

## **Client Disclosure Brochure for CapAcuity Form ADV, Part 2A**

**March 30, 2020**

This brochure provides information about the qualifications and business practices of CapAcuity, LLC (“the Advisor” or “CapAcuity”). If you have any questions about the contents of this brochure, please contact us at 407-949-6889 or by email at [info@capacuity.com](mailto:info@capacuity.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

CapAcuity is registered with the SEC as an investment advisor. Registration with the SEC or any state securities authority does not imply any level of skill or training. The oral and written communications we provide to you, including this brochure, serve as information for you to use to evaluate CapAcuity, and should be considered in your decision whether to hire us or to continue to maintain a relationship.

Additional information about us is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

CapAcuity, LLC  
300 International Pkwy, #350  
Lake Mary, FL 32746  
407-949-6889  
[info@capacuity.com](mailto:info@capacuity.com)



## **Item 2 Material Changes**

CapAcuity's last update was filed in January 2020. There are no material changes in this filing.

We will provide you with an updated brochure on an annual basis. Should there be any material changes to any of our information in the interim, we will provide you with a summary of these changes within 120 days of the close of our business fiscal year (December 31).

At any time, you may request the most recent version of our Part 2B brochure by contacting us at 407-949-6889 or by emailing us at [info@capacuity.com](mailto:info@capacuity.com).

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## Item 4 Advisory Business

CapAcuity, a limited liability company organized in the state of Florida, was formed in December 2017 and became registered with the SEC in 2018. Peter S. Cahall is the sole owner of CapAcuity.

As used in this brochure, the words “we,” “our,” and “us” refer to CapAcuity, and the words “you,” “your,” and “Client” refer to you as either a client or prospective client of our firm.

### Investment Advisory

CapAcuity provides institutional only, non-discretionary investment advisory services to non-qualified executive retirement plans, defined benefit plans and defined contribution plans. Services are provided pursuant to the terms of the respective investment advisory agreements. Each agreement is customized for the specific plan sponsor’s need.

Generally, the investment advisory activities we provide to Clients include:

- Menu construction
- Asset allocation
- Risk tolerance
- Regular portfolio monitoring, including investment manager selection and ongoing evaluation
- Analysis of fund performance relative to defined benchmarks
- Fund/product (corporate-owned life insurance/COLI) expense analytics
- Tax efficiency analysis (whether funded with COLI, mutual funds, or ETFs)

CapAcuity limits our investment advice to the following securities:

- Mutual funds
- Exchange-traded funds (ETFs)
- Fixed income securities
- Treasury inflation-protected/inflation-linked bonds
- Real estate funds (including REITs)
- Insurance products including:
  - registered variable life insurance
  - private placement variable life insurance
  - general account life insurance

CapAcuity offers the following Total Return Swap (TRS) services:

- Perform financial modeling to evaluate cash flow and P&L impact of deferred compensation plan (DCP) funding and hedging alternatives (mutual funds, COLI, TRS)
- Develop a TRS investment hedge (i.e. the hedge “basket”) designed to be highly correlated with the new plan participant investment menu offering (i.e. the plan liabilities) to minimize asset/liability “tracking error”
- Coordinate with the swap facilitator for the implementation, administration, and reporting of the TRS
- On a monthly basis, monitor and report on the asset/liability correlation/ “tracking error” and re-weight the TRS hedge, as appropriate

CapAcuity also offers consulting and asset management services related to our investment advisory services.

### Consulting

CapAcuity's consulting services provide a thorough analysis of each Client's individual executive benefits plan—its design, competitiveness, investment options, vendor pricing, regulatory compliance, funding and tax efficiency.

CapAcuity analyzes each link in the “executive benefit supply chain,” including the plan's recordkeepers and administrators, trustees and custodians, brokers, fund companies, and insurance carriers. Key components of our supply chain analysis include:

- vendor quality, scope of services, and cost
- performance and cost of participant investment options
- tax impact of plan funding (“tax efficiency”)
- evaluation and cost/benefit of existing funding strategies versus alternatives

Our evaluation results in a comprehensive report that:

- clearly defines the business case and “cost/benefit” for each of the recommended opportunities for supply chain optimization
- prioritizes the action items required to achieve the desired results
- constructs a comprehensive project management plan
- minimizes the amount of disruption experienced by plan sponsors and plan participants during the implementation process

We proactively implement our recommendations with the sponsor's vendors. Our services include:

- drafting new or revised service agreements to define the desired scope of services, service levels (SLAs), and accountability
- negotiating vendor pricing and contracts
- providing ongoing oversight of the supply chain, to ensure conformity to agreed-upon service levels and contracts
- if necessary, conducting a vendor search process to identify alternative providers who better suit a sponsor's needs

### **Asset Management**

At CapAcuity, our asset management services are designed to enhance financial outcomes for executive benefit plan sponsors. Our tax-efficient asset/liability management is designed to optimize correlation of assets and liabilities, while minimizing fund expenses, trading costs, and corporate tax. These are cutting-edge capabilities which CapAcuity has introduced to non-qualified plan asset management. We develop a highly tailored asset management plan unique to each Client designed to meet their specific financial objectives.

There are four main components to our asset management services:

- a proprietary approach to daily asset/liability management designed to optimize asset/liability correlation
- minimizing taxes and creating “tax alpha” through tax optimization
- managing funding and hedging strategies to enhance financial performance
- enabling plan sponsors to continue to meet their objectives based on our ongoing monitoring, reporting and analytics

### **Wrap Fee Programs**

We do not participate in wrap fee programs.

### **Assets Managed**

We manage \$1,949,935,449 on a non-discretionary basis as of January 30, 2020.

## Item 5 Fees and Compensation

Our compensation is exclusively fee based, disclosed, and paid directly or indirectly by the Client. Our fee structures fall into the following two categories:

- a) fixed or asset-based fees
- b) asset-based product compensation

Based on the specific project, fees may be fixed or asset-based. Fees, compensation, and payment terms are negotiable and are documented in each respective investment advisory agreement prior to the beginning of the engagement. Fixed project fees are paid in part at the beginning of a project, with the balance paid at project completion.

Asset based fees are calculated as a percentage of total assets under management (or plan liabilities) which are generally paid quarterly, in advance. We do not deduct fees from Client or plan accounts. When calculating total assets under management (or plan liabilities, if applicable) and determining the market value of the assets, we consider the balance as of the last business day of the month end prior to the billing period, after taking into account deposits and withdrawals.

Generally, you may terminate the advisory agreement in accordance with the termination provision in the agreement, as negotiated on a client-by-client basis. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will become due and payable. Such fees are prorated based on the number of days left in the billing or project period.

You are responsible for the payment of all third-party fees (i.e. custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.). Those fees are separate and distinct from the fees and expenses charged by CapAcuity. Please see Item 12 of this brochure regarding brokerage practices.

Certain CapAcuity associates are also affiliated with CapAcuity Securities, Inc (the Broker-Dealer) and in their affiliation with the Broker-Dealer, associates accept compensation for the sale of investment products, including commissions, asset-based fees, service fees, marketing fees and the reimbursement of expenses incurred in evaluating an investment. This practice may create a conflict of interest providing an incentive to recommend investment products based on the compensation received.

Additionally, where CapAcuity Securities Inc. serves as the broker of record, CapAcuity Securities Inc. may receive certain asset-based service fees which are derived from certain variable COLI. These fees are be paid to CapAcuity Securities Inc. to offset costs related to the ongoing service and administration of the COLI policies.

In circumstances where there is a CapAcuity investment advisory and administrative services agreement between a client and CapAcuity, clients may direct CapAcuity Securities Inc. to allocate asset-based COLI compensation from CapAcuity Securities Inc. to CapAcuity to cover investment advisory and administrative service fees associated with CapAcuity's role as a registered investment advisor, in an effort to mitigate any potential or actual conflicts of interest.

Note that there are circumstances where CapAcuity clients may have multiple engagements with our affiliates, and the affiliates may receive compensation for services provided that are unrelated to the investment advice provided by CapAcuity; in those instances, advisory fees are not offset. For example, you may engage our affiliates for non-advisory services such as supply chain management reviews, vendor benchmarking, funding optimization and risk management.

Clients always have the option to purchase CapAcuity-recommended products through other brokers or agents who are not affiliated with us.

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

CapAcuity does not currently charge performance-based fees or fees based on a share of capital gains or capital appreciation of Client assets.

## Item 7 Types of Clients

CapAcuity provides institutional only non-discretionary investment advisory and consulting services to sponsors of non-qualified executive retirement plans, defined benefit plans and defined contribution plans. There is no minimum account size or other predetermined account requirement.

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

### Methods of Analysis and Investment Strategies

CapAcuity's methods of analysis include modern portfolio theory and quantitative analysis:

- **Modern portfolio theory** is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various assets.
- **Quantitative analysis** deals with measurable factors such as the value of assets, the cost of capital, historical projections of sales, and so on. Qualitative analysis considers qualitative considerations such as the quality and performance of management or the state of employee morale, employee turnover, competitive and market conditions, etc.

CapAcuity's strategies are focused on long-term funding/hedging of non-qualified executive benefit plan liabilities and take into account correlation to benefit liabilities.

CapAcuity creates a proprietary, quantitative hedge "scorecard" to determine which fund has historically demonstrated optimal hedge efficiency to the respective fund in the plan. The scorecard incorporates a variety of statistical factors, including:  $R^2$ , tracking error, excess return, residual standard deviation, beta, and expense ratio.

### Risk of Loss

All investing involves a risk of loss that Clients should be prepared to bear. Securities investments can be affected by liquidity and volatility in the securities markets, often driven by adverse changes in the national and international economies, as well as by non-economic events. CapAcuity cannot give any guarantee that it, or any investment advice or strategy, will achieve a Client's investment objectives.

The following is a summary description of the principal risks of investing. Any decisions to invest should take into account that CapAcuity may recommend a wide range of investments that may be subject to a wide variety of related risks, which can be substantial. Please refer to the offering memorandum, prospectus and other supplement documents of the securities recommended by CapAcuity for a list of specific risk factors.



**General economic and market conditions:** The success of CapAcuity's investment advisory strategies will be affected by general economic and market conditions, such as: 1) Availability of credit 2) Credit defaults 3) Inflation rates 4) Economic uncertainty 5) Changes in laws 6) Trade barriers 7) Currency exchange controls 8) National and international political circumstances.

**Equity:** Investment generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

**Fixed income:** Investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities. The fixed income market can be volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation-linked bonds is dependent upon the U.S. Treasury defaulting (which is unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal. Risks of investing in foreign fixed income securities also include the general risk of non-U.S. investing described below.

**Real estate funds (including REITs):** Several kinds of risk are inherent in the real estate sector, which historically has experienced significant fluctuations and cycles in performance. Revenues and cash flows may be adversely affected by: changes in local real estate market conditions due to changes in national or local economic conditions or changes in local property market characteristics; competition from other properties offering the same or similar services; changes in interest rates and in the state of the debt and equity credit markets; the ongoing need for capital improvements; changes in real estate tax rates and other operating expenses; adverse changes in governmental rules and fiscal policies; adverse changes in zoning laws; the impact of present or future environmental legislation and compliance with environmental laws.

**Mutual funds and exchange-traded funds (ETFs):** Investing in mutual funds carries the risk of capital loss and thus Clients may lose money investing in mutual funds. All mutual funds have costs that lower investment returns. Mutual funds are available in a wide array of asset classes. An ETF is an investment fund similar to a mutual fund but traded on stock exchanges, similar to stocks. Investing in ETFs carries the risk of capital loss.

**Private placements:** These pose substantial risk as they are subject to less regulation than are publicly offered securities. The market to resell these assets under applicable securities laws may be limited, due to restrictions, and the liquidation may be taken at a substantial discount to the underlying value or result in the entire loss of the value of such assets.

**Long term trading:** This is designed to capture market rates of both return and risk. Due to its nature, a long-term investment strategy can expose Clients to various types of risk that will typically surface at various intervals during the time the Client owns the investments. These risks include, but are not limited to, inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

**Quantitative analysis:** Investment strategies using quantitative models may perform differently than expected as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction and implementation of the models.

**Cybersecurity risks:** As the use of technology has become more prevalent in the course of business, investment accounts have become more susceptible to operational and information security risks resulting from breaches in cyber security. A breach in cyber security refers to both intentional and unintentional cyber events that may, among other things, cause an investment account to lose proprietary information, suffer data corruption and/or destruction or lose operational capacity, result in the unauthorized release or other misuse of confidential information, or otherwise disrupt normal business operations. Cyber security breaches may involve unauthorized access to an investment account's digital information systems (e.g., through "hacking" or malicious software coding), but may also result from outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to intended users).

In addition, cyber security breaches involving an investment account's third-party service providers (including but not limited to advisors, sub-advisors, administrators, transfer agents, custodians, distributors and other third parties), trading counterparties or issuers in which an investment account invests in can also subject to many of the same risks associated with direct cyber security breaches. Moreover, cyber security breaches involving trading counterparties or issuers in which an investment account invests could adversely impact such counterparties or issuers and cause an investment account's investment to lose value. Cyber security failures or breaches may result in financial losses to an investment account. These failures or breaches may also result in disruptions to business operations, potentially resulting in financial losses; impediments to trading; violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage; reimbursement or other compensation costs; additional compliance and cyber security risk management costs and other adverse consequences.

CapAcuity has an established business continuity plan and risk management system designed to reduce the risks associated with cyber security breaches. However, there are inherent limitations to the plan and system, including that certain risks may not have been identified, in large part because different or unknown threats may emerge in the future. As such, there is no guarantee that such efforts will succeed, especially because CapAcuity does not directly control the cyber security systems of issuers, trading counterparties, or third-party service providers. There is also a risk that cyber security breaches may not be detected.

## Item 9 Disciplinary Information

There are no legal or disciplinary events that are material to a current or a prospective Client's evaluation of CapAcuity's investment advisory business or the integrity of its management.

## Item 10 Other Financial Industry Activities and Affiliations

The Advisor is affiliated with CapAcuity Securities, Inc. (formerly known as Johnson Securities Inc.), a broker-dealer registered with the SEC and FINRA. Under its FINRA Membership Agreement, CapAcuity Securities Inc., is authorized to provide various broker-dealer services, including variable life insurance sales and service. Certain officers, other employees or investment advisor representatives of the Advisor are registered with CapAcuity Securities, Inc. as registered representatives and as insurance agents or brokers.

On August 30, 2019, the assets of Westport Strategies Advisors, LLC ("Westport"), an investment advisory firm in Boston, Massachusetts were acquired by CapAcuity Consulting, LLC. Clients of Westport were notified of the transaction and acknowledged the ownership change of Westport in a letter dated July 1, 2019. CapAcuity Consulting, LLC and CapAcuity, LLC share common ownership. CapAcuity and Westport combined advise and manage more than \$3.6 billion of client assets.

It is expected that certain investment advisory representatives will be dually registered with Westport, CapAcuity and CapAcuity Securities, Inc. It is also expected that CapAcuity and CapAcuity Securities, Inc will provide services to certain of Westport's existing Clients.

Clients should be aware that certain broker-dealer and insurance activities pay commissions or other compensation. This practice may create a conflict of interest providing an incentive to recommend investment products based on compensation received. For more information on how clients may direct certain compensation received by the Broker-Dealer to CapAcuity, please see Item 5.

Clients may engage advisor affiliates for non-advisory services such as supply chain management reviews, vendor benchmarking, funding optimization and risk management. Advisor may have a conflict of interest to the extent that one or more of its affiliates has an opportunity to earn a fee from non-advisory services provided to a Client.

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

As required by the Advisers Act, CapAcuity has a written Code of Ethics that governs a number of potential conflicts of interest that exist when providing advisory services, which include: the following areas: prohibited purchases and sales, insider trading, personal securities transactions, exempted transactions, prohibited activities, conflicts of interest, gifts and entertainment, confidentiality, service on a board of directors, compliance procedures, compliance with laws and regulations, procedures and reporting, certification of compliance, reporting violations, compliance officer duties, training and education, recordkeeping, annual review, and sanctions.

The Code of Ethics is designed to enable CapAcuity to meet its fiduciary obligations to Clients, instill a culture of compliance within CapAcuity and prevent violations of securities laws. CapAcuity's Code of Ethics is available free upon request to any Client or prospective Client. The Code of Ethics is provided to employees at the time of hiring and annually thereafter upon material changes being made to the Code of Ethics. Employee activity is monitored on an ongoing basis, and employees are required to certify their compliance with the Code on an annual basis.

CapAcuity does not recommend that Clients buy or sell any security in which a related person to CapAcuity or CapAcuity itself has a material financial interest.

## **Item 12 Brokerage Practices**

As a result of our business model, we do not receive soft dollars, we do not refer broker-dealers for a fee, and we do not require Clients to execute trades through CapAcuity or its affiliates.

### **Item 13 Review of Accounts**

For our investment advisory Clients, we will determine the nature and frequency of Client reporting and account reviews with each Client. Generally, accounts where advice is provided on an ongoing basis are reviewed at least quarterly by CapAcuity's Investment Committee, with attention to the Client's investment policy and overall objectives. The Committee provides a written report of the previous quarter's performance. Additional reviews may be triggered by material market, economic or political events, or by changes in Client's financial situation—primarily changes to the participant liabilities that the account is attempting to hedge. The Committee consists of Peter Cahall (Chief Executive Officer), Mendel Melzer (Chief Investment Officer), and Robert Little (Director of Investment Research).

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

CapAcuity does not receive any economic benefit, directly or indirectly from any third-party for advice rendered to CapAcuity's Clients.

CapAcuity may enter into written arrangements with third parties to act as solicitors for CapAcuity's investment advisory and consulting services. Solicitor relationships will be fully disclosed to each Client to the extent required by applicable law. CapAcuity will ensure each solicitor is exempt, notice filed, or properly registered in all appropriate jurisdictions. All such referral activities will be conducted in accordance with Rule 206(4)-3 under the Advisers Act, where applicable.

### **Item 15 Custody**

CapAcuity does not have physical custody of Client assets; all assets are held by qualified third-party custodians. Clients will receive periodic asset statements from the qualified custodian. CapAcuity urges Clients to carefully review custodial statements and to compare the performance reports that CapAcuity provides to Clients to the official custodial records, noting some variations may be due to asset reporting dates, accounting procedures, or valuation methodologies.

### **Item 16 Investment Discretion**

Currently, CapAcuity provides non-discretionary investment advisory services to Clients. In instances where CapAcuity may have discretion in the future, that discretion is limited to the guidelines established by the Client pursuant to the advisory agreement.

### **Item 17 Voting Client Securities**

CapAcuity does not have the authority to vote Client proxies for and therefore it does not currently vote Client proxies.

## **Item 18 Financial Information**

CapAcuity neither requires nor solicits prepayment of more than \$1,200 in fees per Client, six months or more in advance. Neither CapAcuity nor its management has any financial condition that is likely to reasonably impair CapAcuity's ability to meet contractual commitments to Clients. CapAcuity has not been the subject of a bankruptcy petition in the past 10 years.

CapAcuity, LLC  
300 International Pkwy, #350  
Lake Mary, FL 32746  
407-949-6889