on the account value at the end of the prior quarter. Most clients authorize Holderness to deduct fees automatically from their brokerage accounts, but clients may request that Holderness send quarterly invoices to be paid by check.

If a client terminates the investment management agreement with Holderness in the middle of a billing period Holderness will invoice the client for an amount that is pro-rated based on the number of days that the account was managed during that quarter.

In addition to Holderness’s investment management fees, clients bear trading costs and custodial fees. To the extent that clients’ accounts are invested in mutual funds and/or exchange traded funds, these funds pay a separate layer of management, trading, and administrative expenses.

#### Fees received from UMA Sponsor and Erickson

We are paid .30%, quarterly in advance, for providing our investment models to a UMA sponsor, based on the assets under management in the UMA program.

We are paid .45%, quarterly in advance, for providing our investment models to Erickson, based on the assets under management at Erickson utilizing the models.

We are paid .60%, quarterly in advance, for providing our customized recommendations to Erickson, based on the assets under management at Erickson utilizing the customized recommendations.

If the client terminates before the end of the prepaid quarter, a refund is paid on a pro-rata basis.

### **Performance Based Fees and Side-by-Side Management**

Holderness does not charge any performance fees. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to Holderness.

### **Types of Clients**

Holderness primarily provides customized investment management services to high-net-worth individuals and associated trusts, estates, pension and profit sharing plans, and other legal entities. Holderness's minimum account size is generally \$1,000,000, but this amount is negotiable. The Vision Tactical Strategies carry no minimum account size.

Holderness also provides investment models and customized recommendations to UMA sponsors and to Erickson.

### **Methods of Analysis, Investment Strategies and Risk of Loss**

The Holderness Investment Team works to conduct fundamental analysis on all securities recommended for client accounts. This analysis varies depending on the security in question. Our investment selection process is rooted in an in-depth bottom-up company analysis while acknowledging our consensus macroeconomic outlook. Our investment team utilizes multiple tools to screen for investment ideas and ongoing company analysis.

For stocks and bonds the analysis generally includes a review of:

- The issuer's management;
- The amount and volatility of past profits or losses;
- The issuer's assets and liabilities, as well as any material changes from historical norms;
- Prospects for the issuer's industry, as well as the issuer's competitive position within that industry; and
- Any other factors considered relevant.

For mutual funds and ETFs the analysis generally includes a review of:

- The fund's management team;
- The fund's historical risk and return characteristics;
- The fund's exposure to sectors and individual issuers;
- The fund's fee structure; and
- Any other factors considered relevant.

Holderness's Investment Committee is led by Richard Holderness, the Chief Investment Officer, and also includes Kim Carson and Charles Freeman. Investments are evaluated independently, as well as in the context of clients' existing holdings and sector exposures.

Holderness primarily invests for relatively long-term horizons, often for 2 years or more. However, market developments could cause Holderness to sell securities more quickly.

Depending on a client's investment objectives, Holderness may engage in short selling or option writing.

### **Investment Strategies we offer include:**

#### Custom Portfolio Management

Since our founding, we have specialized in custom portfolio management. The process begins with an evaluation of each client's goals and risk profile. Normally, Holderness maintains discretionary trading authority over the account and makes buy/sell decisions based on our research conclusions. Holderness can customize these investments based on a client's specific requests (e.g., investing in a specific sector/stock). Client service is handled by the Holderness team, and we can cater to unique client needs through cash management or trading services. Clients are scheduled for reviews of their performance and investment goals, and may call our office at any time to discuss their accounts. Holderness will also maintain non-discretionary accounts for clients under this solution if they have existing investments they would like to hold.

#### Separately Managed Accounts (SMAs)

Holderness will partner with financial consultants to offer our proprietary investment management to their clients. We utilize our proprietary research and valuation techniques to create a model equity portfolio, and a model dividend equity portfolio. The models are dynamic, and tactically managed by our investment team. The models can act as stand-alone investments or be combined with other SMAs within the client's portfolio. Holderness maintains full discretion over the model portfolios. Client service is handled by the financial consultant.

#### Unified Managed Account (UMAs)

Holderness participates in a UMA program sponsored by a broker-dealer and an unaffiliated investment advisory firm. We provide our investment model to the UMA Sponsor, but we do not execute transactions for the UMA clients since the UMA Sponsor implement the investment model by executing transactions in the UMA accounts at their discretion. We are responsible for communicating any changes to the investment model to the UMA sponsor on a timely basis. Please see Brokerage

Practices for a discussion of how we communicate changes to the investment model to UMA Sponsors. UMA clients are generally not considered to be Holderness clients, but rather clients of the UMA sponsor.

#### Advice to Erickson

Holderness participates in a Consulting Agreement with Erickson. We provide our investment model or customized recommendations to Erickson, but we do not execute transactions for Erickson's clients. The investment advisory firm implements the investment model or customized recommendations by executing transactions in its clients' accounts at its discretion. We are responsible for communicating any changes to the investment model to the investment advisory firm on a timely basis, or periodically reviewing accounts receiving customized recommendations. Please see Brokerage Practices for a discussion of how we communicate changes to the investment model to Erickson. Clients of Erickson are not considered to be Holderness clients, but rather clients of Erickson.

#### Vision Tactical Strategies

These actively managed model portfolios are designed to utilize a strategic and diversified mix of asset classes to establish a core portfolio. This solution is thematic and derived from our macroeconomic outlook. The portfolios are constructed in response to our overall market viewpoint, so that the allocation may take advantage of tactical opportunities within the various asset classes. Clients will be able to choose one of five portfolios based on their risk profile. Those models are Equity, Growth, Balanced, Conservative, and Fixed Income. The portfolios are dynamic in that rebalancing will be utilized to maintain target allocations. Each portfolio will hold a combination of ETFs and/or mutual funds.

#### **Risk of Loss - General**

**All investing involves a risk of loss** and the investment strategy offered by Holderness could lose money over short or even long periods of time. Performance could be negatively impacted by a number of different market risks including, but not limited to, that portfolio management techniques used by Holderness may not produce the desired results. This could cause accounts to decline in value. In addition, Holderness may rely on information that turns out to be erroneous. Holderness selects investments based, in part, on information provided by issuers to regulators or made directly available to Holderness by the issuers or other sources. Holderness is not always able to confirm the completeness or accuracy of such information, and in some cases, complete and accurate information is not available. Incorrect or incomplete information increases risk and may result in losses.

- **Potential Risks of Investing in Stocks, Mutual Funds, ETFs and Bonds:**

**Stock Market Risk** - Stock market risk is the possibility that stock prices overall will decline over short or extended periods.

Investing in small- and medium-sized companies involves greater risk and more price volatility than is customarily associated with more established companies. Stocks of such companies may be subject to more volatility in price than larger company securities.

**Foreign Securities Risk** - Foreign securities are subject to the same market risks as U.S. securities, such as general economic conditions and company and industry prospects. However, foreign securities involve the additional risk of loss due to political, economic, legal, regulatory, and operational uncertainties; differing accounting and financial reporting standards; limited availability of information; currency conversion; and pricing factors affecting investment in the securities of foreign businesses or governments.

**Interest Rate Risk** - Bonds also experience market risk as a result of changes in interest rates. The general rule is that if interest rates rise, bond prices will fall. The reverse is also true: if interest rates fall, bond prices will generally rise.

A bond with a longer maturity (or a bond fund with a longer average maturity) will typically fluctuate more in price than a shorter term bond. Because of their very short-term nature, money market instruments carry less interest rate risk.

**Credit Risk** - Bonds and bond mutual funds are also exposed to credit risk, which is the possibility that the issuer of a bond will default on its obligation to pay interest and/or principal. U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Government, have limited credit risk, while securities issued or guaranteed by U.S. Government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. Government may be subject to varying degrees of credit risk. Corporate bonds rated BBB or above by Standard & Poor's are generally considered to carry moderate credit risk. Corporate bonds rated lower than BBB are considered to have significant credit risk. Of course, bonds with lower credit ratings generally pay a higher level of income to investors.

**Liquidity Risk** - Liquidity risk exists when a particular security is difficult to trade. A mutual fund's investment in illiquid securities may reduce the returns of the mutual fund because the mutual fund may not be able to sell the assets at the time desired for an acceptable price, or might not be able to sell the assets at all.

**Call Risk** - Many fixed income securities have a provision allowing the issuer to repay the debt early, otherwise known as a "call feature." Issuers often exercise this right when interest rates are low. Accordingly, holders of such callable securities may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, after a callable security is repaid early, a mutual fund would reinvest the proceeds of the payoff at current interest rates, which would likely be lower than those paid on the security that was called.

**Objective/Style Risk** - All mutual funds are subject, in varying degrees, to objective/style risk, which is the possibility that returns from a specific type of security in which a mutual fund invests will trail the returns of the overall market.

**U.S. Government Agency Securities Risk** - Securities issued by U.S. Government agencies or government-sponsored entities may not be guaranteed by the U.S. Treasury. If a government-sponsored entity is unable to meet its obligations, the securities of the entity will be adversely impacted.

- **Potential Risks of Engaging in Short Selling and Option Writing**

**Short Selling** - Short selling can incur significant risks. There is no ceiling on how much a short seller can lose in a trade. The share price may keep rising and the short seller will have to pay whatever the prevailing stock price is to buy back the shares. However, gains have a ceiling level because the stock price cannot fall below zero. A short seller has to undertake to pay the earnings on the borrowed securities as long as the short position remains open. If the issuer declares huge dividends or issues bonus shares, the short seller will have to pay that amount to the lender. Any such occurrence can skew the entire short investment and make it unprofitable. The broker can use the funds in the short seller's margin account to buy back the loaned shares or issue a 'call away' to get the short seller to return the borrowed securities. If the broker makes this call when the stock price is much higher than the price at the time of the short sale, then the investor can incur significant losses.

**Option Writing** - There are special risks associated with uncovered option writing, which exposes the investor to potentially unlimited loss. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument

declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument. Uncovered option writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock of options positions in the investor's account with little or no prior notice in accordance with the investor's margin agreement.

## **Disciplinary Information**

Holderness and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

Holderness Asset Solutions, LLC, an affiliated entity, provides alternative insurance based solutions for clients. The managing members of the LLC are Richard Holderness, Kim Carson, and Charles Freeman. Charles is separately licensed as an independent insurance agent for Holderness Asset Solutions, LLC. In this capacity, he can effect transactions in insurance products for clients and earn commissions for the affiliate LLC for these activities. The fees clients pay to Holderness Investments for advisory services are separate and distinct from the commissions earned for insurance related activities. This presents a conflict of interest because Holderness may have an incentive to recommend insurance products to for the purpose of generating commissions rather than solely based on client needs. However, clients are under no obligation, contractually or otherwise, to purchase insurance products through any person or entity affiliated with Holderness.

Charles is a registered representative of The Leaders Group, Inc., a registered broker/dealer and FINRA member based in Denver, CO. In this role, Charles may recommend to Holderness clients insurance products such as variable and fixed annuities. He may earn a commission or other compensation for recommending such products and this revenue may offset expenses incurred in providing this advice. Similarly to the conflict presented with respect to Holderness Asset Solutions, LLC, Charles may have an incentive to recommend insurance products to clients for the purpose of generating commissions or other compensation rather than solely based on client needs. However, clients are under no obligation, contractually or otherwise, to purchase insurance products through Charles or The Leader's Group.

Other than the conflicts mentioned above, Holderness and its employees do not have any other relationships or arrangements with other financial services companies that pose material conflicts of interest.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Holderness has adopted a written code of ethics that is applicable to all employees. Among other things, the code requires Holderness and its employees to:

- act in clients' best interests
- abide by all applicable regulations
- avoid even the appearance of insider trading
- pre-clear and report on many types of personal securities transactions

Holderness's restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. A copy of Holderness's code of ethics is available upon request.

Holderness does expect that, in the normal course of investment advising, certain securities would be bought or sold for the Company, as well as by employees, that will also be recommended for clients. The Company has implemented an internal policy to monitor personal trading of its employees to mitigate potential conflicts of interests. The policy includes such controls as required pre-clearance of trades, and quarterly reporting of securities transactions by employees. Employees are permitted to trade the same securities on the same day as clients only when the employees participate in an aggregated or "block" trade with clients and receive the same average price. In any situation where a transaction is partially filled, no employee will receive an allocation from the block transaction until all clients have fully participated to their desired allocation. In addition, certain personal trades must be pre-cleared by Richard Holderness prior to execution.

Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but the Chief Executive Officer might not allow the security to be purchased for client accounts in order to avoid even the appearance of employees trading ahead of clients. In Holderness's experience, it is rare for an employee's personal trading to limit clients' investment opportunities, but such a situation may arise from time to time.

In the normal course of business, managers, members and/or associated persons of Holderness may provide gifts and gratuities to various clients and other persons. These gifts, gratuities and contributions are not premised upon any specific client referrals or any expectation of any other type of benefit to Holderness.

## **Brokerage Practices**

For most clients, Holderness recommends the establishment of brokerage accounts with Charles Schwab & Co., Inc. ("Schwab") or TD Ameritrade ("TDA"), both FINRA-registered broker-dealers, members SIPC, to maintain custody of clients' assets and to effect trades for their accounts. We consider a wide range of factors in deciding which broker/custodian to recommend, including:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear and settle trades (buy and sell securities for your account)
- capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, etc.)
- breadth of investment products made available (mutual funds, ETFs, etc.)
- availability of investment research and tools that assist us in making investment decisions
- quality of services
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength and stability of Schwab and TDA
- Schwab's and TDA's prior service to us and our other clients

- availability of other products and services that benefit us, as discussed below (see *Products and Services Available to Holderness from Schwab and TDA* below)

#### Products and Services Provided by Schwab and TDA

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like Holderness. TD Ameritrade Institutional, a division of TD Ameritrade, Inc., is TDA's business also serving independent investment advisory firms. They provide Holderness and its clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to retail customers. Schwab and TDA also make available various support services. Some of those services help Holderness manage or administer clients' accounts, while others help Holderness manage and grow its business. Following is a more detailed description of Schwab's and TDA's support services:

#### *Services that Benefit Clients*

Schwab's and TDA's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab and TDA include some to which Holderness might not otherwise have access or that would require a significantly higher minimum initial investment by Holderness's clients.

#### *Services that May Not Directly Benefit Clients*

Schwab and TDA also make available other products and services that benefit Holderness but may not directly benefit clients. These products and services assist Holderness in managing and administering Holderness's clients' accounts. They include investment research, both Schwab's and TDA's own, and that of third parties. Holderness may use this research to service all or a substantial number of its clients' accounts, including accounts not maintained at Schwab and TDA. In addition to investment research, Schwab and TDA also purchase, reimburse or make available benefits, software, and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Generate performance reports for clients
- Facilitate payment of Holderness's fees from Holderness's clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting
- Offset Transfer of Account Exit Fees imposed on clients by other custodians

Schwab also provides a discount to Holderness on its portfolio accounting software, PortfolioCenter, which is offered by Schwab Performance Technologies

#### *Services that Generally Benefit Only Holderness*

Schwab and TDA also offer other services intended to help Holderness manage and further develop its business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Possible referral of clients from their brokerage platform (TDA only) for management by Holderness. In the event that TDA refers a client to Holderness, Holderness has a potential conflict between the client's interest in obtaining best execution and Holderness receiving future client referrals from the TDA. Holderness attempts to mitigate this conflict by allowing clients to choose any custodian that they wish.

Schwab and TDA may provide some of these services themselves. In other cases, they will arrange for third-party vendors to provide the services to Holderness. Schwab and TDA may also discount or waive their fees for some of these services or pay all or a part of a third party's fees. Schwab and TDA may also provide Holderness with other benefits, such as occasional business entertainment of Holderness personnel.

#### *Holderness's Interest in Schwab's and TDA's Services*

The availability of these services from Schwab and TDA benefits Holderness because Holderness does not have to produce or purchase them. Holderness does not have to pay for Schwab's services so long as Holderness's clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. TDA has not established a minimum amount of assets for Holderness in order to receive support services. Beyond that, these services are not contingent upon Holderness committing any specific amount of business to Schwab and TDA in trading commissions or assets in custody.

The \$10 million minimum may give Holderness an incentive to recommend that clients maintain accounts with Schwab, based on Holderness's interest in receiving Schwab's services that benefit Holderness's business rather than based on clients' interests in receiving the best value in custody services and the most favorable execution of transactions. This is a potential conflict of interest. Holderness believes, however, that its recommendation of Schwab, when appropriate, as custodian and broker is in the best interests of clients. Holderness's recommendation is primarily supported by the scope, quality, and price of Schwab's services. Holderness has over in \$100 million in client assets under management, and it does not believe that recommending clients to collectively maintain at least \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest.

#### The Selection of Trading Counterparties

Holderness can typically trade accounts held at Schwab or TDA using other broker/dealers. However, clients are charged trade-away fees that Holderness believes may outweigh any benefits from trading stocks, mutual funds, or ETFs with other brokers. The availability and pricing of bonds varies more widely, so prior to placing a bond trade Holderness may solicit bids from several dealers and then execute the trade with the dealer that offers sufficient liquidity and the most favorable pricing.

For clients who elect to have their accounts held by firms other than Schwab or TDA, Holderness's approach is generally to trade stocks, mutual funds, and ETFs with the chosen custodian, and to trade bonds with the dealer that offers sufficient liquidity and the most favorable pricing.

Some clients' accounts are relatively small, in which case the custodian may not allow Holderness to trade through other firms. Other clients may specifically request that their accounts only be traded through a particular broker/dealer. Holderness trades these accounts through the firm chosen by the client, which limits Holderness's ability to seek best execution and prohibits the client from participating in block trades. Trading restrictions may result in materially higher trading costs and reduced returns.

### Best Execution Reviews

As a fiduciary, we seek to obtain best execution in all securities transactions. However, this does not mean that we will always obtain the best possible price or the lowest commission. On at least an annual basis Holderness's Chief Compliance Officer and other senior executives evaluate the pricing and services offered by Schwab and TDA and other trading counterparties with those offered by other reputable firms. Holderness has sought to make a good-faith determination that Schwab, TDA and other chosen trading counterparties provide clients with good services at competitive prices. However, clients should be aware that this determination could have been influenced by Holderness's receipt of products and services from Schwab and TDA. Historically Holderness has concluded that Schwab and TDA are as good as, or better than, the other firms that have been considered. Holderness would notify its clients if it were to determine that another firm offered better pricing and services than their current custodian.

### Trade Rotation

Holderness makes all clients aware of its policies with respect to the aggregation and allocation of orders. To meet this objective, Holderness follows written trade rotation procedures. Holderness clients that receive continuous and regular investment management services are categorized by custodian into groups. These groups are traded either simultaneously or rotated.

UMA sponsors and Erickson execute client transactions based on our investment recommendations, among other factors. We inform each UMA sponsor and Erickson of the transaction to be placed in that UMA sponsor's client accounts by providing changes to our models. These model changes are conveyed only after all discretionary accounts following those models have been traded and all non-discretionary clients have been notified.

Holderness provides Erickson with customized recommendations in a reasonable period of time upon receiving account level information.

### Aggregated Trades

Transactions for each client account generally will be effected independently; however, it may be advantageous to buy or sell a large quantity of securities. Therefore, Holderness may combine or batch such orders to obtain best execution, to negotiate more favorable commission rates or other transaction costs than might have been obtained had such orders been placed independently. Under this procedure transactions will be averaged as to price and will be allocated among clients daily in proportion to the purchase and sale orders placed for each client account. When client accounts are grouped together for block trades an order report representing the block order will be maintained as well as individual account trade log entries for all accounts included in the block trade.

Trades cannot be aggregated across custodians. As a result, Holderness has adopted policies and procedures to rotate trading, when required, by custodian so that, over time, all clients are treated fairly with respect to aggregated trading.

Securities purchased or sold in a batched transaction are allocated pro-rata, when possible, to the participating client accounts in proportion to the size of the order placed for each account. Holderness may, however, increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd-lot or small numbers of shares for particular clients. Additionally, if Holderness is unable to fully execute a batched transaction and determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro-rata basis, Holderness may allocate such securities in a manner determined in good faith to be a fair allocation.

If a client requests that their account be placed with a broker-dealer which does not also custody other accounts for Holderness, that client's account will be unable to participate in block trading and therefore will not receive the benefits of such trading.

In certain instances Holderness may execute over the counter securities transactions on an agency basis, which may result in advisory clients incurring two transaction costs for a single trade: a commission paid to the executing broker-dealer plus the market makers mark-up or mark-down.

### Client Referrals

Holderness does not compensate Schwab, TDA or any other custodian or broker/dealer for referring client accounts.

### The Leaders Group

Charles is a registered representative of The Leaders Group, Inc., a registered broker/dealer and FINRA member based in Denver, CO. In this role, Charles may recommend to Holderness clients insurance products such as variable and fixed annuities. He may earn a commission or other compensation for recommending such products and this revenue may offset expenses incurred in providing this advice. Similarly to the conflict presented with respect to Holderness Asset Solutions, LLC, Charles may have an incentive to recommend insurance products to clients for the purpose of generating commissions or other compensation rather than solely based on client needs. However, clients are under no obligation, contractually or otherwise, to purchase insurance products through Charles or The Leader's Group.

## **Review of Accounts**

Accounts under Holderness's management are monitored on an ongoing basis by the Investment Committee members. The Investment Committee members review each account in detail on at least an annual basis, as well as in connection with each client meeting. The Investment Committee members and the Chief Compliance Officer review a number of reports that are designed to identify accounts that are outside the expected ranges for returns, exposure to asset classes, and exposure to industry sectors. Reviews of client accounts will also be triggered if a client changes his or her investment objectives, or if the market, political, or economic environment changes materially.

Subject to individual client objectives and constraints, the Vision Tactical Strategy accounts will be monitored in accordance with the assigned model and rebalanced based on changes in the model allocation. Those change will be based on our macroeconomic review, and fundamental analysis of the securities used in the models. When possible, account trades will be aggregated for rebalancing.

Clients receive account statements directly from their chosen custodian on at least a quarterly basis. Holderness may supplement these custodial statements with reports provided during client meetings or as requested.

With respect to accounts managed by Erickson for which Holderness provides customized recommendations, Erickson will provide quarterly copies of account statements to Holderness. Upon receipt, the Holderness will make the investment advisory firm aware of recommendations, if any are pertinent, for the account(s) as soon as possible by phone, email, fax, or regular mail. During a particular quarter, the investment advisory firm may call Holderness for recommendations regarding activity in the account(s).



## **Client Referrals and Other Compensation**

From time to time, Holderness may enter into a Client Solicitation Agreement with an individual or firm who will introduce Clients to the Advisor. Such individuals will receive a referral fee for Clients that are introduced to Holderness and who enter into an Asset Management Agreement with Holderness. Any solicitor will be required to maintain the proper registrations and in such capacity will refer potential clients to Holderness Investments Company for asset management. Clients referred to Holderness Investments Company for asset management services will become a client of Holderness Investments Company and will pay management fees to Holderness Investments according to the standard management fee schedule mentioned above. Solicitors will be paid a percentage of the fee paid to Holderness for all clients referred. Since the maximum fee charged to a client by Holderness Investments Company would be 1% annually, no client will pay more to be referred to Holderness Investments by a solicitor. All fees will be fully disclosed to all clients prior to entering into an agreement. All clients referred will sign a disclosure statement acknowledging all the terms of any arrangement entered into.

Holderness may also enter into a sub-advisor agreement with other Investment Advisors under a fee sharing arrangement. In this case, Holderness manages the investments and the referring Advisor handles the Client relationship.

Other than the previously described products and services that Holderness receives from Schwab and TDA, Holderness does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

## **Custody**

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but Holderness can access many clients' accounts through its ability to debit advisory fees. For this reason Holderness is considered to have custody of client assets. Account custodians send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by Holderness.

## **Investment Discretion**

Holderness has investment discretion over the vast majority of clients' accounts. Clients grant Holderness trading discretion through Holderness's Investment Management Agreement as well as an execution of a limited power of attorney included in the Schwab brokerage account application forms.

Clients using our Custom Portfolio Management offering can place reasonable restrictions on Holderness's investment discretion. For example, some clients have asked Holderness not to buy securities issued by companies in certain industries, or not to sell certain securities in which the client has a particularly low tax basis.

If a client desires for Holderness to manage a non-discretionary account for them they will sign an alternate Non-Discretionary Investment Management Agreement detailing the limitations associated with a non-discretionary arrangement.

## **Voting Client Securities**

In accordance with its fiduciary duty to clients and Rule 206(4)-6 under the Investment Advisers Act, Holderness has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Holderness receives will be treated in accordance with these policies and procedures.

Holderness considers the reputation, experience, and competence of a company's management and board of directors when it evaluates a prospective investment. In general, Holderness votes in favor of routine corporate matters, such as the re-approval of an auditor or a change of a legal entity's name. Holderness also generally votes in favor of compensation practices and other measures that are in-line with industry norms, that allow companies to attract and retain key employees and directors, that reward long-term performance, and that align the interests of management and shareholders. Holderness supplements its evaluation of client proxies with guidance from an independent corporate governance consulting firm.

Holderness has not identified any material conflicts of interest in connection with past proxy votes. Such a conflict could arise if, for example, a client was a senior executive with a publicly traded company and other clients held securities issued by that company. Holderness realizes that due to the difficulty of predicting and identifying all material conflicts, it must rely on its employees to notify the Chief Executive Officer and/or Chief Compliance Officer of any material conflict that may impair Holderness's ability to vote proxies in an objective manner. Upon such notification, the Chief Executive Officer will notify its legal counsel of the conflict who will recommend an appropriate course of action.

A copy of Holderness's proxy voting policies and procedures, as well as specific information about how Holderness has voted in the past, is available upon written request. Upon written request, clients can also take responsibility for voting their own proxies, or can give Holderness instructions about how to vote their respective shares.

With regard to all matters (other than proxies) for which shareholder action is required or solicited with respect to securities beneficially held by the client's account, such as (i) all matters relating to class actions, including without limitation, matters relating to opting in or opting out of a class and approval of class settlements and (ii) bankruptcies or reorganizations, Holderness affirmatively disclaims responsibility for voting (by proxies or otherwise) on such matters and will not take any action with regard to such matters.

## **Financial Information**

Holderness has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.