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## **Form ADV Part 2A**

### **Brochure Cover Page**

PRIMECAP Management Company  
801-19765

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11th Floor  
Pasadena, CA 91105

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3/12/2019

**This brochure provides information about the qualifications and business practices of PRIMECAP Management Company. If you have any questions about the contents of this brochure, please contact us [mricks@primecap.com](mailto:mricks@primecap.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.**

**Additional information about PRIMECAP Management Company also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Form ADV - Material Changes for Part 2A

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**PRIMECAP Management Company**

No Material Changes entered

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### **PRIMECAP Management Company (SEC No. 801-19765)**

#### **Item 4 Advisory Business**

PRIMECAP Management Company was founded in September 1983 in Pasadena, California, as an independent investment management company. It is a California corporation registered with the Securities and Exchange Commission as an investment advisor under the Investment Advisers Act of 1940.

The firm's goal is to provide superior long-term investment results and to satisfy the specific requirements and objectives of its clients. To this end, the firm has limited the number of clients it serves, enabling the firm's principals to focus on portfolio management rather than marketing and administration. PRIMECAP's assets under management surpass \$100 billion.

PRIMECAP Management Company is a small organization by design. The firm was founded with efficiency in mind to minimize administrative burdens and bureaucracy associated with larger organizations. We recognize that our competency is investment management, not administration. Moreover, we are stock pickers, not marketers. Limiting our client relationships to a certain number enables our investment professionals to focus on our core competency, investment management.

PRIMECAP Management Company manages only equity portfolios for a select group of employee benefit and 401K plans, endowment funds, foundations, Taft Hartley, sovereign funds, and mutual funds for the Vanguard Group and the PRIMECAP Odyssey Funds. The company's five principal portfolio managers, Messieurs Theo A. Kolokotronis, Joel P. Fried, Alfred W. Mordecai, M. Mohsin Ansari, and James Marchetti, have over one hundred and thirty years of successful investment ideas. All accounts are managed on a discretionary basis and clients may specify investment restrictions within their own managed accounts.

Managing investment portfolios is PRIMECAP's only business. Ownership rests with thirteen of the investment professionals and a retired founder, and each principal owns less than 25% of the company's outstanding shares.

As of December 31, 2018, PRIMECAP managed approximately \$127.1 billion in assets.

**PRIMECAP Management Company (SEC No. 801-19765)****Item 5 Fees and Compensation**

PRIMECAP Management Company provides investment management services to a limited number of large institutional clients including corporate benefit plans, endowments and foundations, Taft Hartley, sovereign funds, and mutual fund for the Vanguard Group and the PRIMECAP Odyssey Funds by investing in financial assets, primarily common stocks or securities with common stock characteristics, bonds, and cash and cash equivalents. All accounts managed by PRIMECAP pay PRIMECAP a management fee based on a percentage of assets under management only. The fee schedule for all separately managed accounts are fixed and nonnegotiable. For separately managed accounts, advisory fees are billed directly to the client. For the Vanguard mutual funds, the fees are calculated by Vanguard and verified by PRIMECAP before payment. In addition to advisory fees, all clients may pay brokerage commissions associated with transactions incurred in the portfolios. For the shareholders of the PRIMECAP Odyssey Funds, the expense ratio includes advisory fees, third party service providers, legal fees, and fees paid to the short term investment fund. Separately managed account advisory fees are generally calculated and payable quarterly based on previous quarter ending or average market values and adjusted for flows. Advisory fees on mutual funds are calculated based on the daily average net assets for the quarter. All management fees are payable in arrears. No PRIMECAP employee accepts compensation for the sale of securities or from the sale of mutual funds. The investment advisory contract may be terminated by either party upon 30 days' written notice.

Please see the fee schedule for each of PRIMECAP's managed products below:

**Separately Managed Accounts**

0.500 of 1% for the first \$50 million  
0.450 of 1% for the next \$200 million  
0.375 of 1% for the next \$250 million  
0.250 of 1% for the next \$1,750 million  
0.200 of 1% for the next \$2,750 million  
0.175 of 1% for the next \$5,000 million  
0.150 of 1% over \$10,000 million

**Vanguard PRIMECAP Fund**

0.500 of 1% on the first 50 million  
0.450 of 1% on the next \$200 million  
0.375 of 1% on the next \$250 million  
0.250 of 1% on the next \$9,500 million  
0.200 of 1% on the next \$10,000 million  
0.175 of 1% on the next \$20,000 million  
0.150 of 1% over \$40,000 million

**Vanguard Capital Opportunity Fund**

0.500 of 1% on the first 50 million  
0.450 of 1% on the next \$200 million

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0.375 of 1% on the next \$250 million  
0.250 of 1% on the next \$9,500 million  
0.200 of 1% on the next \$10,000 million  
0.175 of 1% on the next \$20,000 million  
0.150 of 1% over \$40,000 million

### Vanguard PRIMECAP Core Fund

0.500 of 1% on the first \$50 million  
0.450 of 1% on the next \$200 million  
0.375 of 1% on the next \$250 million  
0.300 of 1% on the next \$19,500 million  
0.200 of 1% over \$20,000 million

### Vanguard Variable Insurance Fund - Capital Growth

0.150 of 1% flat rate

### Vanguard U.S. Opportunities Fund (offshore mutual fund)

0.500 of 1% on the first \$50 million  
0.450 of 1% on the next \$200 million  
0.375 of 1% on the next \$250 million  
0.250 of 1% on the next \$1,750 million  
0.200 of 1% on the next \$2,750 million  
0.175 of 1% on the next \$5,000 million  
0.150 of 1% over \$10,000 million

### PRIMECAP Odyssey Stock, Growth, and Aggressive Growth Funds (per Fund)

0.600 of 1% on the first \$100 million  
0.550 of 1% over \$100 million

**PRIMECAP Management Company**

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

PRIMECAP's advisory fees are paid based on a percentage of assets under management only. PRIMECAP does not charge any performance fees or manage any proprietary accounts.

**PRIMECAP Management Company**

**Item 7 Types of Clients**

PRIMECAP Management Company manages only equity portfolios for a select group of employee benefit and 401K plans, endowment funds, foundations, Taft Hartley plans, sovereign funds, and mutual funds for the Vanguard Group and the PRIMECAP Odyssey Funds. The Vanguard Capital Opportunity Fund, the Vanguard PRIMECAP Fund, and the Vanguard PRIMECAP Core Fund are currently closed to new shareholders. The PRIMECAP Odyssey Fund family which include the Stock Fund and the Growth Fund are open to new shareholders. The PRIMECAP Odyssey Aggressive Growth Fund was closed as of January 20, 2014. Each of the Stock and Growth funds has a minimum of \$2,000 for regular accounts, \$1,000 for IRA accounts, and \$100 for additional investments.



### PRIMECAP Management Company

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

PRIMECAP Management Company utilizes fundamental research and bottom-up stock picking to construct portfolios. All portfolios are built with the best ideas of each of the managers within the multi-counselor investment process. The main sources of information for research purposes include financial publications, inspections of corporate activities, research materials by others such as sellside analysts, companies' annual reports and any related filings and press releases, meetings with executives of companies and their suppliers, competitors, customers, etc. The strategy does not employ short sales or margin transactions, nor does it permit investments in derivatives or currency hedging.

Initial public offerings (IPOs) may be purchased in portfolios that permit participation in IPOs. Each managed portfolio is assigned into one of three categories: Vanguard Funds, PRIMECAP Odyssey Funds, and separate accounts. When PRIMECAP receives an IPO allocation, the shares are first allocated to each of the categories based on the market value of the assets in each category. The shares allocated to the Vanguard Funds and the PRIMECAP Odyssey Funds are then subsequently allocated to one or more funds in the respective categories based on the investment strategies of the funds. IPO shares are also allocated to one or more separately managed account(s). The account or accounts are selected randomly; however, if an account had already received an IPO allocation in the past, that account is not eligible for another IPO allocation until all other eligible accounts have received an IPO allocation.

PRIMECAP recognizes that there is always a risk of loss in its investments. The following summarizes primary risks of a portfolio:

- 1) Stock market risk is the chance that overall stock prices will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- 2) Investment style risk is the chance that returns from the mix of small-, mid-, and large-cap stocks in the portfolios will trail returns from the overall stock market. Historically, small- and mid-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently. Additionally, growth stocks may be more volatile than the overall stock market from time to time.
- 3) Manager risk is the chance that, as a result of poor security selection by PRIMECAP, the portfolios may underperform relative benchmarks or other portfolios with similar investment objectives.
- 4) Sector-focus risk is the chance that investing a significant portion of the portfolios' assets in one sector of the market exposes the portfolio to greater market risk and potential monetary losses than if those assets were spread among various sectors.
- 5) Foreign securities risk is the chance that the value of foreign securities will be adversely affected by the political and economic environments and other overall economic conditions in the countries

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where the portfolios are invested. Investing in foreign securities involves: country risk, with the chance that domestic events - such as political upheaval, financial troubles, or natural disasters - will weaken a country's securities market; and currency risk, which is the chance that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates.

6) Small- and mid-cap stocks risk is the chance that small-and mid-cap stocks may trade less frequently or in more limited volume than those of larger, more established companies; may fluctuate in value more, and, as a group, may suffer more severe price declines during periods of generally declining stock prices.

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**PRIMECAP Management Company**

**Item 9 Disciplinary Information**

There have been no disciplinary actions against PRIMECAP.

**PRIMECAP Management Company**

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

PRIMECAP Management Company is registered as an investment advisor only.

### **PRIMECAP Management Company**

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

PRIMECAP Management Company has established policies and procedures whereby no employee shall be permitted to profit from the firm's securities activities. Accordingly, no employee shall purchase or sell, directly or indirectly, any security in which he or she has, or by reason such transactions acquires, any direct or indirect beneficial ownership (including, but not limited to, securities held by an employee's spouse or minor children, or any trust in which an employee serves as trustee, custodian, or beneficiary) and which to his or her actual knowledge at the time of such purchase or sale:

- (i) is being considered for purchase or sale by any client accounts; or
- (ii) is being purchased or sold by a client's account.

This Code of Ethics is based on the principle that all PRIMECAP employees owe a fiduciary duty to the firm's clients to conduct their affairs. At no time shall an employee (i) defraud a client through any scheme or artifice; (ii) mislead a client by making untrue statements or omit material information; or (iii) engage in any fraudulent or manipulative act, practice or course of business that operates or would operate as a fraud or deceit on the clients. All PRIMECAP employees are to adhere to policies and procedures pertaining to their personal securities transactions, in such a manner as to avoid: (i) serving their own personal interests ahead of clients; (ii) taking advantage of their position; and (iii) any actual or potential conflicts of interest. It is also the responsibility of PRIMECAP employees to protect the confidentiality of all proprietary, sensitive, or other confidential information communicated to PRIMECAP or such employees by its client. These policies and procedures are developed to ensure proper compliance monitoring and that each employee is held to the highest ethical standards.

PRIMECAP's Code of Ethics sets forth specific policies and procedures for its employees to follow regarding material, non-public information ("insider information") and other confidential information of clients and PRIMECAP. While PRIMECAP does not expect its employees to be in receipt of inside information, it requires any employee receiving inside information to refrain from trading on the information and to discuss the information only with the Chief Compliance Officer to determine an appropriate course of action. Procedures are set forth to safeguard all other confidential information.

The Code of Ethics also details policies and procedures regarding personal securities transactions by employees. All employees are required to provide initial and annual holdings reports, as well as quarterly securities transaction reports which are reviewed by the Chief Compliance Officer or her designate. All employees are subject to the Code of Ethics and are required to acknowledge, review, and understand the policies and procedures by signing a certification form. PRIMECAP's internal procedures are detailed in its Code of Ethics and are available to clients upon written request.

### PRIMECAP Management Company

#### Item 12 Brokerage Practices

PRIMECAP seeks to execute trades with brokers who it believes can provide the best qualitative execution. When determining which brokerage firms have demonstrated the ability to provide the best qualitative execution, PRIMECAP will consider a variety of factors, including but not limited to: the broker's ability to execute trades promptly and reliably at favorable prices (including the applicable dealer spread or brokerage commission, if any); the operational efficiency with which transactions are executed (taking into account the size of the order, and difficulty of execution); the financial strength, integrity and stability of the broker; the quality, comprehensiveness, and frequency of available brokerage and research products and services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying the selection criteria.

PRIMECAP may use brokerage commissions or "soft dollars" to pay for external research and services in a manner consistent with Section 28(e) under the Securities and Exchange Act of 1934 ("Section 28(e)") and other relevant regulatory guidance. Under Section 28(e), PRIMECAP is permitted to cause a client account to pay a higher commission to a broker-dealer that provides research services to PRIMECAP than the commission another broker might charge, provided that PRIMECAP seeks best execution at all times and determines in good faith that the commission paid is reasonable in relation to the value of the trade execution and research services provided. PRIMECAP may make this good faith determination based upon either the particular transaction involved or the overall responsibilities PRIMECAP has with respect to all the client accounts over which it exercises investment discretion.

PRIMECAP uses brokerage commissions to acquire external research through client commission agreements ("CCAs") established with various broker-dealers ("CCA Brokers"). Under these arrangements, when PRIMECAP executes a trade through a CCA Broker, the CCA Broker retains a portion of the brokerage commission as compensation for trade execution services and segregates the remaining portion of the commission to pay for research services. PRIMECAP may then request that the CCA Broker pay for research services from the CCA Broker or other research providers using the segregated CCA assets. The types of research services that PRIMECAP may obtain through these arrangements include: (i) research reports providing fundamental, quantitative and technical issuer, industry, sector, market, economic and policy research and analysis; (ii) portfolio strategy research; and (iii) meetings and calls with company management.

By allocating brokerage business to the CCA Brokers who provide such research services, PRIMECAP believes that it is able to supplement its research and analysis and to use the views and information of other research organizations to make better investment decisions. PRIMECAP believes that the research received through the CCA program is consistent with Section 28(e) and assists the investment decision-making process for all clients. Nevertheless, the use of soft dollars to pay for research services also benefits PRIMECAP to the extent that it allows PRIMECAP to obtain research services through the CCA Brokers that it might otherwise have to pay for itself. This creates a conflict of interest to the extent that it might incent PRIMECAP to execute trades through a CCA Broker in circumstances where another non-CCA Broker is better positioned to deliver best

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execution. In addition, whenever commissions are pooled and used to pay for research, conflicts of interest may arise due to the potential that one client's commissions could be subsidizing research that benefits another client. However, because research services often benefit several clients simultaneously or to differing degrees, it is impossible to directly quantify the benefit of research on a client-by-client basis.

PRIMECAP has established a Committee that is responsible for overseeing PRIMECAP's relationships with the brokers through whom the firm executes trades. Among other things, the Committee maintains an approved broker/dealer list and administers the process for approving brokers to be added or removed from the list based on the criteria set forth above. In addition, the Committee monitors PRIMECAP's trading activities with its brokers on both an overall and portfolio-by-portfolio basis with a view to ensuring that such trading activity is consistent with PRIMECAP's obligations to obtain best qualitative execution on behalf of its clients. □ in

**PRIMECAP Management Company**

**Item 13 Review of Accounts**

Each account, including mutual funds, is reviewed daily by the portfolio managers and weekly at the formal Investment Committee meeting. Monthly investment results are reviewed at the Board meeting. It is our intent to treat all accounts equally. Each institutional account is managed by five principal portfolio managers: Theo A. Kolokotronis, Chairman, Joel P. Fried, President, Alfred W. Mordecai, Vice Chairman, M. Mohsin Ansari, Executive Vice President, and James Marchetti, Executive President. Each of the portfolio managers manages a sleeve of the portfolio in all the products offered by PRIMECAP.



**PRIMECAP Management Company**

**Item 14 Client Referrals and Other Compensation**

While as a matter of policy that PRIMECAP does not market or advertise its services, we welcome referrals from clients; however, we do not compensate anyone for referrals.

PRIMECAP is compensated for its investment management services only.

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### PRIMECAP Management Company

#### Item 15 Custody

PRIMECAP Management Company does not have custody of any of its clients' assets.

**PRIMECAP Management Company**

**Item 16 Investment Discretion**

Before PRIMECAP may start managing a portfolio on behalf of its clients, an Investment Management Agreement must be reviewed and signed by both PRIMECAP and the client. Once the agreement is in place, PRIMECAP has the authority to determine securities to be purchased or sold, the amount of the securities to be purchased or sold, the broker or dealer to be used, and commission rates paid. PRIMECAP does not suggest or recommend brokers to its clients.

### PRIMECAP Management Company

#### Item 17 Voting Client Securities

As noted above, PRIMECAP manages its clients' accounts on a discretionary basis. The discretionary powers delegated to PRIMECAP with respect to each of its client's accounts generally includes the power to vote proxies and to act on such other shareholder actions as may arise in connection with the portfolio securities held in the client accounts. However, clients may elect to retain such powers for themselves, should they desire to do so.

PRIMECAP has adopted written policies and procedures (the "Proxy Voting Policy") to govern how PRIMECAP will exercise its proxy voting powers over client assets. PRIMECAP has retained Glass Lewis & Co., LLC ("Glass Lewis") as its proxy voting agent. Pursuant to such appointment, Glass Lewis provides independent research on corporate governance, proxy and corporate responsibility issues, and maintains proxy voting records on behalf of PRIMECAP's clients. PRIMECAP generally votes proxies in accordance with the Glass Lewis Paper Proxy Voting Guidelines (the "Guidelines") and Glass Lewis' recommendations, but PRIMECAP may override such recommendations in circumstances where PRIMECAP determines that it is in the best interests of some or all of PRIMECAP's clients to do so. Glass Lewis may also refer proxies to PRIMECAP in circumstances where a proxy voting decision is not covered by the Glass Lewis Guidelines. The manner in which proxies are voted on specific proposals may differ from client to client depending on the type of client account and its investment objective and strategy.

The Proxy Voting Policy also addresses circumstances where a particular proxy proposal raises a material conflict of interest. In such circumstances, the Proxy Voting Policy provides that PRIMECAP will resolve the conflict by either:

- (a) Voting such proxy in accordance with the Glass Lewis Guidelines to the extent applicable investment restrictions give PRIMECAP little or no discretion to deviate from such Guidelines;
- (b) Obtaining instructions from PRIMECAP's clients on how to vote after full disclosure to the client of the circumstances giving rise to the conflict of interest; or
- (c) Voting such proxies in accordance with the instructions of an independent third party that PRIMECAP is directed to use by a client.

Clients may obtain a copy of the Proxy Voting Policy and information on how the proxies with respect to their portfolio securities were voted by written request addressed to PRIMECAP.

**PRIMECAP Management Company**

**Item 18 Financial Information**

PRIMECAP is not aware of any financial conditions that are reasonably likely to impair its ability to meet its contractual obligations to its clients. PRIMECAP has never been the subject of a bankruptcy petition.

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**PRIMECAP Management Company**

**Item 19 Requirements for State-Registered Advisers**

Not Applicable

**PRIMECAP Management Company**

**Form ADV Part 2B**  
**Brochure Supplement**

PRIMECAP Management Company

177 E. Colorado Blvd.  
11th Floor  
Pasadena, CA 91105

Phone: (626) 304-9222

Date: 3/12/2019

**This brochure supplement provides information about PRIMECAP Management Company that supplements the PRIMECAP Management Company brochure. You should have received a copy of that brochure. Please contact Michael J. Ricks if you did not receive PRIMECAP Management Company's brochure or if you have any questions about the contents of this supplement.**

**Additional information about PRIMECAP Management Company is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

### PRIMECAP Management Company

#### Item 2 Educational Background and Business Experience

Theofanis A. Kolokotronis (1946)

University of Chicago, BA 1968

Harvard Graduate School of Business Administration, MBA 1970

1983 - Present PRIMECAP Management Company

Chairman, Director, & Portfolio Manager

1977 - 1983 Capital Research Company

Senior Vice President & Financial Analyst

Joel P. Fried (1962)

University of California, Los Angeles, BS 1984

University of California, Los Angeles, MBA 1986

1986 - Present PRIMECAP Management Company

President, Director, & Portfolio Manager

Alfred W. Mordecai (1967)

Duke University, BSE 1990

Virginia Polytechnic Institute and State University, MEA 1995

Harvard Graduate School of Business Administration, MBA 1997

1997 - Present PRIMECAP Management Company

Vice Chairman, Director, & Portfolio Manager

M. Mohsin Ansari (1969)

Colgate University, BA 1991

Washington University, BS 1993

Harvard Graduate School of Business Administration, MBA 2000

2000 - Present PRIMECAP Management Company

Executive Vice President, Director, & Portfolio Manager

James Marchetti (1974)

Massachusetts Institute of Technology (MIT), BS 1996

MIT Sloan School of Business, MBA 2005

2005 - Present PRIMECAP Management Company

Executive Vice President, Director, & Portfolio Manager





**PRIMECAP Management Company**

**Item 3 Disciplinary Information**

There have been no legal or disciplinary events material to a client's or prospective client's evaluation of the supervised person.

**PRIMECAP Management Company**

**Item 4 Other Business Activities**

PRIMECAP Management Company's supervised persons do not engage in any other businesses except for investment advisory services.

PRIMECAP's Co-Directors of Client Service, Douglas E. McCrary and Bradley A. Bredemann are registered with Quasar Distributors LLC as registered broker representatives.

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### **PRIMECAP Management Company**

#### **Item 5 Additional Compensation**

PRIMECAP's employees do not accept any other compensation except those described in the previous compensation description section.

**PRIMECAP Management Company**

**Item 6 Supervision**

PRIMECAP's supervised persons review investment activities in clients' portfolios on a weekly basis. Below is a list of supervised persons responsible in such capacity:

Theo A. Kolokotronis  
Chairman, Director, & Portfolio Manager  
(626) 304-9222

Joel P. Fried  
President, Director, & Portfolio Manager  
(626) 304-9222

Alfred W. Mordecai  
Vice Chairman, Director, & Portfolio Manager  
(626) 304-9222

M. Mohsin Ansari  
Executive Vice President, Director, & Portfolio Manager  
(626) 304-9222

James Marchetti  
Executive Vice President, Director, & Portfolio Manager

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**PRIMECAP Management Company**

**Item 7 Requirements for State-Registered Advisers**

PRIMECAP Management Company is registered with the SEC only.