

**Item 1 – Cover Page**

**Mid-Continent Capital**  
**123 North Wacker Drive, Suite 1100**  
**Chicago, Illinois 60606**  
**312-551-8200**  
**[www.mccllc.com](http://www.mccllc.com)**  
**October 31, 2020**

This Brochure provides information about the qualifications and business practices of Mid-Continent Capital. If you have any questions about the contents of this Brochure, please contact us at 312-551-8205. 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.

Mid-Continent Capital is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

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



## **Item 2 – Material Changes**

There have been no material changes since the last brochure delivered in January 2020.

Our Brochure can be requested by contacting Susan E. Lorsch, EVP, Chief Compliance Officer, at 312-551-8205 or [slorsch@mccllc.com](mailto:slorsch@mccllc.com).

### Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents.....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	3
Item 6 – Performance-Based Fees and Side-By-Side Management.....	4
Item 7 – Types of Clients .....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	4
Item 9 – Disciplinary Information .....	6
Item 10 – Other Financial Industry Activities and Affiliations.....	6
Item 11 – Code of Ethics.....	6
Item 12 – Brokerage Practices .....	7
Item 13 – Review of Accounts .....	11
Item 14 – Client Referrals and Other Compensation .....	11
Item 15 – Custody.....	12
Item 16 – Investment Discretion.....	12
Item 17 – Voting Client Securities .....	13
Item 18 – Financial Information .....	14

## Item 4 – Advisory Business

Mid-Continent Capital (“MCC” or “Mid-Continent”), established in 1983, is a Chicago-based, registered investment management and advisory firm.

The majority owner of MCC is Convergent Capital Management (“CCM”). CCM is a holding company that specializes in investing in organizations within the investment management industry. CCM’s parent company is Royal Bank of Canada (NYSE: RY).

### Equity Products

We offer four core equity strategies to our clients:

- “GARP” or Growth at a Reasonable Price invests across the capitalization spectrum. Portfolios typically hold 25 – 40 stocks and are usually benchmarked against the S&P 500.
- Consistent Growth focuses on mid to large cap companies and invests in companies that not only have consistently demonstrated their ability to grow their earnings but that we believe are well poised to continue doing so in the future. Portfolios typically hold 25 – 40 stocks and are usually benchmarked against the S&P 500.
- Large Value focuses on the large cap sector of the market and has as its overriding premise inexpensive current valuations coupled with improving sentiment. Portfolios typically hold 25 – 40 stocks and are usually benchmarked against the Russell 1000 Value.
- Focused Opportunity targets stocks that have a reasonable chance of outsized returns over a 5-year holding period. In determining stocks that meet this mandate, focus is given to the operating fundamentals within the company and its industry, the growth rates of each, and the resultant prospect for earnings growth. Because of this more concentrated (portfolios typically contain 25-35 securities), fundamentally driven approach, portfolios are unlikely to resemble commonly quoted benchmark indices (such as the S&P 500).

### Fixed Income Management

If appropriate for the client and their circumstances, we will purchase a series of fixed income securities as a complement to the equity side of the portfolio and run an overall “balanced” strategy for the client. Each client’s portfolio asset allocation is determined after conversations with the client to assess their investment objectives and risk tolerances. Some taxable clients will choose to have us structure a municipal bond portfolio for their fixed income portion of the portfolio.

### Other Securities – Income Oriented Portfolios

Some of our clients have expressed a desire for a portfolio more dependent upon income than security price movement. Our approach for these clients is to own a variety of yield-oriented securities such as dividend paying common stocks, preferred securities, bonds and pass through securities like energy trusts, master limited partnerships (“MLPs”) and real estate investment trusts (“REITs”).

From time to time, we purchase or recommend to our clients, investments in publicly traded partnership interests which are involved in businesses outside of real estate and oil and gas



interests. These interests include, but are not limited to, debt, preferred and convertible securities.

#### Client Restrictions

Clients can also impose restrictions on their portfolios as long as they do not impact our overall investment strategy. As examples, clients will ask us to hold low basis stock or have limits on asset classes in balanced portfolios.

#### Discretionary Account Management

For discretionary clients, we take into consideration the asset allocation needs of each client and structure portfolios with appropriate allocations between stocks and bonds. Some of our clients invest solely in a particular equity strategy due to the nature of the funds being invested. Other clients will have a balanced portfolio using one or more of our equity strategies, along with a portfolio of fixed income securities, in a mix that is appropriate to that client's particular situation.

#### Non-Discretionary Account Management

MCC's business includes providing investment supervisory services to existing non-discretionary client accounts. MCC will not accept new non-discretionary accounts except those related to existing accounts.

MCC provides asset allocation services for that portion of the client assets devoted to the US securities market, tailoring portfolio recommendations (including quantities of individual securities suggested to be bought/sold with price parameters, if any) to meet the specific needs of each client, and updating those recommendations as market conditions or client circumstances change. For these services, all final investment decisions remain with those clients. Clients decide whether to trade themselves based on our recommendations or delegate trading responsibility back to MCC.

#### Other Services

Some clients will also ask us to review other aspects of their financial situation, including but not limited to, insurance products, estate questions or financial planning for their retirement years. We will, as part of our overall service to our clients, provide guidance to them when viable to do so; there are no additional fees charged for these consultative services. Clients should understand that this guidance is a courtesy service and that they should consult an expert/professional in that area (e.g., a tax professional/CPA, estate attorney, etc.).

As a courtesy, we will also provide investment advice for a related account(s) of certain clients that contain a relatively de minimis amount of assets, particularly for the accounts belonging to the relatives of such clients. We accommodate these requests due to a pre-existing client relationship; however, these services are outside of our investment management agreement with the client and we do not charge any fees for these courtesy services. We will review the holdings of these accounts upon the request of the client, and periodically thereafter.

Occasionally we will introduce clients to other (affiliated or non-affiliated) investment and non-investment related service providers/professionals (for example: accountants, attorneys, insurance providers, etc.). The client is under no obligation to engage the services of any of

these professionals. The client retains absolute discretion over all such hiring decisions and is free to accept or reject any introduction or recommendation from us. Although we have experience with these service providers, we have not performed due diligence on these service providers and are not responsible for the services provided by them. No fees or other compensation are given to or received by MCC for these referrals.

#### Assets under Management

As of 10/31/20 (our latest fiscal year) we have \$3.195 billion in total assets under management; \$3.063 billion is discretionary and \$132 million is non-discretionary (includes non-discretionary clients with and without trading authority).

The total assets under management figure is different from that reported in ADV Part 1 because assets under management reported in Part 1 does not include non-discretionary accounts without trading authority.

### **Item 5 – Fees and Compensation**

Mid-Continent charges investment management fees based on clients' assets under management. As a general matter, our current fee schedule is not negotiable.

The fee schedule on new equity and balanced accounts is:

#### Annual % of Assets Managed:

First \$ 1 million	1.00%
Next \$ 49 million	0.80%
Next \$ 50 million	0.60%
Assets > \$ 100 million	0.40%

There is a minimum relationship size of \$2,000,000.

Exceptions to the minimum relationship size can be made in cases where accounts are expected to grow through additional contributions or in cases where the new relationship is associated with existing clients.

Assets that are held for clients in the "unsupervised" category are not charged a fee. These assets are reflected on our statements as a courtesy to the client; MCC's services do not include investment management, review or monitoring services, nor investment recommendations or advice relative to any of those "unsupervised" assets.

Accounts that were opened prior to the institution of this fee schedule are billed based on the fee schedule in effect at the time the account was opened or according to negotiated rates.

Clients direct MCC to deduct the management fees from their account or receive an invoice for payment. Fees are paid quarterly, in advance, based on the value of the client's assets on the last business day of the calendar quarter.

In addition to investment management fees, clients will also incur custodial fees and brokerage/transaction costs (described in Item 12). The client's custodian may impose other fees, such as wire transfer fees and check charges.

Occasionally we invest, or recommend that our clients invest, in mutual fund or exchange-traded-fund ("ETF") shares. Each mutual fund or ETF pays fees, borne by its shareholders, to the manager of the mutual fund or ETF and to other service providers to the fund. We base our management fees, including mutual fund and ETF investments, on a percentage of the market value of the assets in the client's account. As a result, a client whose account is invested in a mutual fund or ETF will bear the client's proportionate share of the mutual fund or ETF's fees and expenses and pay a management fee to us for the same investment. In many cases, the client could invest in the same mutual fund or ETF without paying a fee to us but would then not have the benefit of the advice, review and monitoring we provide.

We charge our investment management fees quarterly in advance. If clients terminate our services prior to quarter-end, they can request a refund of fees. The refund will be determined by pro-rating the unearned fees.

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

We **currently** do not charge any performance-based fees.

## **Item 7 – Types of Clients**

Our services typically are provided to individuals, high net worth individuals, trusts, family groups, pension and profit sharing plans, endowments and foundations in need of on-going advice on how to structure their investments given their unique objectives (return requirements and risk tolerance) and circumstances (time horizons, liquidity needs, tax and legal considerations).

There is a minimum relationship size of \$2,000,000. See Item 5 for additional information related to account sizes.

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

### Methods of Analysis

We use a combination of qualitative fundamental research and quantitative screening methods to identify companies we would choose to invest in for our various equity strategies (see Item 4). Our investment professionals meet regularly to review current holdings as well as stocks being considered for purchase in client portfolios. Portfolio monitoring is continuous, and we review the following factors: stock weightings, sector weightings, price targets, performance and fundamental data for current holdings.

We also monitor and assess company fundamentals. This assessment typically includes:

- written review of earnings releases and conference calls;
- monitoring holdings for excessive valuation;
- monitoring holdings for deterioration in long-term business outlook; and
- qualitative assessments of management decision-making or changes.

We tend to structure intermediate duration fixed income portfolios for clients. Our analysis of credit quality, the current interest rate environment, available spreads over rates on Treasury securities, and expectations for future interest rate moves determine our allocations amongst governments, agencies, mortgages, corporates and “bond-like” investments such as straight preferred securities. Some taxable clients choose to have us structure a municipal bond portfolio for their fixed income portion of the portfolio.

### Risk of Loss

Equities: By investing in stocks, you could be exposed to sudden declines in a holding’s share price or overall decline in the stock market. Stock markets are volatile and can decline significantly in response to adverse issuer, industry, political, regulatory, market or economic developments. The value of an individual security or particular type of security can be more volatile than and perform differently than the market. Additionally, the value of your investments will fluctuate on a daily and cyclical basis with movements in the stock market as well as in response to the activities of individual companies. Individual companies could report poor results or be negatively affected by industry or economic trends.

Fixed Income: The prices of fixed income securities respond to economic developments, particularly interest rate changes, as well as to the perceptions about the creditworthiness of individual issuers, including governments. Fixed income securities decrease in value if interest rates rise and increase in value if interest rates fall. Lower rated securities tend to be more volatile than higher rated securities. The duration of these securities affects risk as well, with longer duration securities generally more volatile than shorter duration securities. Duration is a weighted measure of the length of time required to receive the present value of future payments, both interest and principal, from a fixed income security.

Preferred stocks are issued with a fixed par value and pay interest or dividends based on a percentage of that par value at a fixed rate. Some issues are fixed rate for the life of the issue and others are fixed rate until a specified call date; if the security is not called the coupon converts to a floating rate. As with other fixed income securities that also make fixed payments, the market value of preferred securities is sensitive to changes in interest rates as well as the perceptions about the creditworthiness of individual issuers. Preferred securities with a fixed rate generally decrease in value if interest rates rise and increase in value if interest rates decrease. Lower rated securities tend to be more volatile than higher rated securities.

Issuers of municipal securities, US state and local governments, rely on taxes and, sometimes, revenues from projects financed by municipal securities to pay interest and principal on municipal debt. Poor statewide or local economic results, changing political sentiments, legislation, policy changes or voter based initiatives at the state or local level, erosion of the tax base or revenues of the state or one or more local governments, natural disasters, or other economic or credit problems affecting the state generally or a particular issuer can reduce tax



revenues and increase the expenses of municipal issuers, making it more difficult for them to meet their obligations.

## **Item 9 – Disciplinary Information**

Neither Mid-Continent or its management persons have been involved in any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our advisory business.

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

We are affiliated with other investment advisors because we are all under common control of RBC USA Holdco Corporation, a subsidiary of Royal Bank of Canada (RBC) and an indirect owner of MCC. RBC USA Holdco Corporation has a significant majority ownership in Convergent Capital Management ("CCM"), among other companies (RBC Capital Markets, RBC Global Asset Management, City National Bank). CCM is a holding company, that directly and indirectly, owns and maintains ownership interest in asset management firms, including MCC. CCM makes available to its affiliates opportunities for cooperative purchasing of certain administrative programs and products. CCM also provides us with advice and assistance on general business issues unrelated to the investment advisory services we provide.

MCC operates completely independently from CCM and RBC and each of its investment advisory affiliates, does not conduct joint operations with any of those affiliated investment advisors and does not provide investment advice that is formulated, in whole or in part, by such affiliated investment advisors.

RBC has a brokerage division; two of MCC's clients have accounts custodied with this division of RBC; brokerage is also directed through these affiliated brokers at the clients' instruction. It is only in this limited capacity that MCC uses an affiliated broker to effect transactions.

Affiliated investment advisors and entities hold insurance licenses, provide pension consulting, financial planning, municipal advisory services, swap dealer services, commodity and futures investing, proprietary hedge funds, real estate brokerage, limited partnership syndication/sponsorship; we do not use these services.

## **Item 11 – Code of Ethics**

We have both a Code of Ethics and a Policy to Prevent the Misuse of Insider Information.

Together these policies promulgate general standards of conduct for officers and employees. The Code of Ethics outlines our fiduciary duty and duties of loyalty and care to clients. The Code addresses among other topics: fair dealing with clients; gifts, favors and gratuities; political contributions; confidentiality; outside business activity; social media; identity theft; and personal

securities transactions of officers and employees. Officers and employees must sign an acknowledgement annually of having read, understood and complied with our Code of Ethics and Policy to Prevent the Misuse of Insider Information policies and whenever material changes are made to the documents.

A copy of our Code of Ethics will be provided to you upon request made to Susan Lorsch at 312-551-8205.

All employees of Mid-Continent are required to comply with the Code of Ethics. In accordance with our policies, and subject to Federal Securities Laws, officers and employees are allowed to purchase and sell securities being bought or sold for client accounts. To avoid the potential conflicts of interest with this practice (benefitting from executing personal trades ahead of a large block being traded in that same security or trading ahead of strategic client transactions), it is the policy of the firm that trades on behalf of client accounts be given priority over trades on behalf of its officers or employees. Personal security trades must be reported to the Chief Compliance Officer. These trades are reviewed on a monthly basis to detect and prevent conduct that might create an actual or potential conflict of interest.

On occasion, some of our officers serve as trustees or directors of organizations affiliated with our clients; these are non-public entities. Ed Bruere, one of our Co-Chief Executives, serves on the Board of a sister entity of one of our Association clients. These appointments and changes to them are reported quarterly to the CCO as part of our regular compliance monitoring. No compensation is received for these positions. MCC Officers are barred from serving as directors of public companies unless the CCO has authorized the appointment.

On occasion, the firm or its employees makes donations to charitable organizations that are clients of Mid-Continent. These contributions are tracked on a quarterly basis as part of our regular compliance reporting and monitored for potential problems by the CCO.

## Item 12 – Brokerage Practices

The firm's overriding objective in effecting portfolio transactions is to seek the best combination of net price and execution under the circumstances ("best execution"). Client direction to use a particular broker or dealer for executing transactions in that client's accounts will affect our ability to obtain best execution. The best net price, giving consideration to brokerage commission, and other transaction costs, is normally an important factor in executing a trade, but a number of other judgmental factors also enter into the decision. These include:

- our knowledge of negotiated commission rates currently available and other current transaction costs;
- the nature of the security being traded;
- the size of the transaction;
- the desired timing of the trade;
- the activity existing and expected in the market for the particular security;
- confidentiality;
- research provided
- the execution, clearance and settlement capabilities of the broker or dealer selected, including status as a market-maker in the security; and

- our knowledge of the financial stability of the broker or dealer selected

Recognizing the value of these factors, the firm will pay a brokerage commission in excess of that which another broker might have charged for effecting the same transaction.

We maintain and periodically update a list of approved brokers and dealers which, in our judgment, are generally able to provide best net price and execution after taking into consideration the factors noted above. Our trader is directed to use only brokers and dealers on the approved list except in the case of client specific designations.

#### Soft Dollars

When selecting brokers for a particular transaction, we will also consider, in addition to the factors noted above, the value of research or trade execution products or services furnished to us by those brokers. The research products/services include but are not limited to: proprietary brokerage research reports; subscriptions to financial publications and research compilations; earnings, dividends and similar data; company databases; securities quotation services; research-oriented software and services; and research services of economists and other consultants. We receive the benefit from these arrangements without paying directly for these research services.

Research and certain other previously referenced services can qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934. The availability of these services benefits our firm because we do not have to produce or purchase them directly with hard dollars. However, it is our firm's policy to restrict such compensation (termed "soft dollars") to those products or services that enhance our firm's ability to render quality investment-related advice and services to all of our clients.

We have agreements or understandings with the broker providing the research that we will direct transactions to that broker generating a stated dollar amount of commissions and otherwise will be required to pay for these services if sufficient commission dollars are not generated. Our obligation pursuant to that agreement or understanding will, in some transactions, be an important or determining factor in the selection of a broker, even if another broker would execute the same transaction at a lower commission rate. While receiving these additional benefits from certain brokers, we will enter into such an agreement with a broker only if, in our judgment, the benefits to clients of the research products or services provided outweigh the potential disadvantage to clients of higher commissions.

We currently have arrangements with brokers to acquire the following research:

- Proprietary brokerage firm research reports
- Company specific research information from Value Line
- Equity Market Access fees that were historically embedded in quote/research services
- Bloomberg Terminal – Market, company and security specific information
- Bloomberg EMSX Trade Routing

Pursuant to such arrangements, we direct client brokerage transactions to compensate the organizations for providing that research. We may enter into additional such arrangements in the future.

We occasionally also enter into “mixed-use” arrangements wherein a service or product provided to us can be used for investment decisions and trade execution as well as other business purposes. In such cases, we allocate payment of such services or products between commission dollars and cash (paid by MCC) according to how we use such products or services. The usage of these services is evaluated periodically to determine the appropriate payment split between cash and commissions.

We currently have mixed-use payment allocations for the following service:

- Advent/MOXY provides portfolio managers assistance in managing clients’ portfolios with asset allocation analyses, performance measurement evaluations, security information and trade order management functionality

Services that we obtain via brokerage commissions seek to benefit our clients as a whole. Clients who specify that their brokerage be directed to a specific broker or clients whose commission dollars are not otherwise used to generate soft dollars therefore receive the benefits of these services without paying for them. Soft dollar benefits are not proportionally allocated to any accounts that generate different amounts of the soft dollar benefits. We also use the commissions generated through the trades we execute for non-discretionary clients that have not directed us to utilize a particular broker to pay for these research and execution services.

MCC recommends that clients establish brokerage accounts with certain custodians that maintain custody of clients’ assets and effect trades for their accounts, and whose fees the client will be directly responsible for (including clearance and settlement fees associated with trades executed by broker/dealers other than that custodian). Recommended custodians are not necessarily the lowest-cost providers, but are those that MCC believes are competitively priced for the level of service they provide. However, a client is free to retain any custodian they choose. MCC recommends a custodian based on MCC’s consideration of the custodian’s general reputation, level of services provided, competitiveness of fees or special expertise. There can be no assurance that a client will pay the lowest possible commissions or other fees charged by that custodian or by any other custodian.

MCC will generally recommend that a client engage a custodian with whom MCC has established an agreement for the provision of services that typically are not available to the custodian’s retail clients. So long as a minimum amount of client assets are maintained at the custodian, MCC will receive an economic benefit from the custodian in the form of support products and services made available to MCC, or other benefits as more fully described below; however, there is no direct link between our recommendation that a client use a specific custodian and the economic benefits we receive. These benefits include, among other things, the following products and services: receipt of duplicate client statements and confirmations; research related products and tools; direct access to the trading desk servicing our clients; the ability to have advisory fees deducted directly from our client’s accounts pursuant to a written agreement; and access to an electronic communications network for client order entry and account information. Some of the products and services may also indirectly benefit accounts not maintained at that specific custodian. In addition, a custodian may make available, arrange for and/or pay for certain services (including but not limited to consulting, publications and conferences, information technology, regulatory compliance) and/or pay for these services

rendered to MCC by independent third parties. Also, the custodian may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third party providing these services to MCC.

A conflict of interest is present since our firm has an incentive to select or recommend a custodian based on our firm's interest in receiving these benefits rather than our clients' interest in receiving favorable trade execution or other custodial services. We seek to mitigate such conflict by only selecting brokers that we believe are appropriate for our clients based on the various factors provided above.

Because fees within the custody/brokerage industry periodically change, the transaction fees that a specific custodian charges, if any, may be higher or lower than those charged by other custodians.

### Directed Brokerage

Clients can direct us to effect portfolio transactions through particular brokers or dealers. This direction must be in writing. Such a direction to utilize a particular broker or dealer may be conditioned by the client on the broker or dealer being competitive as to price and execution of each transaction, or be subject to varying degrees of "restriction" (i.e., an instruction to utilize the broker or dealer whether or not competitive, or at specified levels of commissions or commission discounts which are less favorable than might otherwise be attained by the firm). Clients also sometimes wish to restrict brokerage to a particular broker or dealer in recognition of custodial or other services provided to the client by the broker or dealer.

A client who chooses to designate the use of a particular broker or dealer, should consider whether doing so results in certain costs or disadvantages to the client, either because the client pays higher commissions on some transactions than might otherwise be attainable by MCC, or receives less favorable execution of some transactions, or both.

In determining whether to instruct the firm to utilize a specific broker or dealer, the client should compare the possible costs or disadvantages of such an arrangement with the value of the custodial or other services provided. When a client restricts the firm to a particular broker or dealer with respect to transactions for that client's account, the client could be disadvantaged in obtaining allocations of new issues of securities which the firm purchases or recommends for purchase in other client accounts. Additionally, clients with directed brokerage instructions are handled separately (unable to participate in aggregation of orders, see below), and their accounts are generally traded after non-directed clients.

RBC has a brokerage division; currently two of MCC's clients have accounts custodied with this division of RBC; brokerage is also directed through them at the clients' instruction. It is only in this limited capacity that MCC uses an affiliated broker to effect transactions.

### Trade Aggregation

When feasible for discretionary, non-directed clients, we will aggregate orders for the purchase or sale of a particular security for the accounts of several clients as a single transaction in order to seek a lower commission, more advantageous net price or more efficient execution; clients participating in the aggregated order will generally receive the average price. Before placing an aggregated trade, we generally establish a target allocation of securities to be purchased or sold

for each account of all participating clients. If an aggregated order is only partially filled on a day, the securities purchased or sold are generally allocated among the accounts of participating clients on a pro rata basis. If the fill is particularly low, shares are allocated through the use of a “random allocator” function in our order management software. Similarly, if we participate in a new offering, and are granted less than the desired number of shares, shares received are either spread across appropriate accounts on a pro rata basis (if a viable amount of stock is received) or through the “random allocator” function in our trade management system.

In addition to the client directed brokerage arrangements noted above that are unable to participate in the aggregation of orders, there are also certain “special” client accounts, that, due to either their size or a particular situation (e.g. large block of low basis stock), are unable to be aggregated with other client accounts for trading purposes.

Non-discretionary client trades are executed upon the approval of the client. Trades for these accounts are not generally aggregated with discretionary accounts due to the time necessary to obtain the client approval of proposed transactions.

#### Trade Errors

MCC has established trade error correction procedures that require MCC to resolve all trade errors in light of its fiduciary duties. In addition, MCC will maintain a trade error account with certain broker-dealers. These accounts allow for the netting of gains and losses from client trade errors. Any net losses residing in such trade error accounts require reimbursement from MCC; any net gains will accumulate to be used to offset future trade error losses.

### Item 13 – Review of Accounts

MCC reviews accounts frequently based upon matters such as the prevailing market conditions, business conditions, world events, changing interest rates, and changing client circumstances. Client account reviews are performed on an on-going basis by the investment personnel: John Mabie, Edwin Bruere, Lawrence Brottman, Roger Albrecht, Michael Hussey, Brian Campo, and Erik Kratz.

We will send either monthly or quarterly written statements to clients depending on their written instructions. These reports will, at a minimum, include cost, market value and yield information for the portfolio holdings. Asset summaries, as well as income, purchases and sales, and realized gains and losses can be included at the client’s request.

### Item 14 – Client Referrals and Other Compensation

In exchange for commissions generated by discretionary trading activity, MCC receives research services from a variety of brokerage firms. See Item 12 for a description of the services and benefits MCC receives from brokerage firms.



## Item 15 – Custody

MCC does not take physical possession of client funds or securities or act as a qualified custodian for its clients; all clients have separate agreements with unaffiliated qualified custodians that send account statements to them. Clients should receive at least quarterly statements from their broker dealer, bank or other qualified custodian that holds and maintains their investment assets. We urge clients to carefully review such statements and compare such official custodial records to the account statements that we provide. Our statements can vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. We also engage an outside auditor to conduct a surprise annual audit covering appropriate accounts.

- We have “constructive” custody of some client assets through the direct debiting of management fees from client custodial accounts.
- In February of 2017, the Securities and Exchange Commission (“SEC”) issued additional guidance regarding money transfers that we help certain clients facilitate. Given this most recent clarification, Mid-Continent is now deemed “to have custody” for certain additional client accounts. We will continue to follow the guidelines of the SEC Custody regulations in our handling of all client accounts.
- An officer of MCC serves as trustee for a small number of client accounts. The assets are held in accounts at an unaffiliated qualified custodian that sends account statements to the grantor, co-trustees and the MCC officer as trustee or co-trustee.
- In a very small number of circumstances, client assets are held by a related entity, Royal Bank of Canada, which is operationally independent from MCC. We do not share personnel, office space or access to assets with this custodian or any other custodian.

MCC provides investment advisory services only and does not provide the physical safekeeping of client assets, as provided by a qualified custodian

## Item 16 – Investment Discretion

In general, clients hire us on a discretionary basis by executing the appropriate investment management contract with us. MCC will not accept new non-discretionary accounts except those related to existing accounts.

Clients can also impose restrictions on their portfolios as long as they do not impact our overall investment strategy. As examples, clients occasionally ask us to hold low basis stock or have limits on asset classes in balanced portfolios.

When a client hires us on a discretionary basis, we have authority to supervise and direct the investments for the client's account without prior consultation with the client. Pursuant to this discretionary authority, the firm will normally determine which securities are bought and sold for the account, the total amount of such purchases and sales, the brokers or dealers through which transactions will be executed, and the commission rates paid to effect the transactions.

The firm's discretionary authority can be subject to conditions imposed by the client, e.g., when the client restricts or prohibits transactions in certain types of securities or directs that transactions be effected through specific brokers or dealers.

When the client has chosen not to grant us investment discretion, we make recommendations to the client as to which securities are to be bought or sold, and the amounts to be bought or sold. Upon client approval of the recommended transactions, if we have trading authority, we direct the execution of purchase or sale orders to implement the recommendations. In these circumstances, the firm generally has the authority to determine the time and price at which the transactions will be executed, the brokers or dealers through which the transactions will be executed, and the commission rates paid to effect the transactions. As described above with respect to discretionary accounts, the client is able to direct transactions be effected through specific brokers or dealers. If we do not have trading authority, we will nevertheless execute a recommended transaction if requested to do so by the client; otherwise trading decisions remain with those clients.

## Item 17 – Voting Client Securities

We will vote proxies on a best-efforts basis. Periodic reviews are done for Employee Retirement Income Security Act (“ERISA”) accounts to determine that the custodian is sending ballots to our (electronic) proxy vendor; misdirected proxies do not get voted. Some ERISA accounts have instructed us in writing that they will maintain voting responsibility for their proxies. Historically we have also agreed to vote proxies for non-ERISA clients as an accommodation to those clients; however, we are not providing this service to new clients.

Our investment philosophy (across all investment strategies) is predicated on the belief that the quality of management is often a key to the ultimate success or failure of a business. Because we make investments in companies in which we have confidence in management, proxies are generally voted in accordance with management’s recommendation. We can vote a proxy in a manner contrary to management’s recommendation, if, in our judgment, the proposal would not enhance shareholder value. We do not rely on a third-party proxy advisory service for voting decisions. We would instead seek to rely on our equity research analysts to determine whether or not there are circumstances that would require further consideration in voting our shares.

We believe that we are unlikely to be in a situation that results in a material conflict of interest between our clients’ interests and the interest of our firm. However, if a situation should arise where a material conflict of interest is determined to exist, we will make an effort to seek out the opinion of a qualified independent third party regarding this issue. If this situation should occur, it will be documented and resolved in an appropriate manner.

Clients for whom we vote proxies can obtain information about how we voted with respect to their securities by contacting their portfolio manager. Clients can also obtain a copy of our full proxy voting policy and procedures by contacting their portfolio manager.



#### Class Actions

Occasionally, MCC will receive notice with respect to securities held or previously held in client portfolios that have become subject to legal proceedings, including class actions or bankruptcies. Generally, we will not advise or take any action on behalf of clients in any legal proceeding, including bankruptcies or class actions, involving securities held in or formerly held in clients' accounts.

### **Item 18 – Financial Information**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients.