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## **Form ADV Part 2 A & B**

**August 15, 2014**

This brochure provides information about the qualifications and business practices of CNBS, LLC. If you have any questions about the contents of this brochure, please contact John Caladim, CEO at 800-222-0978. Email inquiries may be sent to [jcaladim@cnbsnet.com](mailto:jcaladim@cnbsnet.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any status securities authority. Additional information about CNBS, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and at [www.cnbsnet.com](http://www.cnbsnet.com).

## Summary of Material Changes since the last filing confirmed during March 2013.

A majority ownership interest was acquired by Aberdeen Capital Holdings, LLC. Please see Form ADV for details or contact CNBS.

Over the last several months CNBS has had personnel changes that are updated in the Part 2B attached and Form ADV which is available upon request or on the IARD Web Site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# CNBS, LLC

## Form ADV Part 2

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## **Form ADV Part 2A**

### **Advisory Business**

#### **About Us**

CNBS, LLC (“CNBS” or the “Company”) was founded as a securities broker-dealer in 1989 and registered as investment adviser in 1990. CNBS provides non-discretionary investment supervisory/advisory services, as well as reporting services to institutional clients (federal and state chartered credit unions) throughout the United States. CNBS manages and supervises client investment portfolios on a continuous and regular basis. The Company also provides continuous monitoring of clients’ financial structure, liquidity needs and investment portfolio.

Client investments are supervised on a non-discretionary basis. CNBS does not buy or sell client securities without explicit approval from the client. The method used to determine the assets under supervision are described fully in the Fees and Compensation section of this Brochure. The company is majority owned by Aberdeen Capital Holdings, LLC, a Texas Limited Liability Company, which was created to acquire controlling interest in CNBS.

#### **Investment Advisory Services**

##### Investment and Asset-Liability Policy Design and Review

CNBS will provide a written review of the client’s existing investment and asset-liability management policies at the onset of subscribing to the investment advisory service. Additionally, subsequent written annual reviews will be provided to the client. If a client does not have an investment and/or asset-liability policy, CNBS will assist with developing and implementing such policies. CNBS’ written comments may be followed by a telephone conference, if necessary.

##### Interest Rate Risk Evaluation

CNBS provides clients with a periodic written evaluation of their balance sheet position as it relates to interest rate risk management, which include the following components:

- gap report of re-pricing assets to liabilities
- income simulation under various scenarios
- net economic value under various scenarios
- specific recommendations to reduce interest rate risk

### Portfolio Advice and Consulting

A client will receive an ongoing review of its investment portfolio management practices and compliance with regulatory standards, as well as internal policies. CNBS will also provide its clients with recommendations for changes in portfolio mix, maturity, structure, and risk thresholds.

### Portfolio Reporting

CNBS delivers to its clients written monthly investment management and investment accounting reports.

### Financial Analytics

The Company utilizes Bloomberg and other financial information systems, to provide clients with historical yields, “what-if” analyses, and relative yield comparisons.

### Custom Investment Advisory Services

CNBS offers investment advisory services to financial institutions and other institutional investors customized for their particular needs. Custom investment advisory services may contain elements of the services described above in addition to other advisory services requested by the client. Custom investment advisory services and the fees thereon are fully negotiable on a case-by-case basis.

## **Fees and Compensation**

The level of investment advisory services the Company provides to clients and the related fees charged are negotiable. Below is CNBS’ standard pricing chart.

<b>Net Investment Portfolio</b>	<b>Monthly Advisory Fee</b>
Up to \$25 million	12 basis points
Over \$25 million to \$50 million	12 basis points on amount up to \$25 million and 8 basis points on amount over \$25 million up to \$50million
Over \$50 million	12 basis points on amount up to \$25 million and 8 basis points on amount over \$25 million up to \$50million. Fees on amounts over \$50 million will be negotiated.
Minimum Monthly Fee	\$1,500
Initial Set-up Fee	\$2,500

There is no minimum portfolio size required for the advisory services. However, note there is a minimum monthly fee as presented in the chart above.

### Net Investment Portfolio

CNBS calculates a client's net investment portfolio by reducing the client's total investment portfolio by the lesser of the client's reported core liquidity balance, or the lower of the client's average, or ending overnight deposit balance during the month.

### Fee Calculation and Payment Methods

CNBS calculates fees for our services on the last business day of each month based on your net investment portfolio, as described above. Valuations for mortgage and asset-backed securities are based on the most recent amortized par value. The valuation for zero coupon bonds is based on accreted book value. For all other types of securities, valuations are based on par value.

CNBS will directly bill all advisory fees to its clients. Fees are payable no more frequently than monthly and are not payable in advance. The initial evaluation fee is payable within thirty (30) days of contract execution. A client may terminate the investment advisory services contract upon thirty (30) days written notice. While termination will not result in a refund of the initial evaluation fee, monthly fees will be accrued only through termination date.

### Other Costs

A client may incur transaction costs on any investment purchase or sale transactions it directs CNBS to execute. CNBS does not adjust advisory fees from clients to offset transaction costs it receives.

Directing CNBS to execute transactions it has recommended to a client creates a conflict of interest because the Company will be compensated by the respective client on any such transactions. CNBS addresses this conflict by limiting our compensation to 1/32 of 1% on the par value of the security it purchases or sells for a client, provided they are not purchases of newly issued securities still in syndicate. A client's trade confirmation will contain a disclosure of the compensation CNBS receives on any transaction it executes at a client's direction, whether or not recommended by CNBS.

Please refer to the Brokerage Practices section of this Brochure for more information on transaction charges.

### **Performance-based Fees**

CNBS calculates fees based solely on the size of a client's portfolio as discussed in the Fees and Compensation section of this Brochure. The Company does not base fees on the performance of a client's portfolio or investment returns because of the potential conflict of interest.

## **Types of Clients**

The Company provides investment advisory services as described in this Brochure to U.S. based financial institutions. As of the date of this Brochure, clients are exclusively federal-chartered and state-chartered credit unions.

As stated in the section on Fees and Compensation, CNBS does not require a minimum portfolio size in order to provide advisory services a potential client.

CNBS does not provide investment advisory services to non-institutional investors.

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

### Methods of Analysis

The Company provides investment advice on a wide range of fixed income securities, including U.S. Government securities, securities issued by U.S. Government-sponsored agencies, mortgage-backed securities, collateralized mortgage obligations, asset-backed securities, government and bond mutual funds, certificates of deposit, deposit notes, banker's acceptances, and other marketable and non-marketable investment products which are legal investments for financial institutions and other institutional investors pursuant to applicable federal and state regulations.

CNBS obtains information on its clients' investment holdings and the identification of purchases and sales recommendations to clients from outside sources of information, including Bloomberg and research materials and economic analyses prepared by others. CNBS utilizes asset-liability management software, bond accounting and analytical software packages in providing investment advice and recommendations to its clients.

### Investment Strategies

As part of CNBS' advisory service, the Company will conduct an initial review of a client's existing investment and asset-liability management policies. If the client does not have one or both of these policies in place, CNBS will assist in developing and implementing the policies. These policies will define for CNBS the client's investment objectives and it is the Company's responsibility as the client's advisor and a fiduciary to consider them in any recommendations made by the Company to the client.

It is the client's responsibility to promptly notify CNBS if it changes any investment objectives within the client's investment policy or asset-liability management policy. The client should also notify CNBS of any investment restrictions that have been adopted or changed so that CNBS may consider them in making investment recommendations. If the client feels any recommendations are contrary to its written policies or restrictions, the client should notify CNBS immediately.

### Risk of Loss

All investment strategies have certain risks that clients should be prepared to bear. When investing in fixed income securities, it is important to remember that the investment's return is linked to its risk. As a general rule, higher returns are the result of assuming higher levels of risk. The following investment risks are present for fixed income securities:

- ***Credit Risk:*** Rating agencies, such as Moody's, Standard and Poor's and Fitch, assign ratings to many fixed income securities when they are issued. These ratings may be adjusted from time to time as the rating agency monitors developments affecting the issuer. The market value of your fixed income investments will fluctuate in response to changes in credit ratings.
- ***Extension/Contracting Risk:*** Changing interest rates will affect the anticipated rate at which mortgages or other loans in a pool will be repaid. Investors will find that their principal is committed for either a longer or shorter period of time than expected. Rising interest rates will slow the rate at which principal is returned to the investor, increasing the expected holding period of the investment.
- ***Embedded Option Risk:*** An embedded option is a provision giving either the issuer or the bondholder an option to take some action against the other party. An example is a bond with a call option. If the issuer calls a bond that you purchased, you may not hold the investment for the period of time you intended, such as to its stated maturity date.
- ***Interest Rate Risk:*** Fluctuations in interest rate will cause the value of fixed income investments to fluctuate in the opposite direction of the interest rate change. If interest rates rise, the market value of your fixed income investments will decline in response.
- ***Liquidity Risk:*** This is a measure of the relative ease and speed with which a security can be purchased or sold in the secondary market at a price that is reasonably related to its actual market value. The less marketable a security, the higher the price or premium over market value a purchase will have to pay. For sellers, less marketability means you will receive a price lower than the securities market value.

### **Disciplinary Information**

Without admitting or denying the findings, CNBS consented to the described sanctions and to the entry of findings therefore regarding Trade Reporting and Compliance Engine (TRACE)-eligible securities transactions. The allegations stated that CNBS failed to report on two dates TRACE-eligible securities within 15 minutes of the execution time. CNBS entered into an Acceptance, Waiver and Consent Agreement (AWC) with FINRA in both instances. The first occurrence (Docket/Case Number 2011027521301) initiated on August 27, 2012, was resolved

following actions by CNBS and the payment of a \$6,000 fine. The second occurrence (Docket/Case Number 2012033743201) initiated on July 7, 2013, was resolved following actions by CNBS and the payment of a \$5,000 fine.

There are no legal events against CNBS and CNBS has no investigations pending. Furthermore, no employees (including officers, investment advisory representatives, registered representatives or other associated personnel have even been subject to any disciplinary action by the SEC, any self-regulatory organization (SRO), or other federal/state regulatory agencies, or any foreign financial regulatory authority.

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

### Financial Industry Activities

CNBS is registered as an investment adviser with the SEC (File No. 801-37558). CNBS is also registered as a securities broker-dealer with the SEC (File No. 8-40985). The Company is a member of the Financial Industry Regulatory Authority (FINRA CRD No. 24153) and the Municipal Securities Rulemaking Board (MSRB No. A6431).

### Affiliations

CNBS does not have any relationships with other firms or parties from which we receive compensation for the advisory services it provides.

In addition to Aberdeen Capital Holdings, LLC, our ownership includes corporate and natural person credit unions as minority owners. CNBS does not have any arrangements with its owners that are material to the advisory services provide to clients. A principal of Aberdeen Capital Holdings, LLC, is also an employee of CNBS. Principal Officers of Aberdeen serve as CNBS' board of directors.

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

### Code of Ethics

CNBS has adopted and enforces a Code of Ethics that sets forth standards of conduct to protect the interests of its clients. As a fiduciary, CNBS and its employees have the responsibility to render professional and unbiased investment advice. The Company owes its clients a duty of honesty, good faith, and fair dealing. As a fiduciary, CNBS acts at all times in its clients best interest. CNBS must either avoid or disclose to clients any conflicts of interest that would interfere with its fiduciary duty. The Company's Code of Ethics emphasizes and implements these fundamental principles of the company.

CNBS' Code of Ethics establishes standards of conduct pertaining to:

- Compliance with applicable securities laws and regulations.



- Fiduciary responsibilities to clients.
- Maintaining strict confidentiality over a client's financial information, purchase or sale recommendations, transactions, and portfolio holdings.
- Prohibitions of misuse of material, nonpublic information, including information pertaining to a client, purchase or sale recommendations, transactions with CNBS and other parties, and a client's portfolio holdings.
- Disclosure and monitoring of personal investment activity and accounts of CNBS' employees to ensure propriety of personal investments.
- Restrictions on activities that may create actual or perceived conflicts of interest, including gift and entertainment expenses of the Company's employees and their outside activities.

CNBS' Code of Ethics requires that employees covered by it immediately report any real or suspected violations of the Code to a designated officer of the Company for investigation and resolution.

A full copy of CNBS' Code of Ethics will be provided upon request.

#### Participation or Interest in Client Transactions

CNBS may buy or sell securities that are also held by its clients. CNBS may also invest its own funds in securities that are also recommending to its clients. In all such cases, the Company's transactions with clients and those for our own account are executed independently and client transactions always receive preferential treatment over those for CNBS' own account.

#### Personal Trading

Employees of CNBS are permitted to maintain personal investment accounts. Given the nature of the Company's clientele and the investments CNBS recommends, it is unlikely that a conflict of interest could arise involving CNBS' investment recommendations to a client. Employees are required to notify the Company of their personal investment accounts and the Company receives copies of account statements, which are reviewed to ensure personal investments of our employees are not in conflict with clients of the Company.

#### **Brokerage Practices**

As a SEC-registered securities broker-dealer, CNBS can execute on a client's behalf the securities transactions recommend as an investment adviser. The client is under no obligation to use CNBS for transaction execution and it may choose another broker-dealer to execute transactions CNBS has recommended. CNBS does not direct any transactions to other broker-dealers or otherwise determine the broker-dealer to be used to execute a client's transactions. That decision is entirely up to the client.

CNBS executes all securities purchases and sales transactions on a non-discretionary, riskless principal basis. This means that upon receipt of a client's purchase or sale instructions, the Company enters into a simultaneous, offsetting sale or purchase transaction with another broker-dealer, which is independent of CNBS. All transactions between the client and CNBS are settled on a "delivery vs. payment" basis. CNBS uses an unrelated financial institution for clearing and settlement of our securities transactions.

Compensation CNBS receives from transactions directed by a client for the Company to execute may or may not be higher than compensation charged by other broker-dealers. CNBS limits the compensation on transactions its execute for clients, as stated in the client's advisory services agreement. Selling concessions on new issue securities are exempt from the markup limitation as they are contractually established by the underwriter(s) and cannot be discounted or waived by CNBS. Some clients that have contracted for a reduced level of advisory services pay normal markups on transactions they direct CNBS to execute. Transaction confirmations clients receive from CNBS disclose the amount of each transaction executed. Transaction charges are in addition to fees charged for the advisory services CNBS provides to its clients.

CNBS' investment advisory representatives do not receive any direct compensation on securities transactions that clients direct the Company to execute on their behalf.

CNBS does not maintain a trading inventory of securities for the purpose of offering such securities to clients.

## **Review of Accounts**

Clients will receive from CNBS written monthly portfolio accounting reports and information for making monthly portfolio accounting entries and adjustments. Clients will also receive written quarterly asset-liability management reports pertaining to their capital at risk, earnings at risk and liquidity fluctuations. These reports may be used by the client for board of directors reporting and certain regulatory reporting functions.

CNBS will review each client's portfolio for performance relative to the client's objectives at least twice per year. Informal reviews are made at least biweekly to assure that CNBS' ongoing advice and supervision of the client's investment portfolio is consistent with the investment policy and objectives.

In addition to regularly scheduled reviews, client inquiries or requests may trigger additional portfolio and investment reviews.

## **Client Referrals and Other Compensation**

CNBS does not compensate other parties for client referrals. Furthermore, CNBS does not have any arrangements under which it receives any compensation or other economic benefit from parties who are not clients for providing investment advisory services.

The Company has an incentive compensation program where any employee of CNBS can receive incentives for bringing new fee-based business to the company. Under this program, employees receive as additional compensation a small percentage of the fees billed to new clients during the first year of their service agreement. CNBS' investment advisory representatives are eligible to participate in this program.

The investment advisory representative that manages a client's relationship may receive incentive compensation on the fees you pay over the first year of our relationship. CNBS believes the method used to calculate a client's net investment portfolio, as described in the Fees and Compensation section of this Brochure, reduces the conflict of interest this incentive compensation may introduce. CNBS will provide the amount of additional compensation the assigned investment advisory representative(s) has received, if any, under this incentive program upon the client's request.

## **Custody**

CNBS does not take possession of a client's investments or funds. It is the client's responsibility to determine the financial institution that will safekeep its investments and provide settlement services for the client's securities purchases and sales.

## **Investment Discretion**

CNBS does not exercise investment discretion over client securities transactions. The Company will not enter into any securities purchases or sales on a client's behalf without its express instructions to do so, either verbally or in writing, such as through e-mail. If a client desires, it may direct another securities broker-dealer to execute securities purchases and sales that CNBS has recommended.

## **Voting Client Securities**

The Company's investment advisory service does not include providing advice on equity or other securities which have voting rights.

## **Financial Information**

CNBS will provide a copy of its December 31 audited Statement of Financial Condition in April of each calendar year at the request of the client. The financial statements will be distributed electronically.

CNBS will send a paper copy of these financial statements upon request.  
A client may request a copy of these financial statements at any time by contacting us.

## ADV Part 2B – Brochure Supplements

The following Brochure Supplements provide information about individuals that provide advisory services. This information supplements the CNBS Brochure, which precedes these Supplements. Additional information about CNBS, LLC and the individuals listed in this Supplement is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### Education and Business Standards

CNBS requires that its investment advisory representatives that have client contact must have an appropriate educational background. A bachelor's degree in finance, accounting, economics, management or equivalent work experience is required. A graduate degree and/or certification as a CFA is preferred. A minimum of two years work experience in a financial institution as an investment advisory representative or similar experience in funds management or asset-liability management is required.

Each Portfolio Strategist or Analyst must hold a current General Securities Representative license (Series 7) and have passed the Uniform State Securities Law Examination (Series 63), Uniform State Investment Advisers Law Examination (Series 65) or Uniform Combined State Law Examination (Series 66), as appropriate.

### John Caladim, CEO

#### Educational Background and Business Experience

Mr. Caladim has over 15 years of institutional brokerage experience, having worked on both the sell-side and buy-side in the capital markets.

John most recently held the position of Managing Director, Financial Institutions Group at Brean Capital LLC, an institutional broker/dealer and investment bank. As a part of the Fixed Income Sales & Trading Division, he oversaw a team that served credit unions, banks, thrifts, and bankers' banks nationwide. The division offered fixed income securities, created tailored investment portfolios, developed balance sheet strategies, and ran asset/liability management modeling for its client base.

Prior to Brean, John spent 3 years as Managing Director, Financial Strategies Group at First Empire Securities, a fixed income institutional broker/dealer. He oversaw a team of six fixed income & balance sheet strategists in the Fixed Income Sales & Trading Division, serving a depository institution client base. Caladim personally covered credit union and bank clients ranging in size from \$30 million to \$5 billion.

Previously, he spent 2 years as Managing Director, Corporate Strategies Group for CU Investment Solutions, a fixed income institutional broker/dealer. He was responsible for the Registered Investment Advisory (RIA) service and ALM Modeling service for corporate credit

unions, the equivalent of wholesale bankers' banks. Clients ranged in size from \$300 million to \$3 billion.

John also spent 9 years as the Portfolio Manager responsible for \$3 billion in fixed income securities at Empire Corporate Credit Union, a wholesale bankers' bank where he was a member of the Asset/Liability Committee (ALCO), Credit Committee, Global Management Team, and Strategic Planning Team. Empire maintained a national footprint with 2,500 credit union clients ranging in size from \$5 million to \$25 billion in deposits.

John holds a BS in Business Administration | Management from the Clarkson University School of Business. He maintains FINRA Licenses Series 7, 24, 63, 65.

Additional information about Mr. Caladim can be obtained from FINRA's BrokerCheck Program at <http://brokercheck.finra.org>. His CRD registration number is: 2225490.

#### Disciplinary History

None.

#### Other Business Activity

None

#### Additional Compensation

None, other than as described in the Client Referrals and Other Compensation section of our ADV Part 2 – Firm Brochure.

#### Supervision

Mr. Caladim supervises CNBS' Portfolio Strategists and Analysts that provide investment advice to clients. He is reviewed by the CNBS Chief Compliance Officer. His Supervisory activities include reviews of investment transactions for advisory clients, reviews of written reports, and monitoring of written communications.

### **Mike Gerhold, CFA, Portfolio Strategist**

#### Educational Background and Business Experience

Mike joined CNBS in 2007. He has more than 25 years' fixed income portfolio management experience, having served as chief investment officer for an insurance company and senior portfolio manager for a national bank.

Mr. Gerhold has been a Chartered Financial Analyst since 1982. Mike has a Bachelor of Arts in Economics degree from the University of Missouri – Kansas City. He maintains FINRA Licenses Series 7, 65, 66.

Additional information about Mr. Gerhold can be obtained from FINRA's BrokerCheck Program at <http://brokercheck.finra.org>. His CRD registration number is: 2913954.

Disciplinary History

None.

Other Business Activity

None

Additional Compensation

None, other than as described in the Client Referrals and Other Compensation section of our ADV Part 2 – Firm Brochure.

**Reade Fors, Risk Analyst**

Educational Background and Business Experience

Mr. Fors is a graduate of Tulane University in New Orleans, Louisiana with a Bachelor of Science degree in Finance. He also earned a Master of Finance degree from Tulane University, graduating in May of 2012.

Mr. Fors joined CNBS in May of 2014. Prior to joining CNBS, Reade worked with a consulting firm in New Orleans providing valuation and fairness opinions for gulf coast businesses that were eligible for BP's Deepwater Horizon Settlement Program.

Certifications

Reade has passed the level one exam of the CFA program.

Disciplinary History

None.

Other Business Activity

None.

Additional Compensation

None, other than described in the Client Referrals and Other Compensation section of our ADV Part 2 – Firm Brochure.

Supervision

Mr. Fors is supervised by John Caladim, CEO.