



Dome Building, Suite 401
736 Georgia Avenue
Chattanooga, TN 37402
(423) 424-2299

Tyson Place, Suite 180
2607 Kingston Pike
Knoxville, TN 37919
(865) 330-2525

www.councilmark.com

SEC Form ADV Part 2A

Firm Brochure

March 30, 2019

Item 1 – Cover Page

This Brochure, commonly referred to as Form ADV Part 2A, provides information about the qualifications and business practices of Councilmark Asset Management, LLC (“Councilmark”). If you have any questions about the contents of this Brochure, please contact us at (423) 424-2299 or (865) 330-2525. 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.

Councilmark is a Registered Investment Adviser registered with the Securities and Exchange Commission. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information with which you determine to hire or retain an Adviser.

Additional information about Councilmark also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

No material changes have been made to this Brochure dated March 18, 2019 as compared to our previous Brochure dated March 12, 2018 other than the update in Item 4 regarding the assets under management of the firm. This document constitutes our annual update of our Brochure.

The purpose of this Item is to discuss specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information.

Currently, our Brochure may be requested by contacting Daniel Pettway, Managing Partner at (423) 424-2299 or dpettway@councilmark.com.

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Item 4 – Advisory Business

Councilmark Asset Management was founded in 1999 as an independent, service oriented investment management firm. It is designed for those individuals and organizations seeking focused attention in the structure of long-term investment programs. We provide investment supervisory services on a discretionary and non-discretionary basis to individuals, trusts, corporations, charitable organizations, foundations, financial institutions, and retirement plans. Investments are specifically chosen to meet each client's particular needs and include, among other things, corporate and government bonds, tax-exempt bonds, and various equity securities. Client communication is frequent and an investment report is furnished on a quarterly basis.

Councilmark has offices in Knoxville and Chattanooga, Tennessee. Councilmark's philosophy of service and performance is predicated on open and frequent communications with its clients. Councilmark's only business is managing money for its clients. The only revenue source to the company is the fee paid by clients based on a percentage of the market value of assets under management.

Councilmark does not take custody of any assets or provide brokerage services. Clients of Councilmark select a financial institution to provide custodial, brokerage, and other services that may be required in connection with the portfolio. Through extensive discussions with each client, we work together to establish the client's *Investment Objectives and Policy Guidelines* by which Councilmark manages client assets. Since all client relationships are different and each portfolio is unique, clients may establish restrictions on certain securities or types of securities if desired.

Councilmark's management team consists of Wayne Erwin, Ralph Herbert, and Daniel Pettway. Mr. Pettway and Mr. Erwin control the ownership of the firm.

As of March 18, 2019 Councilmark had assets under management as follows:

Discretionary Assets	\$ 171,774,702
Non-Discretionary Assets	\$ <u>0</u>
Total Assets Under Management:	\$ 171,774,702

Item 5 – Fees and Compensation

Councilmark's only revenue source is the advisory fees paid by clients based on a percentage of the market value of assets under management. Advisory fees are billed and payable at the end of each calendar quarter based on the then current value of the account assets under management. Generally, quarterly billings are delivered to the client's custodian for payment from the client's account under management with a contemporaneous copy submitted to the client for their records. Fees may be negotiable, depending on the particular requirements and circumstances of an account. In certain circumstances, Councilmark may charge a fixed fee for its advisory services.

Our standard fee schedule for advisory services, on an annual basis, is as follows:

1.00% - First \$2 million
0.70% - Next \$3 million
0.50% - Next \$5 million
0.30% - Amount over \$10 million

Minimum Annual Fee - \$10,000

Advisory contracts are subject to cancellation by either party upon 30 days prior written notice with fees prorated through the date of cancellation.

Councilmark's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investments and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Councilmark's fee, and Councilmark shall not receive any portion of these commissions, fees, and costs.

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

Generally, Councilmark does not have accounts for which it charges performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). However, in certain circumstances, Councilmark may enter into performance-based fee arrangements with qualified clients with such fees subject to individualized negotiation. In measuring clients' assets for the calculation of performance-based fees, Councilmark shall include realized and unrealized capital gains and losses. Performance-based fee arrangements could create an incentive for an adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Also, such fee arrangements could create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. In the event performance-based fees are charged on any account, Councilmark shall have procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

Item 7 – Types of Clients

Councilmark provides investment supervisory services on a discretionary and non-discretionary basis to individuals, trusts, corporations, charitable organizations, foundations, financial institutions, and retirement plans.

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

Councilmark applies a fundamental and quantitative approach to selecting and managing investments. We screen public companies for several factors including: returns on capital, cash flow growth, revenue growth, improving earnings, and a reasonable relative P/E to earnings growth ratio. Once that process is complete, our search is narrowed to a collection of prospective investments. We are then able to apply a more subjective screening to the remaining universe. Additionally, we get a clear picture of the broad areas of the market that are attractive. This serves as a guide as to where we place our investment emphasis and research efforts.

At the next level of analysis, we are looking for companies that possess two or more of the following qualities:

- Companies generating positive or improving returns on invested capital (over and above their cost of capital)
- Management that acts in the interests of shareholders (share buybacks or opportunistically managing the balance sheet)
- History of solid capital allocation skills
- A competitive advantage (be it low cost operator, market share dominance, or patent protection)

We realize that no company is perfect and that all companies run into trouble. That is usually where opportunity can be found. The companies that survive our screening typically possess significant

risk/reward characteristics that will serve our clients well in most market environments and provide the foundation for significant future compounding.

Investing in securities involves risk of loss that clients should be prepared to bear.

Item 9 – Disciplinary Information

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Councilmark or the integrity of Councilmark's management. Councilmark has no information applicable to this item.

Item 10 – Other Financial Industry Activities and Affiliations

Registered Investment Advisers are required to disclose all relationships, arrangements, or affiliations material to its advisory business or its clients. Councilmark has no information applicable to this item.

Item 11 – Code of Ethics

Councilmark has established and maintains a comprehensive *Code of Ethics and Standards of Professional Conduct* ("*Code of Ethics*") in order to capture and communicate the standard of conduct and integrity expected of all partners, officers and employees. In addition, the *Code of Ethics* highlights our fiduciary duty to our clients. All employees must acknowledge the terms of the *Code of Ethics* annually, or as amended. Upon request, we are glad to provide to clients and prospective clients a copy of this *Code of Ethics* for your review.

Councilmark and its related persons may, from time to time, purchase or sell securities that are recommended to clients ("common securities"). Any such transactions by its related persons are subject to Councilmark's *Code of Ethics* which is based upon general fiduciary principles, including that at all times the interests of clients will take precedence over personal interests. This policy applies to the purchase and sale of stocks or other securities that are also owned, purchased, or sold by the advisory accounts of clients of Councilmark. The trading accounts of Councilmark's related persons are continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Councilmark and its clients.

A conflict may emerge if an adviser does not place the interest of its clients before its own, including the trading of common securities. For example, a practice known as "front running" can occur if an adviser places trades in advance of client trades in order to obtain more favorable market prices. Councilmark does not partake in such practices and has specific policies and procedures in place to govern the trading of assets by the firm and its related persons with the objective of protecting the interests of the firm's clients. Ultimately, the applicable test is this: does the trade of a common security in the account of a related person in any way negatively impact a client account? If so, the transaction is prohibited. Generally, given the nature of the securities in which we invest client capital, including the significant market capitalization of such securities, it is extremely unlikely that the trading of common securities by persons related to Councilmark would impact the valuation or the price of securities for a client account. Nonetheless, policies and procedures exist to monitor and govern this matter.

Daniel Pettway, a principal of Councilmark, is president and owner of Highpoint Management Company, LLC ("Highpoint"). Highpoint was established in 1997 as a private investment management company. Highpoint often acts as general partner or organizer of limited partnerships and/or limited liability companies for the purpose of affecting investments in private companies or private investment opportunities. Historically, Highpoint has not solicited Councilmark clients for participation in its investments. However, Councilmark, Highpoint, and its principals, may from time to time solicit or

make available to Councilmark clients private investment opportunities where and when appropriate for specific qualified clients. Such clients shall qualify as accredited investors under Regulation D of the Securities and Exchange Commission and such investment opportunities must, in the opinion of Councilmark, be appropriate for such clients. In addition, client education and approval would always precede any such investment made with client funds managed by Councilmark. Councilmark's *Code of Ethics* guides such matters with the emphasis always being on the interests of its clients.

Item 12 – Brokerage Practices

Councilmark does not provide brokerage services nor does it economically benefit, directly or indirectly, from the brokerage activities of its clients. Many clients have established relationships with particular brokers or brokerage firms when they become advisory clients. Clients may use the investment consulting services of brokers and brokerage firms for the purpose of manager evaluation, asset allocation advice, establishment of objectives and risk parameters, performance monitoring, participation in account review meetings and other similar services. In addition, the brokerage firm may also provide custody of client assets. In these circumstances, the negotiation of brokerage fees is typically a matter of negotiation between the client and its broker. The execution costs on such client directed accounts may be higher than would be the case absent client direction.

If a client chooses to direct its brokerage to a broker other than brokers through which Councilmark executes orders for its other clients, the client would forego any benefit from savings on execution costs that Councilmark could obtain for its other clients through, for example, negotiating volume discounts on batched orders. Upon request of a client, Councilmark will negotiate, on behalf of the client, with brokers used by client directed accounts.

If a client or prospective client has no established relationship with a broker, Councilmark may, at the request of the client, recommend a broker to act as custodian of the client's account assets and negotiate a level of brokerage fees based on the services rendered to the client.

Councilmark does employ the aggregation of transactions in its trading practices. The aggregation of transactions is the combination of contemporaneous purchases or sales of securities of several persons for the purpose of execution. It shall be the policy of Councilmark to allocate all aggregated trades to clients at an average price and, if not completely filled, on a pro rata basis.

In the absence of directions from clients, Councilmark endeavors to obtain the best overall execution for each client in each trade. In addition to the level of commissions, factors considered include, among others, the actual handling of the order by the broker, the ability of the broker to settle the trade promptly and accurately, the financial standing of the broker, the ability of the broker dealer to position stock to facilitate execution and other factors that may be unique to a particular broker.

While a lower "per share" commission might be available for any given trade, Councilmark believes that all relevant factors must be considered, rather than just the level of the per share commission. In certain cases, brokerage commissions may also vary with the size of the transaction executed on behalf of particular accounts.

If the foregoing criteria for best execution are met, then a broker's provision of useful research services is viewed as a "plus" factor. Brokers provide research services in the form of research reports on economic trends, industries and individual firms. Councilmark may pay a broker who provides research services commissions that are higher than another broker might have charged, but that ordinarily will not be higher than the generally prevailing rates, if Councilmark determines in good faith that the commissions are reasonable in relation to the research services provided. Any research services provided typically benefit several accounts, rather than only the account for which the order is being executed.

In the absence of instructions to the contrary from the client, Councilmark directs trades through the referring broker. Because a potential for conflict of interest may arise in connection with referrals and directed brokerage practices, Councilmark believes that the best protection it can offer its clients is its basic commitment to the best interests of its clients and its consideration of the factors described in response to Item 12 in directing trades to brokers.

Councilmark does not participate in any “soft dollar” arrangements with brokerage firms. Soft dollar arrangements consist of benefits, such as research, provided to the advisory firm in exchange for trading volume. Conflicts of interest can exist in the presence of soft dollar arrangements.

Item 13 – Review of Accounts

One or more portfolio managers is assigned to each account and it is his (their) responsibility to see that the portfolio is invested in a manner consistent with the particular client's needs as defined by the *Statement of Objectives and Policy Guidelines* approved by the client. Accounts are subject to continual review by the assigned manager(s). Each client portfolio is also reviewed quarterly as part of our quarterly reporting process. This will typically include a written review, oral review, or both.

Factors which will trigger portfolio review include, among others, the decision to add or eliminate a particular investment, to balance gains and losses for tax purposes, to raise or lower cash reserves based on market considerations, to raise cash for distribution to clients at their request, to invest new cash contributions to a portfolio, to alter asset mix as market conditions dictate, and to make adjustments to reflect changes in a client's personal situation or financial circumstances.

Item 14 – Client Referrals and Other Compensation

Councilmark does not pay referral fees to third parties nor does Councilmark receive fees for referrals to third parties. Councilmark's only source of revenue is the fee paid by its clients for services rendered.

Item 15 – Custody

Councilmark does not custody client assets. From the custodian that holds and maintains client's investment assets clients generally receive monthly statements, but should receive statements at least quarterly. Councilmark urges you to carefully review such statements and compare the official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Councilmark generally receives discretionary authority from the client at the outset of an advisory relationship to manage client assets, including the selection of and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives, investment policies, limitations and restrictions for the particular client account, which are defined in the *Statement of Objectives and Policy Guidelines*.

From time to time, Councilmark may also engage in advisory services on a non-discretionary basis. Such non-discretionary arrangements are on a case by case basis and depend on numerous factors to be discussed with such prospective clients.

Item 17 – Voting Client Securities

As part of its fiduciary duty to clients, Councilmark requires that the following procedures for the timely and knowledgeable voting of proxies be implemented. All voting shall be in accordance with the investment interests, stated objectives and preferences of each client and shall be within the discretion of the Firm, unless the Client has instructed the Firm otherwise. Proxy voting shall be duly recorded and monitored.

Item 18 – Financial Information

Registered Investment Advisers are required in this Item to provide you with certain financial information or disclosures about Councilmark's financial condition. Councilmark has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.



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SEC Form ADV Part 2B

Brochure Supplement on Advisory Personnel

March 30, 2020

Item 1 – Cover Page

This Brochure Supplement, commonly referred to as Form ADV Part 2B, provides information about the advisory personnel of Councilmark Asset Management, LLC which supplements the Councilmark brochure (Form ADV Part 2A). You should have received a copy of that brochure. Please contact Daniel Pettway, Managing Partner at (423) 424-2299 or dpettway@councilmark.com if you did not receive Councilmark's brochure (ADV Part 2A) or if you have any questions about the contents of this supplement.

Advisory Personnel:

S. Wayne Erwin

Ralph W. Herbert

Daniel W. Pettway

Additional information about our advisory personnel is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Educational Background and Business Experience

S. Wayne Erwin, Jr., CFA
Partner and Portfolio Manager
Born: May 31, 1971

Educational Background

Hampden-Sydney College, BA Economics, 1993

University of Tennessee, MBA, 1997

Professional Designations

Chartered Financial Analyst

Business Experience

Councilmark Asset Management, LLC (2000-present)

Martin & Company, Inc., Knoxville, TN (1998-1999)
Vice President and Portfolio Manager

Martin & Company, L.P., Knoxville, TN (1996-1998)
Senior Securities Analyst

East Tennessee Distributors West, Knoxville, TN (1995)
Sales Representative

Merrill Lynch, Richmond, VA (1994)
General Assistant

Ralph W. Herbert
Portfolio Manager
Born: September 8, 1955

Educational Background

University of Tennessee, BS Pre-Veterinary Medicine, 1977

FINRA Series 65

Business Experience

Councilmark Asset Management, LLC (2006-present)

Martin & Company, Knoxville, TN (1998-2006)
Vice President and Portfolio Manager

First Tennessee Bank, NA., Knoxville, TN (1989-1998)
Trust Division. Vice President/ Portfolio Manager

Culver Securities, Inc., Knoxville, TN (1987-1988)
Institutional Underwriting

Ralph W. Herbert (*continued*)

First American National Bank, Knoxville, TN (1979-1987)
Investment Officer-Institutional Sales
Capital Markets Division
Branch Manager, Assistant Branch Manager, Loan Collections, Teller

Daniel W. Pettway

Managing Partner

Born: May 26, 1965

Educational Background

Vanderbilt University, BA Economics, 1987

First Union Corporation, Corporate Banking Program, 1988

FINRA Series 65

Business Experience

Councilmark Asset Management, LLC, (1999-present)

Highpoint Management Company, LLC, Chattanooga, TN, (1997-present)
Founder and President

Capital Bank, Ft. Oglethorpe, GA, (1997-present)
Board of Directors

Washington Manufacturing Company, LLC (2001-2007)
Chairman of the Board

4Com Communications, LLC (2000-2004)
Chairman of the Board

Pettway Petroleum, Chattanooga, TN (1993-1997)
President and Treasurer

First Tennessee Bank, N.A., Chattanooga, TN, (1990-1993)
Vice President, Corporate Banking Group

First Union National Bank (1987-1990)
Assistant Vice President, Commercial Banking Group - Columbia, S.C.
Commercial Banking Officer - Charleston, S.C., Hilton Head, S.C.
Corporate Associate - Charlotte, N.C.

Item 3 – Disciplinary Information

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Councilmark or the integrity of Councilmark's advisory personnel. Councilmark and its advisory personnel have no information applicable to this item.

Item 4 – Other Business Activities

Daniel Pettway, a principal of Councilmark, is president and owner of Highpoint Management Company, LLC ("Highpoint"). Highpoint was established in 1997 as a private investment management company. Highpoint often acts as general partner or organizer of limited partnerships and/or limited liability companies for the purpose of affecting investments in private companies or private investment opportunities. Historically, Highpoint has not solicited Councilmark clients for participation in its investments. However, Councilmark, Highpoint, and its principals, may from time to time solicit or make available to Councilmark clients private investment opportunities where and when appropriate for specific qualified clients. Such clients shall qualify as accredited investors under Regulation D of the Securities and Exchange Commission and such investment opportunities must, in the opinion of Councilmark, be appropriate for such clients. In addition, client education and approval would always precede any such investment made with client funds managed by Councilmark. Councilmark's *Code of Ethics* guides such matters with the emphasis always being on the interests of its clients.

Item 5 – Additional Compensation

Councilmark's advisory personnel are prohibited from receiving and do not receive sales awards, prizes, commissions, bonuses, additional compensation or economic benefit of any kind from third-parties. If an exception to this policy should occur, it would be fully disclosed to the client in advance and such client's acknowledgment and approval would be obtained in writing.

Item 6 – Supervision

Given the small size of our firm, Councilmark does not have layers of management bureaucracy. Each advisory personnel is accountable to each other and has committed to and is responsible for conducting himself in a manner consistent with the principals and ethics captured in Councilmark's *Code of Ethics and Standards of Professional Conduct* (a copy of which is available to you upon request). Daniel Pettway acts as the firm's Managing Partner and Chief Compliance Officer. If you have any questions, comments, or complaints along these lines, please contact Daniel Pettway at 423-424-2299 or dpettway@councilmark.com or Wayne Erwin at 865-424-2299 or werwin@councilmark.com.

Definitions

Chartered Financial Analyst

This designation is awarded by the CFA Institute. To qualify for the CFA designation, one must have a minimum of 4 years of qualified work experience and must complete the CFA program which includes the study of three levels of financial and analytical curricula over a three-year period and the passing of three associated examinations to establish mastery of the material. Adherence to a comprehensive code of ethics is also required to be a CFA charterholder. The curriculum, examinations and designation are governed by the CFA Institute. Being a CFA charterholder exempts one from taking the Series 65 exam and satisfies this requirement to qualify as an Investment Advisor Representative in certain states.

FINRA Series 65 – Uniform Investment Adviser Law Examination

This is an exam administered by the Financial Industry Regulatory Authority (FINRA). Completion of the Series 65 Exam is required to qualify as an Investment Advisor Representative in certain states. The exam focuses on topics such as securities laws, portfolio management strategies, fiduciary obligations and retirement planning.