

**Item 1: Cover Page**

**Firm Brochure: Part 2A of Form ADV**

**March 14, 2019**



**The Patterson Capital Corporation**

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This Annually Updated firm brochure provides information about the qualifications and business practices of The Patterson Capital Corporation (“Patterson Capital”). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

This brochure contains narrative disclosures relating to the 18 topics or “items” specified by the SEC (plus one additional topic). Though every adviser brochure must address the same 18 required items, all of those items may not pertain to each adviser. Where a particular topic is not relevant to Patterson Capital, we list the item and explain why it is not applicable.

If you have any questions about the contents of this brochure please contact us at the above telephone number or email address. Current clients, of course, are encouraged to contact firm personnel with whom they normally communicate. Additional information about the firm also is available from the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Our website ([www.pattersoncapital.com](http://www.pattersoncapital.com)) generally describes the firm and its services.

**Item 2:                   Material Changes Since Last Annual Update**

There have been no material changes since the last annual update to the firm's brochure on March 23, 2018.

(Space Reserved)

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## **Item 4:                   Advisory Business**

### **OWNERSHIP/MANAGEMENT**

The Patterson Capital Corporation\* was founded in Los Angeles, California in October 1977, and the firm has provided continuous advisory services since that time to a national roster of clients. Joseph Bohen Patterson, our principal owner, serves as the firm's chief executive officer (President), chief investment strategist and one of the firm's portfolio managers. Our senior management team has been in place since 1983, enabling us to provide clients with an experienced and consistent approach to both portfolio management and client service.

### **INVESTMENT SERVICES**

We exclusively offer discretionary management of fixed-income portfolios for institutional clients. Except when prohibited by client restrictions we invest in a wide array of fixed-income sectors, which may include corporate debt securities, United States government securities (including MBS), ERISA-eligible commercial mortgage-backed securities, asset-backed securities (credit card and automobile receivables), agency CMOs and high-grade money markets.

Clients may impose investment restrictions regarding certain companies that issue fixed-income securities (for example, firms that manufacture tobacco products) and certain types of fixed-income securities (such as private placements). These common restrictions do not interfere with our ability to properly manage client portfolios; however, we reserve the right to refuse to enter into or continue an investment advisory relationship with a client seeking to impose restrictions that, in our judgment, would interfere with our professional responsibilities.

In order to meet the individual investment goals of our clients, Patterson Capital offers a high quality, multiple-product line covering all maturities and available sectors. Furthermore, we actively manage all aspects of portfolio composition: sector, issue, duration, yield curve, and quality. In constructing a portfolio, the client's choice of benchmark is viewed as indicative of their risk tolerance in terms of maturity/duration, sector, yield curve, and quality. By selectively choosing which components to overweight or underweight, and when it is appropriate to do so, the firm's goal is to produce returns that exceed those of the benchmark and minimize tracking error vs. that benchmark.

### **WRAP FEE PROGRAMS**

We do not sponsor, manage or participate in wrap fee programs.

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\* This brochure refers to The Patterson Capital Corporation as "Patterson Capital", "the firm", and by the pronouns "we", "us", or "our". Also, we refer to current and prospective clients, collectively, as "clients", "you", or "your".

## ASSETS UNDER MANAGEMENT

As of December 31, 2018, Patterson Capital managed client assets valued at \$1,255,635,754 (\$1.256 billion). All of our client assets are managed on a discretionary basis.

## Item 5: Fees and Compensation

### FEE ARRANGEMENTS

Patterson Capital charges fees as a percentage of assets under management. Our fee schedules are based upon the investment management strategy selected by the client and the amount of assets under management. In addition to the strategies listed below, we also offer individualized fixed-income strategies that may involve fee arrangements not covered by our standard fee schedules. The firm's current standard fee schedules, which may be subject to negotiation in some instances, are as follows:

#### Enhanced Short Maturity/Short Intermediate Maturity

	To An Asset Total of
.25 of 1% on the first \$25 million.....	\$25 million
.20 of 1% on the next \$25 million.....	\$50 million
.17 of 1% on value in excess of.....	\$50 million

#### Intermediate/Active Core Strategies

	To An Asset Total of
.50 of 1% on the first \$25 million.....	\$25 million
.375 of 1% on the next \$25 million.....	\$50 million
.25 of 1% on value in excess of.....	\$50 million

#### Multi-Discipline Strategy (Fixed Income)

	To An Asset Total of
.33 of 1% on the first \$25 million.....	\$25 million
.25 of 1% on the next \$25 million.....	\$50 million
.20 of 1% on value in excess of \$50 million.....	on balance

Patterson Capital bills all clients on a quarterly basis. We do not have authority to directly withdraw funds from client custodial accounts to pay our advisory fees. Some clients instruct us to forward our fee invoices to their custodian, in which event we prefer that the custodian receives client authorization to pay the invoice before deducting funds from the client account for that purpose, though occasionally a client will instruct its custodian to deduct and pay our fee from the client's account without prior client approval. We do not maintain any custodial accounts or charge any custodial fees.

Normally we ask clients to pay our advisory fees for each quarterly billing period in advance of services provided, though some clients have negotiated to pay in arrears. If a client that pays fees in advance terminates its advisory contract before the end of a quarterly billing period, the client will receive a refund of all unearned fees. We calculate the amount of unearned fees at a per diem rate, starting with the first day that Patterson Capital is no longer managing the client's assets, and multiply the per diem rate by the number of days remaining in the quarterly billing period to arrive at the refund amount.

#### **OTHER COMPENSATION**

We do not accept sales charges, service fees or other compensation for the sale of securities or other investment products.

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

We do not accept performance-based fees or manage any accounts that are charged performance-based fees.

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

Patterson Capital offers investment advisory services to Corporate Pension and Taft-Hartley Plans, Healthcare and Insurance Companies, Public Plans/Funds, and Non-Profits.

Generally, our minimum account size is \$10 million. However, this minimum may be negotiated and has been waived on occasion.

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

#### **ANALYSIS AND INVESTMENT STRATEGIES**

Patterson Capital's investment approach is consistent across all products, including custom designed strategies.\* Our product offerings include various core, intermediate, short duration and cash management styles. The investment process utilized is designed to control portfolio risk, preserve

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\* Except the Multi-Discipline Strategy, which utilizes specific duration-management guidelines that are not applicable to the firm's other investment products.

capital in down markets, and provide clients with the necessary income and liquidity they require. This is achieved by actively managing all aspects of portfolio composition: duration, sector, yield curve, liquidity, quality, etc. Since inception, a balanced investment approach has been used which incorporates both fundamental and technical inputs. By making use of various disciplines, a comprehensive market view is developed and utilized during the investment decision making process. This philosophy is unique in that we rely on both fundamental (security valuations, yield spreads, supply considerations, etc.) and technical analysis in the process. The macro-economic factors that we consider in our investment process include key growth and inflation indicators, both domestic and foreign. Specifically, our portfolio managers look at trends in GDP, PPI, CPI and PCE as well as other inflation indicators. Housing, labor and manufacturing data are also monitored along with Fed interest rate policy, which directly impacts bond yields.

While the economic landscape informs our investment decisions, we do not make macro decisions or structure portfolios based upon it. Rather than economic forecasting, decisions regarding portfolio structure rely upon the analysis of market trends such as the trend in interest rates, in sector spreads, or in credit quality. Portfolio managers supervise the collection of security and market data used in the investment process. The results of their analysis lead to decisions regarding portfolio composition which are made by consensus.

## **RISK OF LOSS**

Investing in fixed-income securities involves risk of capital loss that clients should be prepared to bear. In our fiduciary role as managers of client assets, we are very mindful that our clients have entrusted their assets to us and expect us to invest their assets using safe, prudent and understandable methods. Preservation of principal is as important to us as it is for our clients. Any form of risk management is dependent upon a thorough knowledge of the structure of each portfolio and the client's investment guidelines in order to determine where the portfolio may be at risk. The material categories of risk associated with fixed-income investing include:

### **1) Interest Rate Risk**

Interest rate fluctuations may affect a security's yield, which could affect its price. As interest rates rise, a bond's market value declines. To mitigate principal losses, we monitor internal market technical indicators, the activity of the Federal Reserve, and the overall economic climate. We also consider market quantitative indicators which, when viewed in the context of the current market environment (Fed Policy, inflation, GDP, etc.), serve as the basis of our interest-rate assessments. For example, in trending periods, particularly when the Fed is actively raising rates, we may shorten the duration of client portfolios.

## 2) Liquidity Risk

Liquidity is very important to our client base. Consequently, we have always focused on being able to provide very high levels of same day and next day liquidity. In order to ensure liquidity we analyze security quality, size, market depth and portfolio structure. Market conditions that diminish a security's liquidity may occur while it is being held in client portfolios. To protect against loss of liquidity, we monitor those market conditions and employ a disciplined sell methodology. Moreover, our asset size—and the fact that we manage only separate accounts—allows us to move quickly when trading for our accounts and/or providing immediate cash to clients.

## 3) Credit Risk

The inability of a bond issuer to meet its loan obligations may result in a declining market value for its securities. We manage credit risk by employing an oversight process and disciplined buy/sell methodology, which, in addition to the factors mentioned above, includes:

- Viewing the yield spread premium to Treasuries as a key determinant of value.
- Examining research from rating agencies and major Wall Street firms, with particular attention to any negative credit developments.
- Limiting exposure to issuers with lower-rated credit.
- Avoiding bonds with negative outlook or downgrade-watch when buying lowest credits.
- Monitoring negative stock performance related to issuers.
- Assessing trading liquidity and negative market psychology related to issuers.
- Monitoring security downgrades below permissible guideline parameters.

## 4) Prepayment Risk

Prepayment risk, as it applies to mortgage holdings, is most worrisome at very low interest rates. This risk diminishes at higher interest rates when mortgage holdings can be purchased at a discount and paid off at par (\$100). Mortgage durations can shift very quickly in a trending market, as interest rates rise and fall. We, therefore, pay close attention to changing mortgage durations and typically recalibrate mortgage-backed security (MBS) durations a few times a month.



5) Structural Risk

Structure of the portfolio vs. its index must be quantified and understood in order to construct a portfolio of notes and bonds that is designed to outperform the index. Without employing such structural analysis, significant deviation from the index is likely to occur. To avoid this risk, we use internally designed structure reports and graphs that quantify and compare our portfolios to their appropriate indices. Our decisions about sector, issuer, quality, yield curve, maturity and duration exposure are informed by analysis of this data. The reports assist us in making structural modifications to the portfolios and in performance attribution analysis.

## **Item 9                      Disciplinary Information**

There are no material legal or disciplinary events involving Patterson Capital or its management persons.

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

We are independently owned and neither Patterson Capital nor any of its management persons are engaged in other financial industry activities or affiliated with broker-dealers or other persons or firms engaged in the financial industry.

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

### **CODE OF ETHICS OVERVIEW**

Patterson Capital's Code of Ethics is based on the principle that our employees owe an overarching fiduciary duty to the firm's clients. Our Code requires that employees avoid both actual and apparent conflicts of interest, whenever possible, and disclose any conflicts that are impossible to avoid. Specifically, our Code prohibits employees from using knowledge about client trades to benefit themselves or other persons, benefiting from selection of broker-dealers for trades, engaging in personal transactions with firm clients, and engaging in outside business activities inconsistent with the interests of our client accounts.

Our code also prohibits unauthorized disclosure of confidential client information and insider trading, and contains the firm's gifts and entertainment policy.

Finally, our Code details oversight procedures to ensure compliance, provides a protocol for reporting violations, and describes recordkeeping requirements that the firm must observe.

We will provide a copy of our Code of Ethics to any client or prospective client upon request. To request a copy, please contact us at the telephone number or email address listed on the cover of this brochure.

## **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

Patterson Capital does not buy securities from clients or sell securities to clients, invest in the same securities that we buy or sell for client accounts, or have any other material financial interest in securities that we buy or sell for client accounts.

## **PERSONAL TRADING**

Patterson Capital's officers and employees involved in making recommendations or decisions regarding trades for client accounts, or with knowledge of such trades, are prohibited from making personal security trades involving corporate bonds and non-governmental debt securities held in any client accounts. On the other hand, we do not restrict or impose "blackout" periods on personal trading activities involving equity securities, Treasuries, money market funds and open-end mutual funds, because there is such a low probability that transactions involving those security categories would affect the market value of the fixed-income securities traded for our clients' accounts or provide any benefit to such officers or employees arising from trades for client accounts.

## **Item 12 Brokerage Practices**

### **IN GENERAL**

Patterson Capital normally trades with independent securities dealers on a principal basis and does not employ brokerage services, except when a client enters into a directed-trading or custodial arrangement with a financial institution that may act as an agent on trades for that client. The costs you pay for securities we purchase for your account, and the proceeds you receive for securities we sell for your account, are net of brokerage commissions and other trading fees – unless you have a directed-trading or custodial arrangement that results in such charges. The following disclosures relate to our *trading practices* that are analogous to the *brokerage practices* identified by the SEC for disclosure in this Item.

## **SELECTION OF BROKERS-DEALERS FOR CLIENT TRADES**

We trade with qualified dealers making a market for the fixed-income securities listed in Item 4 (“Advisory Business – Investment Services”). Within that group of Primary Dealers, other national dealers and major regional dealers, our selection of dealers for client trades is determined solely by best execution considerations to ensure that our clients’ costs or proceeds will be the most favorable available under the circumstances.

## **SOFT DOLLAR BENEFITS and ADVISER-DIRECTED TRADING ARRANGEMENTS**

Patterson Capital does not have any “soft dollar” arrangements or *adviser*-directed trading arrangements. We execute trades with dealers submitting the best bids/offers, so that your cost or proceeds will be the most favorable available under the circumstances. Some of the broker-dealers with whom we trade provide proprietary research reports and products (such as trading news, analysis, bond-market prices and data) free-of-charge to institutional trading relationships like Patterson Capital. However, we do not subsidize those research reports or products by accepting less than the best bid or paying more than the best offer submitted, or by executing a particular quantity of trades with any dealers. Moreover, we do not consider the receipt of such reports or data in deciding which dealers to select for client trades.

## **CLIENT-DIRECTED TRADING ARRANGEMENTS**

From time to time clients have directed us to trade with particular broker-dealers with whom the clients have commission or spread recapture arrangements, *subject to best execution considerations*.

From time to time a client may direct us to execute all trades on its account with a particular broker-dealer with whom the client has a custody arrangement, *regardless of best execution considerations*. Since we would not solicit competing bids and offers for such trades, that client may receive less favorable net prices than our other clients whose trades are executed pursuant to our best execution practices. We would disclose that risk in our advisory agreement with the client.

## **AGGREGATED (BLOCK) TRADES**

Most of our clients have adopted as performance benchmarks a handful of Barclays or Merrill Lynch fixed-income indices that have become standard benchmarks for the fixed-income marketplace. As client accounts managed against the same or similar benchmarks will have the same or similar holdings, we will, from time to time, buy or sell the same securities for more than one account. On such occasions we execute aggregated (“block”) trades for multiple accounts consistent with our best execution duty to ensure that each client’s costs or proceeds will be the most favorable available under

the circumstances. Unlike a batched equity order that may be filled at different prices, our block trades are executed at a single price so there is no need to average transaction prices in order to avoid price advantage or disadvantage to the various accounts covered by the trade.

## **CONFLICTS OF INTEREST**

We have not identified any conflicts of interest arising from our trading practices. Where we have the authority to select broker-dealers for client trades, our only interest is to ensure that our client's transaction costs or proceeds will be the most favorable available under the circumstances.

## **Item 13                      Review of Accounts**

On a daily basis our portfolio managers review portfolio composition (duration, maturity, sector exposure, yield, etc.), and our portfolio administrators help in the review of cash balances, unsettled trades, cash flows, interest accruals and receipts, and principal payments. We use automated daily internal reports in this process, as well as ad hoc portfolio reports and transaction inquiries as necessary. On a monthly basis our portfolio managers prepare and review an extremely detailed profile of each portfolio. This profile details portfolio maturity and duration structure, sector and credit exposure, and coupon distribution, among other things. Also, each quarter a compliance consultant conducts an audit of account holdings to ensure compliance with account Guidelines.

We send each client a monthly letter summarizing major market trends and market events. We also send you (for each account) a monthly written statement that identifies month-end account holdings and transactions. As noted in Item 15 ("Custody"), we urge you to carefully compare the monthly statements we send you with the account statements you receive from the bank or brokerage firms that maintain custody of the assets in your account(s).

In addition to these monthly reports, traditionally we visit each client for a formal one-on-one servicing meeting at least once a year, and more often if requested. On each occasion we provide a written portfolio review report custom-tailored to your individual needs. The portfolio review contains an asset report as well as comprehensive information regarding the portfolio's performance and composition, displayed in a readable format using color graphics. We also are available by telephone at your convenience for additional portfolio reviews or to discuss any issues related to your portfolio.

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

We do not compensate any person (other than our employees) for client referrals, and we do not receive compensation for our advisory services from anyone other than our clients.

## **Item 15                      Custody**

We do not maintain actual custody of any client funds or securities, and we do not open custodial accounts on behalf of our clients. However, as noted above in Item 5 (“Fees”), Patterson Capital occasionally has “constructive” custody when a particular client gives its custodian blanket authority to deduct our advisory fees from the client’s account based solely upon the calculations in our fee invoices, and to remit those fees to us without specific client approval of each quarterly invoice. When we have constructive custody as a result of such direct fee-deduction arrangements, we confirm that the client’s custodian actually sends the client (or that the client actually downloads from the custodian’s website) custodial statements no less often than quarterly reflecting all account holdings and transactions for the statement period.

We urge you to carefully compare the monthly statements we send you with the account statements you receive from the bank or brokerage firms that maintain custody of the assets in your account(s).

## **Item 16                      Investment Discretion**

Our investment advisory service exclusively involves discretionary management of fixed-income portfolios for institutional clients. The advisory agreement we enter into with each client contains the grant of our discretionary authority, which is expressly subject to the specific investment guidelines and policies adopted by the client. We do not ask clients to execute separate powers of attorney for that purpose.

Our clients commonly impose limitations on our discretionary authority involving certain types of securities and/or certain types of issuers. As examples of the former category, all of our clients prohibit us from investing in Equities and many of our clients prohibit us from investing in Options or Private Placements. As an example of the latter, some clients prohibit us from investing in securities issued by companies involved in the tobacco industry. These common restrictions do not interfere with our ability to properly manage client portfolios; however, we reserve the right to refuse to enter into or continue an investment advisory relationship with a client seeking to impose restrictions that, in our judgment, would interfere with our professional responsibilities.

## **Item 17                      Voting Client Securities**

As Patterson Capital manages only fixed-income (debt) portfolios, we do not receive proxy voting materials related to the securities held in our managed client accounts.

On the other hand, our clients typically authorize their securities' custodians to sweep cash balances into interest-bearing shares in STIF (Short-Term Investment Fund) money market funds, and we occasionally receive proxy materials regarding client shares in those STIF funds. However, because we do not manage, or participate in the selection of, STIF funds for the short-term investment of client cash balances, **we do not vote STIF proxies**. We instead forward such proxy materials to the client or its consultant by certified mail, return receipt requested, unless the final date for submission of the proxy already has expired when received by us.

## **Item 18                      Financial Information**

There is nothing about Patterson Capital's financial condition that would be likely to impair our ability to meet the firm's contractual commitments to our clients.

## **Item 19                      Notices of Class Actions and Bankruptcy Proceedings**

From time to time Patterson Capital receives notice of legal proceedings involving securities held or formerly held in a client's account. Typically those legal proceedings include class action lawsuits and bankruptcies. Patterson Capital does not provide legal advice or opinions regarding filing deadlines, litigation merits, the advisability of participating in a proposed settlement or any other matters, and we do not file claims or take other actions with respect to such legal proceedings. We instead will forward *initial* litigation notices to all affected clients and/or former clients by certified mail, return receipt requested. We also will provide information regarding the subject securities (e.g. CUSIP number, purchase and sale information, etc.) upon request.