

# Pegasus Partners Ltd.

## Part 2A of Form ADV Brochure

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This Brochure provides information about the qualifications and business practices of Pegasus Partners Ltd. (the “Adviser”). If you have any questions about the contents of this Brochure, please contact us at (262) 478-9009 or by email at [mhaas@pegpartnersltd.com](mailto:mhaas@pegpartnersltd.com). 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.

The Adviser is a registered investment adviser. The registration of an investment adviser does not imply any level of skill or training.

Additional information about the Adviser also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 3 — Table of Contents

Cover Page .....	i
Item 3 — Table of Contents .....	ii
Item 4 — Advisory Business .....	1
Firm Description .....	1
Principal Owner .....	1
Types of Advisory Services .....	1
Client Reporting on Alternative Investments .....	2
Client Assets .....	2
Item 5 — Fees and Compensation .....	2
Item 6 — Performance-Based Fees and Side-By-Side Management .....	3
Item 7 — Types of Clients .....	3
Description .....	3
Account Minimums .....	3
Item 8 — Methods of Analysis, Investment Strategies and Risk of Loss .....	4
Rising Income Equity Strategy .....	4
Custom Asset Allocation Strategy .....	4
Principal Risk Factors .....	5
Item 9 — Disciplinary Information .....	5
Item 10 — Other Financial Industry Activities and Affiliations .....	5
Item 11 — Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	5
Item 12 — Brokerage Practices .....	6
Item 13 — Review of Accounts .....	9
Periodic Reviews .....	9
Reports .....	9
Item 14 — Client Referrals and Other Compensation .....	9

Item 15 — Custody .....	9
Account Statements.....	9
Item 16 — Investment Discretion.....	10
Item 17 — Voting Client Services.....	10
Class Action Lawsuits .....	11
Item 18 — Financial Information .....	11
Other Important Information .....	12

## **Item 4 — Advisory Business**

### **Firm Description**

The Adviser provides professional investment management to a broad range of investors. All investment management services are provided on a supervisory basis. The Adviser provides continuous investment advice and management based upon the individual needs and objectives of each client. The Adviser also provides bill pay services for select clients whereby the Adviser may have the ability to authorize payments from client checking accounts. The Adviser was founded in February 2015, and commenced operations in April 2015.

### **Principal Owner**

The Adviser is privately held and its employees own substantially all the outstanding stock of the firm. The principal owner of the Adviser is Todd Krieg.

### **Types of Advisory Services**

Our core expertise is embodied in our Rising Income Equity Strategy, described below, the goal of which is to seek superior long-term investment returns by investing in companies with sustainable and growing cash flows that also exhibit a commitment to returning cash to shareholders. We also offer custom asset allocation strategies where a client's portfolio may be allocated among mutual funds, exchange traded funds ("ETFs"), third-party investment advisers, and other investments as part of an overall asset allocation strategy. Investments and third-party investment advisers used in the custom allocation strategy are selected based upon a number of factors, including an evaluation of a company's performance history, management, total assets, expense ratio, volatility, turnover ratio, duration of track record, dividend yield and sales loads.

For clients who grant the Adviser complete discretionary authority, the Adviser determines which securities are to be bought or sold and, in these determinations, it is guided by the general guidelines which are set up at the inception of the Adviser-client relationship in cooperation with the client. These general guidelines cover such things as the relative proportion of debt securities and equity securities, the degree of risk which the client wishes to assume and the types and amounts of securities to constitute the portfolio, including any restrictions imposed by the client. The Adviser endeavors to manage the portfolio in accordance with these guidelines.

The Adviser also offers financial planning services to clients. Financial planning services may include financial position planning, retirement planning, income tax estimates, business planning and preparation of a financial plan. All financial planning advice is provided on a non-discretionary basis and clients are responsible for deciding what advice to act upon. There is no additional fee to clients for financial planning services.

In addition to the foregoing, the Adviser provides relationship management services to select clients of Reinhart Partners, Inc. (“Reinhart”), a registered investment adviser with which the Adviser was previously affiliated. The Adviser is compensated for these services from the fees the client pays to Reinhart.

#### **Client Reporting on Alternative Investments**

On client reports, the Adviser may show alternative investments held or controlled by a client or by a third party on behalf of the client. These assets are reported for client recordkeeping purposes only. The Adviser does not have actual custody or control of these assets. With the exception of most marketable securities, the description of the asset and its price (or value) may have been provided to the Adviser by the client and should not be relied upon for any purpose by a third party.

#### **Client Assets**

As of December 31, 2015, total assets under management were approximately \$1,055 million. Client assets managed on a discretionary basis totaled approximately \$978 million; client assets managed on a non-discretionary basis totaled approximately \$77 million.

### **Item 5 — Fees and Compensation**

Fees for investment management services rendered are based on a percentage of assets under management and are payable quarterly in advance, unless otherwise agreed to by the parties in writing. The annual rates provided below are applied to the market value of investment capital, including cash or its equivalent held for investment, as appraised by the Adviser. Where client assets are invested in mutual funds, ETFs, or other investment vehicles, the client will incur both a direct management fee payable to the Adviser and an indirect management fee payable through the third party investment vehicle. The same is generally true if client assets are invested in a strategy offered by a third-party investment adviser – that is, the client will incur both a management fee payable to the Adviser and a management fee payable to the third-party investment adviser, unless otherwise agreed to by the parties in writing. Where the Adviser provides before fee and after fee performance, before fee performance includes all fees (i.e., trading, custodian, advisory fees, etc.) incurred by the client other than the Adviser’s fee. No fee increase will take effect without at least sixty days’ advance written notice to clients.

The contractual relationship between the Adviser and its clients shall remain in force until canceled by either party upon 30-days’ prior written notice. Unless a client specifically instructs the Adviser to liquidate the client’s assets, the Adviser will not liquidate assets when notice of termination is received from a client. In the event of termination by either party, any unearned fees will be prorated back to the client.

#### Fee Schedule\*

Total assets up to \$1,999,999	1.00%
Total assets from \$2 million to \$4,999,999	0.85%
Total assets from \$5 million to \$9,999,999	0.75%
Total assets from \$10 million to \$14,999,999	0.70%
Total assets of \$15 million and over	Negotiated

\*Minimum Fee of \$10,000. All portfolio fees are subject to negotiation depending upon a number of factors, including total value of assets managed, asset type, and servicing requirements.

Unless the Adviser has permission from the client to debit automatically the client's custodial, banking or brokerage account(s), as the case may be, the Adviser will invoice each client for services rendered.

Pegasus may use independent sub-advisers to create customized individual stock and/or bond portfolios. When such services are used, clients will be charged a separate fee ranging from 0.15% - 0.35% of the assets being managed by the sub-adviser(s), depending upon the sub-adviser and the strategy utilized. While Pegasus may help to facilitate the payment of fees to sub-adviser(s), Pegasus does not receive any portion of such fee and the fee may change from time-to-time.

### Item 6 — Performance-Based Fees and Side-By-Side Management

The Adviser does not intend to enter into performance fee arrangements with clients; therefore, the Adviser does not expect to expose its clients to the potential conflicts of interests associated with side-by-side management.

### Item 7 — Types of Clients

#### Description

The Adviser provides investment advisory services to corporations, pension and profit-sharing plans, endowments, foundations, trusts, individuals and other separate accounts.

#### Account Minimums

The Adviser has a standard minimum relationship size of \$2,000,000 for all accounts. Smaller accounts may be accepted based upon a number of factors, including geographic considerations, related account relationships, the number of clients with individual firms and support services provided by other firms.

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

### **Rising Income Equity Strategy**

*Philosophy.* The Rising Income Equity Strategy is grounded in the Adviser's belief that investments in companies with sustainable and growing cash flows that also exhibit a commitment to returning cash to shareholders will provide superior long-term investment returns. The Adviser believes an increasing number of public companies will institute significant dividends to shareholders and that dividends will represent a larger share of total stock market returns in future years.

By focusing on the ability to sustain and increase dividends, first and foremost, this investment strategy places additional value on consistency of company fundamentals and the willingness of company management to return some portion of its cash flow to shareholders. Critical to the success of this method of investing is a dividend payout ratio below the sustainable cash flow of the company, as well as a diversified group of company investments spread across most, if not all, economic sectors.

*Research and Analysis.* Roughly 80% of the research for this strategy is generated internally. However, external research also plays an important role as a source of data. The Adviser combines data from external sources and sell-side research with its own industry knowledge and expertise to formulate its own opinions about company and industry fundamentals, future stock price movements, and the risk/return profile of individual stocks.

The Adviser concentrates its internal research on companies with a history, or new commitment, to paying out a portion of their annual cash flow to shareholders in the form of regular or special dividends. After the initial screen, the Adviser performs fundamental due diligence on the companies to determine if additional research is necessary. For example, the Adviser will formulate an opinion on the sustainability of revenues and cash flow, financial strength and the likely direction from here, and ability to grow cash flows over time. Companies that pass the fundamental screen are then evaluated for potential position in the portfolio based on sectors, valuation, and other suitability measures.

### **Custom Asset Allocation Strategy**

The Adviser may provide asset allocation recommendations to clients using a wide range of mutual funds, ETFs, third-party investment advisers and other investments. To be considered for recommendation to a client, an investment or third-party investment adviser must meet certain criteria relating to, among other things, performance, management, total assets, expense ratio, volatility, turnover ratio, duration of track record, dividend yield and sales loads. As part of its asset allocation strategy, the Adviser will review client portfolios to determine whether the portfolio is appropriately diversified and whether the risk profile of the account matches the client's risk tolerance. The Adviser will rebalance accounts as necessary in order to achieve the client's desired investment objectives.

**Principal Risk Factors**

Investing in securities involves risk of loss that clients should be prepared to bear. The Adviser does not offer any products or services that guarantee rates of return on investments for any time period to any client. All clients assume the risk that investment returns may be negative or below the rates of return of other investment advisers, market indices or investment products. Investments are subject to market risk, which may cause the value of the client's account to be worth more or less than the client's initial investment. The market value of a client's account is expected to fluctuate. Further, the securities selected may decline in value or not increase in value when the market in general is rising.

**Item 9 — Disciplinary Information**

The Adviser and its employees have not been involved in any legal or disciplinary events that would be material to a client's evaluation of the firm or its personnel.

**Item 10 — Other Financial Industry Activities and Affiliations**

The Adviser and its employees do not have any relationships or arrangements with other financial services companies or professional service companies that pose material conflicts of interest.

Prior to April 1, 2015, the Adviser was affiliated with Reinhart, as a division of Reinhart. The Adviser provides certain investment management and relationship management services to clients of Reinhart, and Reinhart, in turn, provides certain investment management services to clients of Pegasus. The services provided, and the fees payable by clients with respect thereto, are disclosed to clients at the time the client enters into a client agreement with the Adviser and/or Reinhart.

**Item 11 — Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

The Adviser has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons of the Adviser must acknowledge the terms of the Code of Ethics annually, or as amended.



The Adviser anticipates that, in appropriate circumstances and consistent with clients' investment objectives, it will recommend to investment advisory clients the purchase or sale of securities in which the Adviser, its affiliates and/or clients, directly or indirectly, have a position of interest. The Adviser's employees are required to follow the Adviser's Code of Ethics. Subject to satisfying this policy and applicable laws, employees of the Adviser may trade for their own accounts in securities which are recommended to and/or purchased for the Adviser's clients. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of the Adviser will not interfere with (i) making decisions in the best interest of advisory clients, and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of the Adviser's clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored by the firm's compliance personnel to ensure compliance with the Code of Ethics, and to reasonably prevent conflicts of interest between the Adviser and its clients.

The Adviser's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the firm's Chief Compliance Officer at (262) 478-9009.

## **Item 12 — Brokerage Practices**

For clients who grant the Adviser complete discretionary authority, the Adviser determines the broker or dealer through which the securities are to be bought or sold and the commission rates at which transactions are effected. In making these decisions, the Adviser considers a variety of factors, including best price and execution and the quality of the brokerage and research services provided by the broker. The Adviser may pay a broker a brokerage commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage or research services provided by the broker. Such services are used in servicing all of the Adviser's accounts and are not used solely by the Adviser in connection with the accounts which paid a commission to the broker providing such services.

When a client desires that a particular broker is to be used, the client is required to specifically direct the Adviser in writing, typically in the form of an investment advisory agreement signed by the client, to do so. Where the client directs the Adviser to use a specified broker, the client

should understand that (i) the Adviser will not negotiate commissions on the client's behalf and that, as a result, the client may pay materially different commissions than paid by other clients of the Adviser depending on the client's commission arrangement with such broker and upon other factors, such as the number of shares, round and odd lots, and the market for security purchased or sold; (ii) the client's securities trades will not be included in the Adviser's "batched" orders (i.e., orders for the purchase or sale of the same security for more than one account of The Adviser) executed through such broker and, therefore, the client may pay a different brokerage commission than other clients of the Adviser participating in such "batched" orders; (iii) if the Adviser was not directed to use such broker, the client may pay less in commissions; (iv) the Adviser has a potential conflict between client's interest in obtaining best execution and the Adviser's interest in receiving future referrals from such broker/dealer and; (v) for the foregoing reasons, the Adviser may not obtain best execution in certain transactions in the client's account.

The Adviser does not have any formal or informal soft-dollar arrangements and does not receive any soft-dollar benefits, which are research or other products or services (other than execution) from a broker-dealer or third party in connection with client securities transactions.

From time to time it may be desirable to acquire or dispose of the same securities for more than one client at the same time. In this circumstance, it may not be possible to acquire or dispose a sufficiently larger portion of the security, or the client may have to accept a less favorable price. The Adviser's trade allocation/aggregation procedures have been designed to ensure that all clients are treated fairly and equitably with no particular group or client(s) being favored or disfavored over any other clients, but also to allow for flexible use of appropriate allocation methodologies. In circumstances where combined orders can be effected, orders for the same security executed on the same day for more than one client are treated as a combined order and the price averaged for participating clients and transaction costs are shared equally and on a pro rata basis.

Trades will not be combined where a client has directed transactions to a particular broker-dealer or when the Adviser determines combined orders would not be efficient or practical. Where a client pays a per-trade, rather than a per-share brokerage commission, clients may experience relatively high brokerage costs per equity share when the Adviser executes small share trading lots on the client's behalf. No personal security transactions for the Adviser employees will be included in any client-blocked trades.

With respect to limited-supply investment opportunities, the Adviser allocates investment opportunities among clients on an objective basis. The Adviser generally allocates investment opportunities among client accounts pro rata based on the initial quantity demanded for each

account. The factors considered in allocating investment opportunities, including opportunities of limited supply, generally include the following:

- investment objectives,
- investment strategies,
- investment parameters and restrictions,
- tax considerations,
- liquidity considerations,
- hedging considerations,
- legal and/or regulatory considerations,
- asset levels,
- timing and size of investor capital contributions and redemptions,
- cash flow considerations,
- market conditions,
- existing exposures to an investee company or security, and
- other criteria deemed relevant by the Adviser (the nature and extent of the differences will vary from client to client).

Based on such factors and the fact that different portfolio management personnel may manage the Adviser's various client accounts, there are, or are expected to be, differences between and among the clients with respect to portfolio holdings and the timing of transactions. As such, the Adviser may not always allocate investment opportunities on a pro rata basis. There will be circumstances where:

- only some of clients participate in investment transactions (e.g., to avoid odd lot positions or de minimis positions),
- the level of participation between and among clients in investment transactions is not on a pro rata basis, and
- investment transactions among clients vary in other respects.

Such non-pro rata investment transactions among clients will be made in the discretion of the Adviser when deemed:

- appropriate given the differences between the clients involved,
- appropriate because the target holdings of the particular investment that the Adviser has established with respect to the clients involved differ from client to client, and/or
- otherwise to be in the best interests of the clients involved.

It is the Adviser's general policy that no client will receive inappropriate preferential treatment or otherwise be treated unfairly, and the Adviser will seek to uphold this policy when making decisions regarding investment allocations.

It is the Adviser's policy for clients to be made whole following a trade error provided it is consistent with the custodian's trade error policy, when trade error accounts are used to rectify trade errors. In such instances, the custodian's policy dictates the use of any gains that accrue

due to trade errors (e.g., donated to charity, used to offset losses, etc.). An error detected before the settlement date of the trade (the "Settlement Date") generally will be run through a proprietary error or other account or otherwise corrected in another manner; generally, this means that the security position will be sold or covered in the market. An error detected and corrected before the Settlement Date that was run through the proprietary error account will be handled as follows: (i) any gain accrues to the benefit of the Adviser; and (ii) any loss will be to the detriment of the Adviser, including any commission expenses. An error detected and corrected after the Settlement Date will be handled as follows: (i) any gain after correction accrues to the benefit of the client account; and (ii) any loss after correction will be reimbursed to the client's account by the Adviser, including any commission expenses.

## **Item 13 — Review of Accounts**

### **Periodic Reviews**

Each account will be reviewed at least quarterly by one of the firm's financial advisers. The Adviser has five financial advisers who conduct portfolio reviews. They are responsible for continuously evaluating the impact of the changing economic and market conditions on the securities in and investment objectives of each portfolio. Major factors considered in all reviews include the market activity of individual securities and industries, the asset allocation mix within the portfolio and the investment strategy in terms of the income, risk and growth objectives of the client.

### **Reports**

Clients receive periodic letters and commentaries discussing the Adviser's outlook for the markets and clients' portfolios. Clients may also receive other periodic newsletters, telephone calls and personal consultations. Portfolio summaries, portfolio appraisals, purchase and sale reports, reports detailing realized gains and losses, and income and expenses will be provided upon request. Customized reports are also available upon request.

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

The Adviser does not intend to enter into referral fee arrangements.

See "Brokerage Practices" above for a discussion of research services utilized by the Adviser.

## **Item 15 — Custody**

### **Account Statements**

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but the Adviser can access many client funds through its ability to debit advisory fees, through its authority to authorize payments from certain clients' checking accounts for bill paying services, and through

trustee services provided to certain clients. For this reason, the Adviser is considered to have “custody” of client assets. For those assets for which the Adviser is deemed to have custody because of bill paying and trustee services, the Adviser is subject to an annual surprise verification conducted by an independent public accountant. Clients receive statements from their respective custodians on at least a quarterly basis. To the extent the Adviser sends you account statements, you are encouraged to compare the information included within the account statements to the information reflected in the statements you receive directly from your custodian. The Adviser’s statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 — Investment Discretion**

Generally, the Adviser exercises investment discretion over client accounts. As such, the Adviser will normally have the authority to supervise and direct the investments of and for the client's account without prior consultation with the client. When selecting securities and determining amounts, the Adviser observes the investment policies, limitations and restrictions of the clients for which it advises.

Certain clients impose investment restrictions and limit the Adviser’s authority to trade or select brokers. These restrictions and limitations must be set forth in the client’s respective agreement with the Adviser.

## **Item 17 — Voting Client Services**

The Adviser has adopted policies and procedures to ensure that it votes client proxies in the best interest of those clients who have delegated their proxy voting responsibility to the Adviser. Unless a client directs otherwise in writing, Pegasus, in conjunction with the proxy voting and due diligence services provided by Broadridge Financial Solutions, Inc., or its successors or assigns, shall be responsible for directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted. Pegasus and/or the client shall correspondingly instruct each custodian of the assets to forward to Pegasus copies of all proxies and shareholder communications relating to the assets. Pegasus, in conjunction with the services provided by Broadridge Financial Solutions, Inc., shall monitor corporate actions of individual issuers and investment companies consistent with Pegasus’ fiduciary duty to vote proxies in the best interests of its clients. With respect to individual issuers, Pegasus may be solicited to vote on matters including corporate governance, adoption or amendments to compensation plans (including stock options), and matters involving social issues and corporate responsibility. With respect to investment companies (e.g., mutual funds), Pegasus may be solicited to vote on matters including the approval of advisory contracts, distribution plans, and

mergers. Pegasus shall maintain records pertaining to proxy voting as required pursuant to Rule 204-2 (c)(2) under the Advisers Act. Copies of Rules 206 (4)-6 and 204-2(c)(2) are available upon written request. In addition, information pertaining to how Pegasus voted on any specific proxy issue is also available upon written request.

Alternatively, clients may, at their written election, choose to receive proxies related to their own accounts, in which case Pegasus may consult with clients as they may request. With respect to ERISA accounts, Pegasus will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct Pegasus to vote a proxy in a particular manner, clients should contact the firm's Chief Compliance Officer at 262-478-9009.

Pegasus will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by Pegasus that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If Pegasus has a conflict of interest in voting a particular action, it will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting the firm's Chief Compliance Officer at 262-478-9009. Clients may request, in writing, information on how proxies for his or her shares were voted. If any client requests a copy of the Firm's complete proxy policies and procedures or how it voted proxies for his or her accounts, Pegasus will promptly provide such information to the client.

#### **Class Action Lawsuits**

The Adviser generally does not elect to participate in legal actions such as class action lawsuits on behalf of its clients. Rather, such decisions remain with the client or an entity designated by the client. At the client's request, the Adviser may assist the client in reaching this decision by forwarding claims to the client or by providing supporting documentation and information. However, the final determination as to whether to participate, and the completion and tracking of any such related documentation, rests with the client. The Adviser does not make claims on behalf of its clients.

## **Item 18 — Financial Information**

The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## **Other Important Information**

Effective March 31, 2015, the wealth management division of Reinhart was spun out into two, newly created investment advisory firms, one of which is called Pegasus Partners Ltd. ("Pegasus") and the other of which is called Windward Wealth Strategies, Inc. ("Windward"). Although Pegasus and Windward are now independent of Reinhart, the three entities have entered into an agreement pursuant to which Reinhart will provide certain back-office services to Pegasus and Windward for a specified transition period. During this transition period, employees of all three entities will have access to trade and account data relating to clients of all three entities. Each entity has established policies and procedures to ensure the security and confidentiality of client data, and intends to conduct frequent testing of these policies and procedures during the transition period in an effort to ensure the protection of all client data.

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