

# Baxter Capital Management Inc.

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Indianapolis, IN 46260  
317-706-0041

[www.baxtercapitalmanagement.com](http://www.baxtercapitalmanagement.com)

## **Firm Brochure**

(Part 2A of Form ADV)

March 31, 2020

Main contact: David C. Smith, President/Chief Compliance Officer

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

This brochure provides information about the qualifications and business practices of Baxter Capital Management Inc. If you have any questions about the contents of this brochure, please contact us at 317-706-0041 or [dave@baxtercapitalmanagement.com](mailto:dave@baxtercapitalmanagement.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.

While Baxter Capital Management refers to itself as being a *registered investment advisor* this registration does not imply specific training or a certain level of skill.

## **Material Changes**

The Material Changes section of this brochure will be updated annually and when material changes occur since the previous release of the Firm Brochure.

Since our last Brochure dated 3-20-2019:

- The total amount of assets managed was changed to reflect the amount as of 12-31-19
- Assistance in estimating current expected credit losses was added as an additional advisory service

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## Advisory Business

Baxter Capital Management Inc. (BCM) was formed in 1979 for the purpose of providing a full range of investment management services to institutional clients including financial institutions, corporations, endowments, and pension funds. BCM is federally registered with the U.S. Securities and Exchange Commission as an investment advisor and maintains the records required by the Investment Advisor Act of 1940. David C. Smith is the principal owner. We offer advice on fixed-income securities only. Our specialty is high quality, shorter-term investment portfolios. All of our clients have written investment policies and independent safekeeping agents. We do not have discretionary trading authority on any of our accounts. Investment advice is tailored to the needs of each client. We constantly analyze market and economic factors to develop investment strategies, and implement these strategies by executing trades at competitive market prices. We generate monthly or quarterly investment management reports. Our services also include general financial advice and the use of in-house computer simulation models to assist financial institutions in asset/liability management and estimating current expected credit losses.

The firm's compensation is solely from fees paid directly by our clients. No commissions or referral fees are accepted. No benefits are received from broker/dealers based on client security transactions ("soft dollar benefits"). Since our income does not depend upon what investments we recommend or whom we execute them through, our financial interests are aligned with our client's best interests.

### Website:

<https://www.baxtercapitalmanagement.com>

### Investment Advisor Representatives:

David C. Smith joined Baxter Capital Management as a Portfolio Manager in January 2013 and effective 1-2-14, became the President and Chief Compliance Officer of the firm. He maintains his Series 63, and Series 66 licenses, and earned his B.A. at Taylor University with a major in Economics and a minor in Mathematics. Because he no longer works for a broker/dealer, David is not allowed to maintain the Series 7 license. Therefore, it was allowed to officially expire in January 2015.

Gary L. Baxter founded Baxter Capital Management in 1979. He serves on the Board of Directors and as Secretary Treasurer of the firm. As of February 2014, Gary moved to a part-time role as Chief Economist for Baxter Capital Management. He earned both his B.S. and M.B.A at Ohio State University and his D.B.A at Indiana University.

Derek A. Gale joined Baxter Capital Management in June 2014 as a Financial Analyst and as of April 2015 also works as a portfolio manager for the firm. He maintains his Series 65 license and earned both his B.S. and M.S. in Mathematics at Indiana University Purdue University-Indianapolis (IUPUI).

Assets under management: As of 12-31-19, our total assets under management for non-discretionary accounts was \$934,731,843.65 and for discretionary accounts \$0.00.

We offer advice on corporate bonds, Federal agency securities (including mortgage-backed), municipal securities, and money market investments including commercial paper, CD's, and banker's acceptances.

### Our investment services include:

- Providing economic and financial market information using occasional written reports and telephone contacts with clients.
- Assisting in the writing of Investment, Asset/Liability Management, and Liquidity Policies.

- Making recommendations regarding the purchase, sale, or exchange of securities.
- Executing trades with brokers, dealers, commercial banks or others on behalf of our clients after receiving approval by authorized personnel at the client.
- Notifying the client by facsimile, telephone, or e-mail in advance of settlement. The client must authorize the transaction with its safekeeping agent.
- Making recommendations about asset/liability strategies.
- We are available by telephone, email, and will make personal visits to review any aspect of the service as needed.

### Reports:

We offer the following Monthly reports:

- Transactions in the account during the previous month
- Total portfolio description including approximate market valuations
- Accounting reports showing accruals, etc. when requested by the client (this is intended to supplement, not replace, the accounting entries originated by the client)
- Securities Listing by Maturity
- Maturity/Weighted Average Life/Duration Listing

Please see Review of Accounts for a more detailed Report Listing.

## **Fees and Compensation**

The fee for our investment advisory service is based upon the average par amount of funds invested during the month and is payable immediately upon receipt of statement for services rendered during the previous month. We email billing statements in PDF format shortly after emailing our monthly reports normally on the first business day of each month. Our advisory agreement continues until termination by either party on thirty (30) days written notice with final payment prorated according to the number of days that service is provided during any part of a month. For new accounts, the fee is prorated for partial periods.

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### BASIC MONTHLY FEE SCHEDULES

#### For Non-financial Institutions

$1/12 \times (.00200 \times 1^{\text{st}} \$5 \text{ million})$   
 $+ 1/12 \times (.00120 \times \text{next } \$15 \text{ million})$   
 $+ 1/12 \times (.00030 \times \text{next } \$80 \text{ million})$   
 $+ 1/12 \times (.00015 \times \text{over } \$100 \text{ million})$

Minimum  $1/12 \times \$5,000$

#### For Financial Institutions

$1/12 \times (.0015 \times 1^{\text{st}} \$5 \text{ million})$   
 $+ 1/12 \times (.0012 \times \text{next } \$5 \text{ million})$   
 $+ 1/12 \times (.0008 \times \text{next } \$5 \text{ million})$   
 $+ 1/12 \times (.0005 \times \text{next } \$5 \text{ million})$   
 $+ 1/12 \times (.0002 \times \text{over } 20 \text{ million})$

Minimum  $1/12 \times \$9,900$

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All fees are negotiable. Typically explicit commissions are not charged on the fixed-income investments we recommend; they are sold on a net basis. We expect our clients to have their own safekeeping agent and to pay any of those costs.

## Performance-Based Fees and Side-by-Side Management

Baxter Capital Management does not use a performance-based fee structure.

## Types of Clients

The types of clients we serve include:

- Banks and Thrifts
- Credit Unions
- Endowments and other non-profit organizations
- Hospitals
- Corporations
- Pension and Profit Sharing Plans

We do not impose a minimum dollar value to start or maintain an account.

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

Security analysis methods are primarily fundamental. The main sources of information are ratings, filings with regulators, Bloomberg data and analysis, financial newspapers and magazines, and research material prepared by others. We primarily manage fixed-income liquidity portfolios of our institutional clients. Therefore, liquidity needs are a key determinant of the maturity and type of investments recommended. Because of changing liquidity positions and needs, all portfolios are non-discretionary and require preapproval prior to security purchases. Surplus funds are invested in a wider array of securities. All of our clients have detailed written investment policies that include approved types of investments, acceptable ratings, and dollar limits. Almost all purchases are high quality, shorter-term investment grade securities.

Even though we try to carefully manage risk, all investments have some risks borne by the investor. Some of these risks are:

- Default risk – The risk of not receiving all of your principal back and/or timely payment of interest.
- Interest rate risk – The risk that a security's value will decline due to a change in market interest rates.
- Reinvestment risk – The risk that cash flows from a security will be reinvested at lower rates than assumed in the purchase yield-to-maturity. This is a particular concern for investments that have significant periodic cash flows such as mortgage-backed securities.
- Price risk – The risk that the price of a security will change over time, which is particularly important if a security is sold prior to maturity.

- Liquidity risk – The risk that a security will not be able to be sold or at least not at a “reasonable” price typically due to market dislocations.
- Political risk – The risk that a security’s value changes due to political decisions or concerns. This is an issue particularly regarding Federal agency, financial firm, and municipal securities.
- Event risk – The risk that some unusual event, such as a terrorist attack, weather event, or a government collapse, could cause a change in the value of a security.

## **Disciplinary Information**

The firm and its employees have not been involved in any legal or disciplinary events related to past or present activities.

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

Our firm does not participate in any other financial industry activities, nor does it have any affiliations or arrangements that are material to our advisory business.

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

Baxter Capital Management has a Code of Ethics Policy in place that is read and signed by each employee. We encourage our employees to reread this policy at least annually.

We expect our employees to comply with all laws, rules, and regulations applicable to BCM’s operations and business. Employees should seek guidance whenever they are in doubt as to the applicability of any law, rule or regulation regarding any contemplated course of action. As a registered investment advisor, BCM is subject to regulation by the Securities and Exchange Commission, and compliance with federal, state, and local laws. BCM insists on strict compliance with the spirit and the letter of these laws and regulations. We list requirements for our employees concerning confidentiality and insider trading.

A copy of our Code of Ethics is available upon request.

While unlikely, it is possible that an employee of BCM might buy or sell a security for his or her own account at the same time we are doing so for a client’s account. For this and other reasons we require all employees to submit a quarterly report of personal individual security transactions and an annual report of securities holdings. David Smith, the Chief Compliance Officer, reviews these reports. Gary Baxter, Director, reviews David Smith's reports.

## **Brokerage Practices**

Our recommended brokers are generally limited to large national institutional dealers, many of whom are Primary Government Securities Dealers reporting to the Federal Reserve Bank of New York. Dealers are selected based on their ability to fulfill commitments as evidenced by capital strength, liquidity, and operating results. This evidence is gathered from current financial data, annual reports, credit ratings, and other sources of financial information. A dealer's general reputation for financial stability and fair and honest dealings with customers is also considered. In most cases, this judgment is based upon several years of actual experience with our firm. From this group, brokers are selected based upon their overall services including such things as research, market information, inventory, and execution price. We strongly discourage, but do not prohibit, client directed brokerage because it may result in unfavorable trade execution, which can cost the client money.

The selection of a broker for a specific transaction is based upon the availability of the desired security and price.

All research and services received from brokers are those that are provided to large institutional clients at no charge, explicit or implicit. These include general market newsletters and topical studies of interest.

Typically, there are no commissions charged on the fixed income securities in which we invest; everything is done on a net price basis. The prices that our clients pay are in no way related to our receipt of dealer research or publications. We do not, nor have we ever had, "soft dollar" arrangements with any dealers.

We aggregate orders whenever more than one client is trading the same security at the same time. In many cases, the aggregation benefits our clients by either enabling a better negotiated price or even enabling the transaction to occur when there are minimum order size requirements.

## **Review of Accounts**

For each new client, the general portfolio risk level that is appropriate is mutually determined through personal visits, telephone discussions, and any relevant regulations and statutes. These levels are detailed in a written investment policy. The policies are typically reviewed annually or as the client requires.

We assist with writing Investment, Asset-Liability Management, and Liquidity Policies for our clients. Our investment choices are constrained by these policies for specific types of investments, issuers, and dollar limits. The Investment Policy also states who, within the client's firm, is authorized to approve investments. Regulations and statutes pertaining to investing and pertinent to the client are also part of the Investment Policy.

The President of the firm is responsible for the day-to-day management of the firm's portfolios. A review of each liquidity portfolio is usually triggered by the availability of surplus funds either from an approaching maturity of a security or a change in overnight funds which often occur several times a month. Investment recommendations are discussed with each client and approved before execution.



We send monthly investment reports to each of our clients. These reports include the following:

- Securities Listing by Maturity
- Portfolio Highlights (book value by time to maturity)
- Securities Portfolio Inventory (includes approximate market values)
- Transactions Journal (listing)
- Transactions Journal (summary)
- Security Account Ledger/Activity Report (includes accruals/accretions)
- Accounting Report
- Variable Rate Securities Listing by Next Reset Date (if applicable)
- Securities Ratings (if applicable)
- Holdings by Issuer
- Distribution of Investments by Type (such as Treasury, Agency, Bank Obligation, Corporate)
- Maturity/Weighted Average Life/Duration Listing
- Security Fair Values and Sensitivities (if applicable)
- Potentially Greater Interest Rate Risk Investments (if applicable)

Reports are generated using our own in-house software. We email our reports directly to our clients. By request, we will provide a paper copy mailed via the U.S. Postal Service.

## **Client Referrals and Other Compensation**

While Baxter Capital Management has received many referrals, which we appreciate, the firm does not pay for referrals.

## **Custody**

We **do not** have custody of our clients' investments or funds. All assets are held at qualified safekeeping agents chosen by the client. All safekeeping reports, therefore, are sent directly to our clients. We also provide security-holding reports to our clients and strongly encourage them to reconcile any differences between our reports and those of the safekeeping agent.

## **Investment Discretion**

Baxter Capital Management does not have any discretionary clients. Investment recommendations are discussed with each client and approved before execution.

## **Voting Client Securities**

We do not have, nor do we accept, voting authority for our client's securities.

## **Financial Information**

BCM does not have any financial conditions that would impair our ability to meet financial commitments to our clients. Since we do not have custody of client securities or funds, nor do we require prepayment of fees, we do not provide a balance sheet.

## Brochure Supplement (Part 2B of Form ADV)

### Supervised Person

David C. Smith  
President, Chief Compliance Officer  
Baxter Capital Management Inc.

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As of March 31, 2020

This brochure supplement provides information about David C. Smith that supplements the Baxter Capital Management Inc. brochure. You should have received a copy of the brochure. Please contact Katie Smith, Office Administrator, if you did not receive Baxter Capital Management Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about David C. Smith is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Educational Background and Business Experience**

David C. Smith, (Dave) born 1988, earned his B.A. degree at Taylor University with a major in Economics and a minor in Mathematics.

Dave joined Baxter Capital Management Inc. in 2013 and as of January 2014 is President of the firm. Dave maintains his FINRA Series 66 and Series 63 licenses. He is the primary portfolio manager for our clients, is responsible for the computer systems, and the firm's website. Prior to joining the firm, he was employed for several years at BMO Capital Markets in Chicago. He has a background in government, municipal, corporate, and mortgage-backed securities.

## **Item 3 – Disciplinary Information**

Dave has no legal or disciplinary events to disclose.

## **Item 4 – Other Business and Professional Activities**

Dave is not engaged in any other investment-related business or occupation.

## **Item 5 – Additional Compensation**

Dave receives no additional compensation other than his salary at Baxter Capital Management Inc.

## **Item 6 – Supervision**

All of Baxter Capital Management's clients are institutional investors, mostly financial institutions, with investment policies approved by their Boards of Directors. Each client has an independent safekeeping agent. Baxter Capital Management has no access to client funds and each transaction is settled and monitored by the client.

Dave Smith is an Investment Advisor Representative and is responsible for formulating investment advice to clients, including recommendations for client investment policies. Gary L. Baxter supervises Dave by regularly reviewing the securities in each portfolio and Dave's compliance reporting.

## Brochure Supplement (Part 2B of Form ADV)

### Supervised Person

Derek A. Gale  
Financial Analyst  
Baxter Capital Management Inc.

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As of March 31, 2020

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Additional information about Derek A. Gale is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Educational Background and Business Experience**

Derek A. Gale earned his B.S. and M.S degrees in Mathematics at Indiana University Purdue University-Indianapolis (IUPUI).

Derek joined Baxter Capital Management Inc. in 2014 as a Financial Analyst and as of April 2015 also works as a portfolio manager for the firm. Derek is in charge of BCM's Asset/Liability Management program where he analyzes the balance sheets of financial institution clients to evaluate their interest rate risk exposure. Prior to joining BCM Derek worked as a teaching assistant and mathematics tutor at IUPUI while completing his Master's degree. Derek maintains his FINRA Series 65 license.

## **Item 3 – Disciplinary Information**

Derek has no legal or disciplinary events to disclose.

## **Item 4 – Other Business and Professional Activities**

Derek is not engaged in any other investment-related business or occupation.

## **Item 5 – Additional Compensation**

Derek receives no additional compensation other than his salary at Baxter Capital Management Inc.

## **Item 6 – Supervision**

All of Baxter Capital Management's clients are institutional investors, mostly financial institutions, with investment policies approved by their Boards of Directors and also have independent safekeeping agents. Baxter Capital Management has no access to client funds and each transaction is settled and monitored by the client.

As the owner of Baxter Capital Management, David C. Smith is responsible for supervising all employees and is also the firm's Chief Compliance officer. Derek Gale is an Investment Advisor Representative and is responsible for formulating investment advice to clients, including recommendations for client investment policies. David Smith supervises Derek by regularly reviewing the securities in each portfolio and individual client portfolio policies.

## Brochure Supplement (Part 2B of Form ADV)

### Supervised Person

Gary L. Baxter, D.B.A.  
Chief Economist, Secretary-Treasurer  
Baxter Capital Management Inc.

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As of March 31, 2020

This brochure supplement provides information about Gary L. Baxter that supplements the Baxter Capital Management Inc. brochure. You should have received a copy of the brochure. Please contact Katie Smith, Office Administrator, if you did not receive Baxter Capital Management Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Gary L. Baxter is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Educational Background and Business Experience**

Gary L. Baxter, born 1941, earned his B.S. and M.B.A. degrees at Ohio State University with majors in Industrial Management and Finance; and his D.B.A. at Indiana University with fields in Finance, Real Estate, and Quantitative Business Analysis.

Gary started Baxter Capital Management Inc. in May 1979. Prior to the formation of Baxter Capital Management, Gary was the Chief Economist for the Federal Home Loan Bank of Indianapolis. In this position he was a member of the Bank's Financial Policy Committee and he was directly responsible for the management of the Bank's several hundred million dollar investment portfolio. Gary taught Finance and Real Estate for several years at Bowling Green State University in Bowling Green, Ohio and Indiana University in Bloomington, Indiana.

## **Item 3 – Disciplinary Information**

Gary has no legal or disciplinary events to disclose.

## **Item 4 – Other Business and Professional Activities**

Gary is not engaged in any other investment-related business or occupation.

Gary is a past President of the local chapter of the American Statistical Association. For over twenty years Gary was the chairman of Indiana's State Forecast Committee, a non-partisan private group whose output determined the State's revenue projections. This committee was disbanded after the 2007 forecast, at Gary's suggestion, due to the lack of people doing regular economic forecasting in Indiana.

## **Item 5 – Additional Compensation**

Gary receives no additional compensation other than his salary at Baxter Capital Management Inc.

## **Item 6 – Supervision**

All of Baxter Capital Management's clients are institutional investors, mostly financial institutions, with investment policies approved by their Boards of Directors and also have independent safekeeping agents. Baxter Capital Management has no access to client funds and each transaction is settled and monitored by the client.

As the owner of Baxter Capital Management, David C. Smith is responsible for supervising all employees and is also the firm's Chief Compliance officer. Gary Baxter is an Investment Advisor Representative and is responsible for formulating investment advice to clients, including recommendations for client investment policies. David Smith supervises Gary by regularly reviewing the securities in each portfolio and individual client portfolio policies.