

# Pence Capital Management, LLC

## **ADV Part 2A, Appendix 1 Wrap Fee Program Brochure**

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**This brochure provides information about the qualifications and business practices of Pence Capital Management, LLC (the “Registrant”). If you have any questions about the contents of this brochure, please contact us at (949)-660-8777. 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 Pence Capital Management, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Pence Capital Management as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training**

## **Item 2            Material Changes**

There have been no material changes made to this Brochure since the firm's initial ADV filing.

## **Item 3            Table of Contents**

|         |   |    |
|---------|---|----|
| Item 1  | Cover Page.....   | 1  |
| Item 2  | Material Changes.....                                   | 2  |
| Item 3  | Table of Contents.....                                  | 2  |
| Item 4  | Services, Fees and Compensation.....                    | 3  |
| Item 5  | Account Requirements and Types of Clients .....         | 4  |
| Item 6  | Portfolio Manager Selection and Evaluation.....         | 4  |
| Item 7  | Client Information Provided to Portfolio Managers ..... | 9  |
| Item 8  | Client Contact with Portfolio Managers.....             | 10 |
| Item 9  | Additional Information.....                             | 10 |
| Item 10 | Requirements for State-Registered Advisers.....         | 13 |

#### **Item 4            Services, Fees and Compensation**

- A. Pence Capital Management, LLC (the “Registrant”) is a limited liability company that was formed on October 20, 2015 in the State of Delaware. The Registrant became registered as an Investment Adviser Firm in December 2015. Eldon Dryden Pence III and Laila Marshall-Pence are the Registrant’s Principal Owners. Eldon Dryden Pence III is the Registrant’s Managing Member.

#### **INVESTMENT ADVISORY SERVICES**

Clients can determine to engage the Registrant to provide discretionary sub-investment advisory services on a wrap fee basis. If a client determines to engage the Registrant on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody). The services included in a wrap fee agreement will depend upon each client’s particular need.

#### **PENCE CAPITAL WRAP FEE PROGRAM**

The Registrant provides investment management services on a wrap fee basis in accordance with the Registrant’s investment management wrap fee program (the “Program”). The services offered under, and the corresponding terms and conditions pertaining to, the Program are discussed in this Wrap Fee Program Brochure, a copy of which is presented to all prospective Program participants. Under the Program, the Registrant is able to offer participants discretionary investment management services for a single specified annual Program fee, inclusive of trade execution, custody, reporting, and the Registrant’s investment management fees. However, clients may incur additional fees as set forth below. The current annual Program fee ranges from 1.35% to negotiable, depending upon the amount and type of the Program assets.

Under the Program, the Registrant shall be provided with written authority to determine which securities and the amounts of securities that are bought or sold. Any limitations on this discretionary authority shall be included in the written agreement between each client and the Registrant. Clients may change/amend these limitations, in writing, at any time. The client shall have reasonable access to one of the Registrant’s investment professionals to discuss their account.

The Registrant does not custody Program assets. Clients are required to enter into a relationship with a broker-dealer/custodian where the assets will be custodied.

**Fee Calculation:** The fee charged is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client.

**Fee Payment:** Clients will be charged in arrears, at the end of each calendar quarter based upon the value of the average daily account balance during the previous quarter.

**Fee Differentials.** The Registrant shall price its services based upon various objective and subjective factors. As a result, Registrant’s clients could pay diverse fees based upon the market value of their assets, the complexity of the engagement, and the level and

scope of the overall investment advisory and/or consulting services to be rendered. As a result of these factors, the services to be provided by Registrant to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly.

**Please Note: Investment Performance:** As a condition to participating in the Program, the participant must accept that past performance may not be indicative of future results, and understand that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies purchased and/or undertaken by the Registrant) may not: (1) achieve their intended objective; (2) be profitable; or, (3) equal historical performance level(s) or any other performance level(s).

- B. Participation in the Program may cost more or less than purchasing such services separately. Also the Program fee charged by Registrant for participation in the Program may be higher or lower than those charged by other sponsors of comparable wrap fee programs.

Depending upon the percentage wrap-fee charged by the Registrant, the amount of portfolio activity in the client's account, and the value of custodial and other services provided, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately and/or if the Registrant were to negotiate transaction fees and seek best price and execution of transactions for the client's account.

- C. The Program's wrap fee does not include certain charges and administrative fees, including, but not limited to transaction charges (including mark-ups and mark-downs) resulting from trades effected through or with a broker-dealer other than the account's custodian, transfer taxes, odd lot differentials, exchange fees, interest charges, American Depository Receipt agency processing fees, and any charges, taxes or other fees mandated by any federal, state or other applicable law or otherwise agreed to with regard to client accounts. Such fees and expenses are in addition to the Program's wrap fee.
- D. Registrant's related persons who recommend the Program to clients do not receive compensation as a result of a client's participation in the wrap fee program.

## **Item 5            Account Requirements and Types of Clients**

The Registrant's clients shall generally include other investment advisory firms. The Registrant, in its sole discretion, may reduce its investment management fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.).

## **Item 6            Portfolio Manager Selection and Evaluation**

- A. The Registrant may allocate a portion of a client's Program assets among Unified Managed Accounts ("UMAs") sponsored by the Registrant and unaffiliated independent investment managers and/or separately managed account programs in accordance with the client's designated investment objective(s). In such situations, the other manager(s) shall have day-to-day responsibility for the active discretionary management of the

allocated Program assets. The Registrant shall continue to render investment supervisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which the Registrant shall consider in recommending the other manager(s) include the client's designated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

- B. The Registrant acts as the portfolio manager for the Program. Inasmuch as the execution costs for transactions effected in the client account will be paid by the Registrant, a potential conflict of interest arises in that the Registrant may have a disincentive to trade securities in the client account. In addition, the amount of compensation received by the Registrant as a result of the client's participation in the Program may be more than what the Registrant would receive if the client paid separately for investment advice, brokerage and other services.

As the Program sponsor, the Registrant shall be responsible for the primary management of the Program, including the selection and termination of all Independent Manager(s). Once selected, Independent Manager(s) shall be responsible for day-to-day management and selection of securities for the account.

- C. As discussed below, the Registrant also offers to its clients investment consulting services on a separate fee basis.

## **OTHER ADVISORY BUSINESS SERVICES**

### **INVESTMENT CONSULTING SERVICES**

The Registrant may provide consulting services on a separate fee basis. Specifically, the Registrant may be engaged to structure or design investment strategies for Unit Investment Trusts ("UITs"). Clients will be responsible for the direct use of the UITs and the management of underlying client assets. The Registrant's consulting services are limited to the structure or design of each UIT and do not include a periodic review of performance. Accordingly, the client (and/or the investment professionals engaged by the client with respect to such assets), and **not** the Registrant, shall be exclusively responsible for the investment management of these assets, regardless of whether the Registrant includes the assets on any account reports that it may provide to the client.

The Registrant may also be engaged to structure or design investment strategies for SMAs. Clients will be responsible for the direct use of the SMAs and the management of underlying client assets. However, when engaged to provide consulting services regarding SMAs, the Registrant will be responsible for the recommendation of changes within the SMA as well as prompting reallocations. The Registrant shall not have the authority to execute any transactions within the SMA and as such the client, and **not** the Registrant, shall be exclusively responsible for the investment management of these assets, regardless of whether the Registrant includes these assets on any account report that may be provided to the client.

## MISCELLANEOUS ADVISORY SERVICES DISCLOSURE

**Unified Managed Accounts.** In conjunction with the Registrant's investment management services, the Registrant sponsors Unified Managed Accounts ("UMAs") (a professionally managed private investment account that is rebalanced when deemed appropriate and can encompass various investment vehicles including, but not limited to mutual funds, stocks, bonds, exchange traded funds ("ETFs"), separately managed accounts, non-public REITs, all in a single account). As the sponsor for the UMA, the Registrant is responsible for portfolio trading, re-balancing, reporting and other administrative responsibilities.

**Independent Managers.** The Registrant may allocate a portion of a client's investment assets among unaffiliated independent investment managers in accordance with the client's designated investment objective(s). In such situations, the Independent Manager(s) shall have day-to-day responsibility for the active discretionary management of the allocated assets. The Registrant shall continue to render investment advisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which the Registrant shall consider in recommending Independent Manager(s) include management style, performance, reputation, financial strength, reporting, pricing, research, and the client's designated investment objective(s).

**Separately Managed Account Programs.** Registrant may allocate a portion of a client's investment assets among unaffiliated Separately Managed Account programs in accordance with the client's designated investment objective(s). In such situations, the Separately Managed Account Manager shall have day-to-day responsibility for the active discretionary management of the allocated assets. The Registrant shall continue to render investment advisory services to the client relative to the ongoing monitoring and review of account performance, asset allocation and client investment objectives. Factors which the Registrant shall consider in recommending Separately Managed Account programs include the client's designated investment objective(s) as applied to the Separately Managed Account program: management style, performance, reputation, financial strength, reporting, pricing, and research.

The Registrant may also advise Separately Managed Accounts ("SMAs") (accounts managed by an independent manager). When engaged as an investment manager for an SMA, the Registrant has the authority to direct trading activity within the account according to the SMA's investment objective. SMAs generally allow for tax control of individual positions and the ability to block or restrict certain types of securities from purchase (i.e. tobacco, alcohol etc.). However, unlike UMAs, each SMA requires its own custodial account.

**Please Note: Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being **no guarantee** that such anticipated market conditions/events will occur), the Registrant may maintain cash positions for defensive purposes. All cash positions (money markets, etc.) shall be included as part of assets under management for purposes of calculating the Registrant's advisory fee.

**Fee Differentials.** As indicated below, the Registrant shall price its services based upon various objective and subjective factors. As a result, the Registrant's clients could pay

diverse fees based upon the market value of their assets, the complexity of the engagement, and the level and scope of the overall investment advisory and/or consulting services to be rendered. As a result of these factors, the services to be provided by the Registrant to any particular client could be available from other advisers at lower fees. All clients and prospective clients should be guided accordingly.

**Client Obligations.** In performing its services, the Registrant shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains its responsibility to promptly notify the Registrant if there is ever any change in an underlying client's financial situation or investment objectives for the purpose of reviewing/evaluating/revising the Registrant's previous recommendations and/or services.

**Disclosure Statement.** A copy of the Registrant's written Brochure as set forth on Part 2 of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Sub-Advisory Agreement*.

The Registrant shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will obtain the underlying client's investment objective from the client. Thereafter, the Registrant shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on the Registrant's services.

**Please Note:** The Registrant provides investment management services on a wrap fee basis. If a client determines to engage the Registrant on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody) (**See** Item 4.A). The services included in a wrap fee agreement will depend upon each client's particular need.

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

Neither the Registrant nor any supervised person of the Registrant accepts performance-based fees.

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

- A. The Registrant may utilize the following methods of security analysis:
- **Charting** - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
  - **Cyclical** - (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)
  - **Fundamental** - (analysis performed on historical and present data, with the goal of making financial forecasts)
  - **Technical** - (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)

The Registrant may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)
- Margin Transactions (use of borrowed assets to purchase financial instruments)
- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by the Registrant) will be profitable or equal any specific performance level(s).

- B. The Registrant's methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis the Registrant must have access to current/new market information. The Registrant has no control over the dissemination rate of market information; therefore, unbeknownst to the Registrant, certain analyses may be compiled with outdated market information, severely limiting the value of the Registrant's analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

The Registrant's primary investment strategies: Long Term Purchases, Short Term Purchases, and Trading are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, the Registrant may also implement and/or recommend the use of margin, and/or options transactions. Each of these strategies has a high level of inherent risk. (**See** discussion below).

Margin is an investment strategy with a high level of inherent risk. A margin transaction occurs when an investor uses borrowed assets to purchase financial instruments. The investor generally obtains the borrowed assets by using other securities as collateral for the borrowed sum. The effect of purchasing a security using margin is to magnify any gains or losses sustained by the purchase of the financial instruments on margin. **Please Note:** To the extent that a client authorizes the use of margin, and margin is thereafter employed by the Registrant in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to the Registrant may be increased. As a result, in addition to understanding and assuming the



additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin *may* correspondingly increase the management fee payable to the Registrant. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

The use of options transactions as an investment strategy involves a high level of inherent risk. Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by the Registrant shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio. **Please Note:** Although the intent of the options-related transactions that may be implemented by the Registrant is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, client may direct the Registrant, in writing, not to employ any or all such strategies for his/her/their/its accounts.

Currently, the Registrant primarily allocates client investment assets among various mutual funds, stocks, bonds, ETFs, separately managed accounts, and non-public REITs, on a discretionary basis in accordance with the client's designated investment objective(s). (See Independent Managers above).

### **Voting Client Securities**

The Registrant does not vote proxies. Clients and/or underlying clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities owned by the underlying client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the underlying client's investment assets.

Clients and/or underlying clients will receive their proxies or other solicitations directly from their custodian.

## **Item 7            Client Information Provided to Portfolio Managers**

The Registrant shall be the Program's portfolio manager. The Registrant shall provide investment advisory services specific to needs of each client. Prior to providing investment advisory services, an investment adviser representative will discuss with each client, their particular investment objective(s). The Registrant shall allocate each client's investment assets consistent with their designated investment objective(s). Clients may, at anytime, impose restrictions, in writing, on the Registrant's services.

As indicated above, each client is advised that it remains his/her/its responsibility to promptly notify the Registrant if there is ever any change in his/her/its financial situation

or investment objectives for the purpose of reviewing/evaluating/revising Registrant's previous recommendations and/or services.

To the extent the Program utilizes Independent Manager(s), the Registrant shall provide the Independent Manager(s) with each client's particular investment objective(s). Any changes in the client's financial situation or investment objectives reported by the client to the Registrant shall be communicated to the Independent Manager(s) within a reasonable period of time.

## **Item 8            Client Contact with Portfolio Managers**

The client shall have, without restriction, reasonable access to the Program's portfolio manager.

## **Item 9            Additional Information**

- A. The Registrant has not been the subject of any disciplinary actions.

### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

**Other Investment Adviser Firm: Pence Wealth Management, Inc.** The Registrant's principal owners, Eldon Dryden Pence III and Laila Marshall-Pence, also own Pence Wealth Management, Inc. ("Pence Wealth"), an affiliated registered investment advisor firm. The Registrant may refer certain clients to Pence Wealth for advisory services. The recommendation by the Registrant that a client engage the investment advisory services of Pence Wealth presents a conflict of interest as the Registrant's Principals may receive a direct economic benefit from any such referral. Furthermore, certain of Registrant's investment adviser representatives are also investment adviser representatives of Pence Wealth. No client is under any obligation to engage the services of Pence Wealth. **The Registrant's Chief Compliance Officer, Llewellyn R. Hayes Jr., remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

**Licensed Insurance Agents.** Certain of the Registrant's related persons are, in their individual capacities, licensed insurance agents. No client is under any obligation to purchase any commission products from the Registrant's related persons. **The Registrant's Chief Compliance Officer, Llewellyn R. Hayes Jr., remains available to address any questions that a client or prospective client may have regarding the above conflict of interest.**

The Registrant does not receive, directly or indirectly, compensation from investment advisors that it recommends or selects for its clients.

### **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Registrant maintains an investment policy relative to personal securities transactions. This investment policy is part of the Registrant's overall Code of Ethics, which serves to establish a standard of business conduct for all of the Registrant's representatives that is

based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, the Registrant also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the Registrant or any person associated with the Registrant.

Neither the Registrant nor any related person of the Registrant recommends, buys, or sells for client accounts securities in which the Registrant or any related person of the Registrant has a material financial interest.

The Registrant and/or representatives of the Registrant *may* buy or sell securities that are also recommended to clients. This practice may create a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as “scalping” (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if the Registrant did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, “front-running” (i.e., personal trades executed prior to those of the Registrant’s clients) and other potentially abusive practices.

The Registrant has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of the Registrant’s “Access Persons.” The Registrant’s securities transaction policy requires that an Access Person of the Registrant must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Additionally, each Access Person must provide the Chief Compliance Officer or his/her designee with a written report of the Access Person’s current securities holdings at least once each twelve (12) month period thereafter on a date the Registrant selects; provided, however that at any time that the Registrant has only one Access Person, he or she shall not be required to submit any securities report described above.

The Registrant and/or representatives of the Registrant *may* buy or sell securities at or around the same time as those securities are recommended to clients. This practice creates a situation where the Registrant and/or representatives of the Registrant are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, the Registrant has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of the Registrant’s Access Persons.

#### **REVIEW OF ACCOUNTS**

For those clients to whom the Registrant provides investment management services, account reviews are conducted on an ongoing basis by the Registrant's representatives. All clients are advised that it remains their responsibility to advise the Registrant of any changes in the underlying client’s investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review investment objectives and account performance with their underlying clients and advise the Registrant on an annual basis.

The Registrant may conduct account reviews on an other-than-periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.

Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. The Registrant may also provide a written periodic report summarizing account activity and performance.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

The Registrant may receive an economic benefit from broker-dealer/custodians. The Registrant's clients do not pay more for investment transactions effected and/or assets maintained at any specific broker-dealer/custodian as a result of these possible arrangements. There is no corresponding commitment made by the Registrant to any broker-dealer/custodian or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result any arrangement.

**The Registrant's Chief Compliance Officer, Llewellyn R. Hayes Jr., remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.**

Research and Additional Benefits. Although not material, the Registrant may receive from broker-dealer/custodians, without cost (and/or at a discount) support services and/or products, certain of which assist the Registrant to better monitor and service client accounts maintained at such institutions. Included within the support services that may be available to the Registrant may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by the Registrant in furtherance of its investment advisory business operations.

As indicated above, certain of the support services and/or products that may be received may assist the Registrant in managing and administering client accounts. Others do not directly provide such assistance, but rather assist the Registrant to manage and further develop its business enterprise.

The Registrant's clients do not pay more for investment transactions effected and/or assets maintained at any broker-dealer/custodian as a result of this arrangement. There is no corresponding commitment made by the Registrant to any broker-dealer/custodian or any other entity to direct any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

## **FINANCIAL INFORMATION**

The Registrant does not solicit fees of more than \$500, per client, six months or more in advance.

The Registrant is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.

The Registrant has not been the subject of a bankruptcy petition.

### **Item 10            Requirements for State-Registered Advisers**

Neither the Registrant, nor its representatives, have any relationship or arrangement with any issuer of securities.

**ANY QUESTIONS: The Registrant's Chief Compliance Officer, Llewellyn R. Hayes Jr., remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.**