



**Weaver C. Barksdale & Associates, Inc.**

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## **ADV Part 2**

# **Disclosure Brochure**

**March 30, 2020**

This brochure provides information about the qualifications and business practices of Weaver C. Barksdale & Associates, Inc. ("WCB"). If you have any questions about the contents of this Brochure, please contact us at (615) 665-1085. 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.

WCB is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about WCB also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## Material Changes

Below is the material change to our brochure since our last updates of March 15 and September 3, 2019:

1. In the advisory business section we have disclosed a dual contract relationship with some equity portfolios.
2. James F. Murphy has replaced Deborah Slocum as Chief Compliance Officer due to Ms. Slocum's retirement.
3. Fees for both Fixed Income and Equity portfolios have been reduced
4. Account minimums have been reduced to \$1,000,000 for fixed income portfolios and \$500,000 for equity accounts.

Our brochure can be requested by contacting James F. Murphy, CCO at (615) 724-2106 or [jmurphy@wcbarksdale.com](mailto:jmurphy@wcbarksdale.com). We will provide you with a copy of this brochure at any time without charge.

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## Item 4: Advisory Business

Weaver C. Barksdale & Associates, Inc. (“WCB”, the “firm”, “we” or “our”) is a “registered investment adviser” under the Investment Advisers Act of 1940.

WCB, based in Nashville, Tennessee, markets its investment capabilities nationwide. The firm was founded in December 1984, and is structured as a professional C-type corporation.

The heritage and culture of the firm dates back to 1974 when our founder, Weaver C. Barksdale, worked at Commerce Union Bank (now a part of Bank of America). The firm began with \$347 million in assets under management, which were subject to a revenue sharing arrangement with Commerce Union Bank. Through that arrangement, Mr. Barksdale purchased the client relationships from the bank. WCB is 100% owned and operated by current or former employees.

WCB is primarily an institutional money management firm specializing in tailoring portfolios to the client’s requirements. For each account, individual securities are purchased to create a unique portfolio using the client’s own guidelines, risk tolerances, liquidity needs and investment restrictions. This method differentiates us from the “one size fits all” approach of mutual funds. It is

for this reason that clients are responsible for promptly notifying the firm in writing of any material changes to the client's financial situation, investment objectives, time horizon, tax status, risk tolerance or other material information that WCB relies upon in rendering its services. WCB will not assume any responsibility for the accuracy of the information provided by the client.

As of December 31, 2020, the firm managed just over \$3.8 billion in client assets, on a discretionary basis and over \$15 million on a non-discretionary basis.

We offer our investment management services on a discretionary basis to clients seeking:

### **Fixed Income (both taxable & tax-exempt)**

#### **Investment Grade**

- **Core Aggregate**
- **Intermediate**
- **Short Duration**
- **Cash**

#### **High Yield**

### **Equity**

#### **Diversified Value**

### **Balanced management (a combination of fixed income and equity strategies).**

*For information regarding these strategies, please contact Ron Partain at (615) 665-1085 or at [RPartain@WCBarksdale.com](mailto:RPartain@WCBarksdale.com)*

**Fixed Income Portfolios** are generally constructed by employing a three-step process:

1. Yield Enhancement with an emphasis on bond market sectors such as corporate and mortgage-backed securities;
2. Valuation Analysis includes:
  - a.) corporate bond selection,
  - b.) yield curve positioning, and
  - c.) mortgage security selection;
3. Maturity & Risk Level Management whereby the durations of portfolios are adjusted generally within 10% of the duration of each client's specified benchmark based on proprietary models and other research used to forecast economic and interest rate trends.

**Equity Portfolios** are constructed generally using publicly traded U.S. companies and American depositary receipts that are generally included in the portfolio's comparable index, such as the Standard & Poor's 500 or Russell Value 1000, for example.

Our investment strategies are proprietary and based on quantitative and qualitative fundamental analysis of companies, driven by strong income and balance sheet data, as well as other portfolio management techniques. Because the stocks are selected

from a group of U.S. publicly traded companies, they are well known entities and afford substantial market liquidity.

WCB has a relationship with another Investor Advisor who serves as a financial intermediary between their equity holding clients and WCB (known as a "dual contract" arrangement).

**Balanced Portfolios** consist of a combination of our equity and fixed income techniques with the relative commitment to each asset class being dependent on an assessment of each client's income needs and risk tolerance level.

WCB customizes portfolios to meet the specific risk tolerance and guidelines of each client's portfolio. While the same disciplined investment process is utilized to manage several individual portfolios requiring a certain style, each portfolio is constructed and managed according to the needs of the client. Portfolios are designed to meet each client's specific requirements for liquidity, credit quality, duration, etc. From time to time, an account's guidelines will change at the initiation of the client, its consultant or the portfolio manager.

Our portfolio management team employs a variety of investment styles, which will differ based on a range of factors including, but not limited to, risk profiles, benchmarks, tax

considerations, liquidity needs, time horizons, durations, sector concentrations, and capitalization ranges. Our portfolio management team customizes client portfolios within the same style because of the client's specific guidelines and how the management team adapts those guidelines to market constraints at any given time. At times, the managers' decisions reflect an assessment of the suitability of the particular security for a specific client. Such decisions result in different investment returns between investment styles and among accounts managed by the same portfolio manager.

Our goals are strictly aligned with those of our clients. Our only source of income is from fees charged for active portfolio management. In addition to providing investment management services, one client has asked us to serve as a consultant.

WCB requires all employees who render investment advice to have obtained an undergraduate degree and a master's degree in economics, finance or business and/or enrollment in the Chartered Financial Analysts ("CFA") program. The Board of Directors, at its discretion can waive the educational requirements or CFA enrollment if a prospective employee has sufficient experience to warrant such an exception.

We do not provide investment banking or broker-dealer services and we do not maintain any arrangements or engage in other types of activity, other than as discussed in this brochure, which might create a conflict of interest.

WCB does not provide services to any wrap-fee program.

### **Item 5: Fees and Compensation**

We offer our services on a fee-only basis. We do not receive commissions or mark-ups or mark-downs on securities that we purchase and sell for client account(s). Either a client or the firm can terminate an Advisory Agreement without penalty upon at least 30 days written notice.

On accounts contracted prior to May 1, 2018, our fee is calculated based on the total market value of the assets in the client's account on the last day of the quarter (based on trade date), unless stated otherwise in the client's Advisory Agreement.

On accounts contracted after May 1, 2018, our fee is calculated based on the average daily balance of the fair market value of the assets in the client's account as of the last business day of each calendar quarter (based on trade date), unless stated otherwise in the client's Advisory Agreement.

The market value of the client's account is determined by our Client's Custodian prices

retrieved thru Clearwater Analytics, LLC. Fees are billed on a quarterly basis in arrears. If the Advisory Agreement is not in-force for a full quarter, the fee for such partial quarter is prorated based on the number of calendar days of the calendar quarter the Advisory Agreement is in effect.

In some cases, we receive our quarterly fee directly from the client's custodial account. In order for the client's custodian to debit the account for the amount of our quarterly fee, the client must give us authorization in writing either in the Advisory Agreement or by a separate document. We send a quarterly invoice to each client (and/or its representative) that includes the value of the client's assets, our management fee, and how the fee is calculated. The custodian also provides statements that show the amount paid directly to us, if taken from the account. Clients are advised to compare our invoice to the custodial statement and verify the calculation of the fee. In the case of a small number of clients for whom Regions Bank serves as the custodian, we charge the client a slightly higher management fee and pay the custodial fee directly to Regions Bank.

Below are our stated investment management fee schedules:

#### **Fixed Income**

##### **Investment Grade**

- 0.25 of 1% on the first \$10 million in assets

- 0.23 of 1% on the next \$15 million in assets
- Negotiable on market values in excess of \$25 million

##### **High-Yield**

- 0.5 of 1% of assets under management

#### **Equity and Balanced**

- 0.60 of 1% on the first \$10 million in assets
- 0.50 of 1% on the next \$15 million in assets
- 0.40 of 1% on the next \$25 million in assets
- 0.30 of 1% on the next \$50 million in assets

#### **Equity Performance Fee**

- 0.10 of 1% on assets under management plus
- 25% of performance above that of the benchmark

WCB generally requires a minimum market value for assets under management of \$1 million for investment grade fixed income accounts. For equity accounts, there is a \$500,000 minimum. We, at our sole discretion, can accept clients with smaller portfolios based upon certain factors including anticipated future earning capacity, anticipated future additional assets, account composition, related accounts and pre-existing client relationships. We, at our sole discretion, can negotiate fees based on a variety of factors, such as size of account, the complexity of client guidelines and risk

tolerances, servicing requirements and geographical location. Employees investing in seed accounts will not pay a fee. Our Board of Directors considers each of these special circumstances on a case by case basis.

In addition to our fee, a client will be required to pay its custodian other charges including:

- custodial fees;
- brokerage commissions;
- mark-ups and mark-downs;
- transaction fees;
- internal fees and expenses charged by exchange traded funds (“ETFs”); and
- other fees and taxes on brokerage accounts and securities transactions.

### **Item 6: Performance-Based Fees & Side-by-Side Management**

Currently, we do not manage any performance-based accounts. However, a performance-based fee could be adopted if agreed to by the client and WCB. The client is advised that a performance fee can create an incentive for the adviser to make riskier or more speculative investments than would be the case under other fee arrangements.

WCB employs the same strategy for clients who have similar investment objectives. However, each client’s portfolio will differ in holdings and allocations as a result of differing asset levels, investment policy

guidelines, restrictions imposed by the client or client distributions and/or contributions to the portfolio. See also Item 4. Accounts within the same investment style will also differ as a result of client distributions and/or contributions.

We maintain policies to guard against favoring one account over another and use several backward-looking analyses of the trading in each client’s portfolio including maturity and duration analysis, sector testing, pricing, credit quality studies, in addition to a performance analysis.

### **Item 7: Types of Clients**

We provide investment management services for employee benefit plans, healthcare entities, insurance companies, charitable organizations, state and local governing bodies, associations, corporations, other investor advisors and a few high net-worth individuals. We manage these portfolios in accordance with each client's objectives. WCB generally requires a minimum market value for assets under management as discussed in Item 5.

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

We offer a range of fixed income, equity and balanced investment strategies. Some investment portfolios are managed relative to a benchmark while others are managed to



achieve an absolute return. These strategies are described below:

### **Methods of Analysis**

In assessing the securities to be included in a client portfolio, WCB's primary analytical focus is on the securities' fundamentals using both quantitative and qualitative techniques. WCB relies heavily on its many proprietary research models but also utilizes outside research reports and rating services. Please refer to Item 4 for important information related to our portfolio strategies. Note: Investing in securities involves risk of loss that clients should be prepared to bear.

### **Investment Strategies**

Our investment strategies include long-term, intermediate and/or short-term purchases based on the client's objectives and guidelines, which can be changed at any time. Clients can place reasonable restrictions on the strategies to be employed and the types of investments to be held in their accounts. It is important for the client to remember to update us with any changes in investment objectives and guidelines. Although we manage the client's assets in a manner consistent with the client's risk tolerance, there can be no guarantee that our efforts will be successful. Clients should be prepared to bear the risk of loss.

### **Risk of Loss**

All investment strategies involve the risk of loss and there is no guarantee that any investment strategy will meet its objective. Our portfolio managers constantly keep in mind the risk of loss. Depending on the type of strategy the client is invested in, the client can face the following risks:

- **Business Risk:** Risk associated with economic, industry and financial circumstances that could affect the price of a company's securities.
- **Call Risk:** The cash flow risk resulting from the possibility that a callable bond will be redeemed before maturity. A bond that is called by an issuer must be redeemed by the bondholder, usually so that the issuer can issue new bonds at a lower interest rate. This forces the investor to reinvest the principal sooner than expected, possibly at a lower interest rate.
- **Credit Risk:** Risk resulting in loss of principal or loss of interest payments or dividends stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. Investors are compensated for assuming credit risk through interest payments from the issuer of a debt obligation.

- **Default Risk:** The risk that a bond issuer will default by failing to repay principal and interest in a timely manner. Bonds issued by the U.S. government or a U.S. government agency historically have not defaulted, although there can be no guarantee that a default will not occur in the future. Bonds issued by corporations are more likely to default than bonds issued by the federal government or a municipal issuer because of insufficient cash flow to make interest and principal payments or the potential for insolvency. Municipalities occasionally default, although historically, this has been an infrequent occurrence.
- **Diversification Risk:** Concentrating investments in one or a few industries or sectors can involve more risk than more diversified investments, including the potential for greater volatility. Selecting diverse investments with different rates of return could offset losses in one area with gains in another.
- **Economic Risk:** In financing a project, the risk that the project's output will not generate sufficient revenues to cover operating costs and to repay debt obligations.
- **Financial Risk:** Excessive borrowing to finance business operations puts a company's profitability at risk because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations can result in default, bankruptcy and/or a declining market value.
- **Fixed Income Risks:** Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risks, default risks, credit risks and market risks, which could reduce the yield that an investor receives from his or her portfolio. These risks can occur from fluctuations in interest rates, a change to an issuer's individual condition or industry, or events in financial markets.
- **High-Yield Fixed-Income Securities Risk:** Investments in high-yield rated bonds involve higher risk than investment grade bonds because of higher volatility and a greater risk of default. Adverse conditions can affect the issuer's ability to make timely interest and principal payments on these securities.
- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today because purchasing power is eroding at the rate of inflation.
- **Interest-Rate Risk:** Interest rate risk affects the value of bonds more directly than that of stocks. As interest rates rise,

bond prices fall, and, when interest rates decrease, bond prices rise. Similarly, as interest rates fluctuate, stocks can become a more or less attractive alternative relative to bonds.

- **Investment Risk:** Investment Risk is the probability that an actual return on an investment will be lower than the investor's expectations. All investments have some level of risk associated with them due to the unpredictability of the market's direction.
- **Liquidity Risk:** When consistent with a client's investment objectives, guidelines, restrictions and risk tolerances, we can invest a portion of a client's portfolio in illiquid securities, subject to applicable investment standards. Investing in an illiquid, or difficult to trade, security could restrict our ability to dispose of an investment in a timely fashion, if at all, or at an advantageous price, which can limit the ability to take full advantage of market opportunities.
- **Market Risk:** The price of a security can drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions can trigger adverse market events.

- **Principal Risk:** The risk of losing the amount invested due to bankruptcy or default. There is always the possibility that, through some set of circumstances, the principal amount of money invested will lose value or be lost completely. In such case, principal is lost in addition to a share of future profits.
- **Reinvestment Risk:** The risk that future proceeds from investments can be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Small/Mid-Cap Risk:** Stocks of small (market capitalization of between \$300 million and \$2 billion) or mid-cap (market capitalization of between \$2 and \$10 billion) companies can have less liquidity than those of larger (market capitalization greater than \$10 billion), established companies and could be subject to greater price volatility and risk than the overall stock market.

## Item 9: Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. We have no reportable disciplinary events to disclose.

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

WCB endeavors at all times to put the interests of their clients first, and recommendations will only be made to the extent that they are reasonably believed to be suitable and in the best interests of the client. Additionally, material conflicts are disclosed to clients at the time of entering into any new advisory arrangement.

On March 5, 2019, WCB entered into a Bilateral Sub-Advisory Relationship with PriCap Advisors, LLC for joint management of the High Yield Short Duration Strategy. Each advisor will provide research and advisory services to each other for those clients opting for the High Yield strategy portfolios.

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

The Code of Ethics sets forth the professional behavior which must be followed by all WCB employees (access persons), including WCB's senior management. Our Code focuses primarily on fiduciary duty, conflicts of interest, insider trading, personal securities transactions along with their reporting, gifts and entertainment, political contributions, charitable donations, confidentiality and outside business interests.

All WCB employees must comply with and affirm their understanding of the terms of our Code of Ethics, in writing, upon employment and at least annually.

A copy of WCB's Code of Ethics is available upon request.

### **Fiduciary Duty**

The Code includes our policies and procedures in connection with our fiduciary obligations to our clients and requires that we:

- Act in a professional and ethical manner at all times;
- Act for the benefit of clients;
- Act with independence and objectivity;
- Act with skill, competence and diligence;
- Communicate with clients in a timely and accurate manner; and
- Uphold the applicable rules governing capital markets.

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### **Conflicts of Interest**

Fiduciary responsibility by an adviser includes, but is not limited to, the duty to disclose material facts that might influence an investor's decision to purchase or refrain from purchasing a security recommended by the adviser or from engaging the adviser to manage the client's investments. An

investment adviser should not engage in fraudulent, deceptive, or manipulative conduct, which includes an obligation to disclose material facts to clients whenever the failure to disclose such facts might cause financial harm. An adviser's duty to disclose material facts is particularly important whenever the advice provided to clients involves a conflict or potential conflict of interest between the employees of the adviser and its clients. We are aware that there could be conflicts of interest when our employees engage in business activities away from the firm. We require our employees to disclose any possible conflicts of interest and, in addition, we monitor and assess for any possible conflicts.

We are aware and have considered that two family members of one of our cash solicitors are affiliated with two of our clients: one is employed by two separate clients and one serves on the Board of Directors of a client. The arrangement is reviewed by our senior management and compliance team on a periodic basis.

### **Insider Trading**

Our Code of Ethics mandates that WCB be in total compliance with The Insider Trading and Securities Fraud Enforcement Act of 1988. To accomplish this mandate, WCB has adopted a firm wide policy statement outlining insider trading compliance for

WCB and its employees. Our policy prohibiting insider trading is distributed at the point of hire and annually thereafter, and is signed and dated by each WCB associated person.

### **Personal Securities Transactions**

Our employees can engage in personal securities transactions as long as they report all personal trades for themselves and their household each quarter. Our Chief Compliance Officer tests these trades against client trades to make certain that employees do not receive a better price than clients and for compliance with our insider trading policy.

Personal securities transactions could raise potential conflicts of interest when such trades involve a security that is (1) owned by a client or (2) considered for purchase or sale for a client. Employees who wish to purchase or sell securities of the types purchased or sold for clients can do so as long as the trades are reported and do not violate the blackout period. Our blackout period is 1 day following the completion of a trade of the same security for a client's account with exceptions. There is no blackout period for equity securities with a market cap of \$3 billion or more or ETF's with a market cap of \$1 billion or more. Another exception is an employee who has an account with WCB, and the trade is executed in a block trade with other clients with all getting the same

price. The second exception is if this policy is in direct conflict with the contractual agreement of an investment advisory client.

### **Gifts and Entertainment**

A conflict of interest occurs when an employee's personal interest interferes with his/her responsibilities to the firm and our clients. It is our firm's policy that an employee should not offer or accept inappropriate gifts, favors, entertainment, special accommodations, or other things of material value that could influence their decision-making or make them feel beholden to a person or firm.

### **Political Contributions**

Several employees of WCB are involved in cultural, civic, philanthropic, and political activities. Historically both WCB and its covered associates have made contributions to political campaigns and political parties and it is expected that such contributions will continue in the future. Therefore, the Firm has adopted a *de minimis* contribution policy pursuant to the exceptions outlined under Rule 206(4)-5(b) of the Advisers Act, which policy permits covered associates of WCB to contribute \$350 per election to a candidate or an official for whom the covered associate is entitled to vote, and \$150 per election to a candidate or an official for whom the covered associate is not entitled to vote. In order to make a contribution over the *de*

*minimis* amount, a covered associate can request the prior approval of the firm by submitting a request form to the CCO. The CCO will review and evaluate each contribution request to determine whether the contribution can be made. Under our policy, covered associates are required to report all contributions on a quarterly basis. Please contact us directly for more information about our political contributions policy.

### **Charitable Contributions**

From time to time, we donate to charitable organizations that are clients, supported by clients, and/or supported by an individual employed by one of our clients. In general, these donations are made in response to requests from clients or their personnel and are approved by our senior staff members.

## **Item 12: Brokerage Practices**

We have discretionary authority to (a) buy, sell, exchange, convert or otherwise trade in any approved securities and (b) place orders for the execution of such securities transactions with or through such brokers-dealers that we select, subject to the terms of the client's advisory agreement, stated guidelines and objectives (investment policy statement) and directives.



### **Research and Other Soft Dollars Benefits**

We estimate that approximately 75% of the investment research used by the firm is internally generated. The remaining 25% of research products are provided by highly specialized, independent (non-brokerage related) research and service firms for which we pay cash.

WCB does not have any soft dollar arrangements. We do not use client mark-ups or mark-downs to obtain fixed income research or other services, nor do we cause the clients to pay higher commissions or mark-ups or mark-downs than those charged by other broker-dealers in return for brokerage commissions from transactions for client accounts.

Broker-dealers that execute client trades on our client's behalf generally provide research products and services to us. These products and services are unsolicited and are commonly referred to as "incidental benefits" which are received merely from utilizing the services of the broker-dealer. Such incidental benefits can be in written form, on a website accessible by a PIN number, or available through direct contact with individuals, and could include information as to particular companies and securities as well as market, economic, or institutional information. Examples of research-oriented services provided by broker-dealers include forecasts and other

information concerning the economy, industries, sectors, groups of securities, individual companies, statistical information, political developments, technical market actions, market data, performance and other analyses.

We are not presently under, and do not intend in the future, to enter into any soft dollar arrangements with any broker-dealers, whereby our client accounts will pay higher transaction costs in exchange for research, products or services for WCB. Moreover, a broker-dealer is not precluded from receiving business from us because it does not provide brokerage or research services to us.

Incidental benefits, including research furnished by brokers or dealers can be used in servicing our clients. These benefits could be used for accounts that do not utilize that broker-dealer or otherwise pay trade commissions to the broker-dealers providing the research, product or service. In addition, such incidental benefits might not be used for the client accounts that do pay commissions to the broker-dealers providing the research, product or service.

### **Brokerage for Client Referrals**

Neither WCB nor any of its employees recommend brokers or dealers in return for client referrals.

### **Directed Brokerage**

Clients can direct us, in writing, to use a specific broker-dealer to execute some or all transactions for their account. If the client does so, we can no longer claim best execution on their behalf, so the client should consider the following information before making that request:

- there will be limited or no ability to negotiate commissions for the client;
- we will be unable to negotiate volume discounts;
- there will be disparity in commissions among clients;
- there will be an inability to obtain any of the benefits of block trades that we enter into for clients who have not directed us to use a particular broker-dealer; and
- the brokerage commissions and transaction fees charged by broker-dealers are exclusive of, and in addition to, our management fee.

### **Best Execution**

As a fiduciary and money manager, we have an obligation to obtain best execution for client transactions based on the circumstances of each particular transaction. We consider the full range and quality of a broker-dealer's service in placing orders with brokerages including, among other things:

- execution capability;
- existing relationships;

- financial strength;
- reputation;
- pricing;
- reporting capabilities; and
- responsiveness to us as the money manager.

The determining factor is not solely the lowest possible commission cost, but whether the transaction represents the best qualitative execution for the managed account.

### **Custodians**

As we do not provide custodial services, our clients are required to select their own custodian. However, if a client requests us to suggest a broker-dealer or a bank as a custodian, we will give the client a list of broker-dealers and banks for them to choose from with whom we have prior operational experience. We are independently owned and operated and are not affiliated with any broker-dealers or banks.

As previously mentioned, some custodians make available to us research, products and services that can benefit us but could be only an indirect benefit to some of our clients. These products and services assist us in managing and administering client accounts and include software and other technology that:

- provides access to client account data such as:



- duplicate trade confirmations; and
- access to an electronic communication network for client order entry and account information;
- facilitates trade execution including:
  - access to a trading desk serving advisory participants exclusively; and
  - access to block trading, which provides the ability to aggregate trades for multiple accounts and allocate the appropriate number of shares to each individual account;
- provides research, pricing information and other market data;
- facilitates payment of our fees from the client's accounts;'
- assists with back-office functions, record keeping and client reporting; and;
- provides receipt of compliance publications.

Some custodians also make available to us other services intended to help us manage and further develop our business. These services include:

- publications and conferences on practice management;
- information technology;
- business succession;

- regulatory compliance; and
- marketing.

Many of the services described above can be used to benefit all or a substantial number of our client accounts, including client accounts not maintained at a particular custodian. We do not allocate these benefits to specific clients.

### Aggregation

We engage in block trading, a circumstance when securities are purchased or sold through the same broker-dealer for multiple discretionary accounts. However, some trades are "stepped out" to meet client-directed brokerage instructions.

In a step-out trade, a brokerage firm executes an entire order and then gives other firms a credit, or commission, for a specified piece of the trade. An example of a step-out trade is an order to a brokerage firm to purchase or sell 500,000 shares which could be stepped out to three other brokerage firms in blocks. For example, Firm A receives a block of 100,000 shares, Firm B receives a block of 250,000 shares, and Firm C receives a block of 150,000 shares, and all could receive the same per share commission.

The portfolio manager for each account must reasonably believe that the block trade is consistent with our duty to seek best

execution and is in the best interest of those clients participating in the aggregated order.

**Fixed income trades** are executed in a manner to meet the characteristics (including yield and duration) of the specific client's portfolio. On the rare occasion of a sequential trade (for instance, we buy a new issue corporate at the syndicate price and then follow up with an additional purchase at a higher re-offered price), we allocate securities to clients receiving the bonds from sequential trades on a pro-rata basis so that the effective cost is the same for all clients receiving bonds.

For **Equity trades**, the average price per share of each block trade is allocated to each account that participates in the block trade. Accounts that participate in the same block trade are charged the same commission rate, if applicable.

Unrelated client accounts participating in a block transaction may not be charged the same commission rate due to the fact that when trades are executed through a broker there are two factors that enter into the commission cost: (1) the per share commission, and (2) the minimum ticket charge.

If a block trade cannot be executed in full at the same price or time, the securities actually purchased or sold by the close of each business day are allocated in a manner that is

consistent with the initial pre-allocation. We strive to do this in a way that does not consistently advantage or disadvantage particular client accounts. For example, partial fills generally are filled pro rata among participating accounts. Prior to entry of a block trade, a written pre-allocation is generated, which identifies the group of client accounts participating in the order.

Changes in allocation prior to final allocation can be made for good cause provided that all client accounts receive fair and equitable treatment. An explanation of the reason for any material change in the allocation will be documented by the Portfolio Manager.

We are not obligated to include any client account in an aggregated trade. Transactions for a client's account will not be aggregated for execution if inconsistent with that client's guidelines. We strive to ensure that no client is favored over any other client. Advisory accounts of our employees can participate in block trades. They receive the same average price for all transactions that day and pay commissions and other transaction costs, if applicable, in accordance with their Advisory Agreement.

Some employees of WCB are also clients of the firm. Generally, securities are bought and sold for employees' accounts at the same time and at the same price as other clients'

accounts. However, since various broker-dealers will be used to execute such transactions, the same prices may not be possible to achieve. In no case will an employee's account receive a better price than a client account.

### **Agency Transactions between Advisory Clients**

WCB does not affect any principal or agency cross securities transactions for Client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory Client. An agency cross transaction is defined as a transaction where an investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both an advisory Client and for another person on the other side of the transaction. Should we decide in the future to effect principal trades or agency cross-trades in Client accounts, we will comply with the provisions of Rule 206(3) of the Advisers Act and update our ADV Part 2, accordingly.

WCB will, however, engage in internal cross transactions on behalf of clients' accounts. An internal cross transaction occurs when WCB causes a security to be traded between two WCB clients where it believes that such

a transaction would be in the best interest of both clients involved. WCB will only perform such transactions where the purchase and sale of the same security at the same time by different clients helps to achieve more favorable terms to each client than placing separate transactions in the marketplace. The firm has adopted policies and procedures governing this activity, which includes, among other things, that neither WCB nor its investment adviser representatives will receive a commission or other compensation for this type of transaction. Moreover, we disclose to clients in the Advisory Agreement that we engage in cross trades. If the client is an ERISA account with under \$100 million in plan assets, we effect cross transactions in conformity with the Department of Labor's requirements.

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

All accounts are monitored on an ongoing basis and reviewed at intervals as agreed to with the client (and/or their designee) not less than annually. The reviews focus primarily on consistency of portfolio investments with objectives, benchmarks and risk tolerances. On at least a quarterly basis, performance is reviewed to monitor consistency with the benchmark that has either been provided by the client or agreed to by the client. Account reviews can also be triggered by changes in general economic and

market conditions or by a change of investment guidelines. Performance is verified by an independent performance verification service.

In addition to the monthly and/or quarterly statements provided by us, clients (and/or their designees) generally also receive statements from the respective custodian. Custodian account statements are generated no less than quarterly and are sent directly from the account custodian. The account statement lists the account positions, the security cost basis, activity in the account over the covered period, and other related information, including all contributions and withdrawals from the account and current market value.

Our clients (and/or their designee) can also receive performance analysis reports prepared by us, which display the time weighted rates of return (a measure of the compound rate of growth which eliminates the distorting effects created by inflows and outflows of money through a portfolio) realized in the client's account.

Our client reports also generally consist of: (1) a list of client holdings by asset class that includes the purchase date, name of security, number of shares, purchase price per share, current price per share, current market value and realized gain/loss; (2) the account performance; and (3) the total market value

of the account(s). These reports are provided upon client request and for "in person" client meetings.

Clients are urged to compare the statements received from WCB to those received from the account custodian.

The **Portfolio Management Staff** consistently conducts the following reviews of client accounts: portfolio composition for conformity to regulatory, firm, and client guidelines, asset allocation and performance reviews.

The **Portfolio Management Staff** is comprised of:

- Charles Webb (CIO & Portfolio Manager),
- Frank Puryear (Executive Vice President, Senior Portfolio Manager & Director of Research),
- Deena Raja (Portfolio Manager),
- Ellen Carr (Portfolio Manager and Senior Credit Analyst),
- James Story (Portfolio Manager),
- Cindy Johnson (Associate Portfolio Manager) and
- Melissa Laffer (Associate Portfolio Manager and Business Development Assistant).

The **Portfolio Review Committee**, on a **monthly** basis, conducts a review of all portfolios including conformity to

investment guidelines and regulations, client service issues, brokerage and custodial issues.

The **Portfolio Review Committee** is comprised of:

- Ann Roberts, Chairman (President & Chief Executive Officer),
- Charles Webb (Chief Investment Officer & Portfolio Manager),
- Frank Puryear (Executive Vice President, Senior Portfolio Manager & Director of Research),
- Deena Raja (Portfolio Manager),
- Ellen Carr (Portfolio Manager and Senior Credit Analyst),
- James Story (Portfolio Manager),
- Cindy Johnson (Associate Portfolio Manager),
- Melissa Laffer (Associate Portfolio Manager and Business Development Assistant),
- Ron Partain (Director of Marketing),
- Kathy Carpenter (Operations Manager),
- Cathy Chamnanphong (Investment Operations Officer), and
- James Murphy (Chief Compliance Officer).

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

We rely primarily on the marketing activities of our employees to solicit new business. However, we have entered into written compensation agreements with certain unaffiliated marketers.

#### **Third Party Cash Solicitors**

We have entered into solicitor and referral agreements with individuals and organizations that refer clients to WCB (“solicitors”). All such agreements will be in writing and comply with the requirements of Rule 206(4)-3 of the Advisers Act. If a client is introduced to WCB by a solicitor, WCB pays that solicitor a fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. While the specific terms of each agreement differ, generally the compensation will be based upon WCB’s engagement of new clients and the retention of those clients and is calculated using a varying percentage of the fees paid to WCB by such clients. Any such fee shall be paid solely from WCB’s management fees and shall not result in any additional charge to the client.

Each prospective client who is referred to WCB under such an arrangement will receive a copy of our Form ADV Part 2 and a separate written disclosure document disclosing the nature of the relationship between the solicitor and WCB and the amount of compensation that will be paid by WCB to the solicitor. The solicitor is required to record the delivery of WCB’s Form ADV Part 2 and the solicitor’s written disclosure statement to the prospective client in accordance with WCB’s policies.

### Consultants and Databases

Many of our clients and prospective clients retain investment consultants to advise them on the selection and review of investment managers. We provide information concerning our investment strategies to consultants who use that information in connection with the searches they conduct for their clients. On occasion we respond to a request for proposal in connection with those searches. In addition, from time to time, consultants request information from us or provide direction to us concerning the accounts we manage for our mutual clients. We will cooperate with such consultants only with prior written approval of the client.

We do not compensate any consultant for making such introductions but we can have other interactions with them that could include the following:

- We pay for the opportunity to participate, along with other investment managers, in conferences or other organized events arranged by consultants. These events provide us with the opportunity to discuss a broad variety of business topics with consultants, clients and prospective clients.
- We purchase software applications, access to databases, and other

products or services of some consultants.

- We do invite consultants to events or other entertainment hosted by our firm.

Upon request by individual clients, we provide information regarding the existence of a relationship between our firm and that client's consultant. In general, however, we rely on the consultant to make the appropriate disclosure to its clients of any conflict that the consultant believes to exist due to its business relationship with our firm.

We compensate some third parties to include information about our investment styles in the databases that they maintain to describe the services provided by investment managers.

### **Item 15: Custody**

We do not maintain custody of client assets except in the event that the management fee is paid directly to us from the custodial account. As discussed in Item 5: Fees, the client's custodian debit the account for the amount of WCB's advisory fee only if the client has provided authorization to us to do so in writing. Our clients receive, at a minimum, quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the investment assets. We urge clients to



carefully review these statements and compare them to the account statements that we provide, as described in Item 13. Clients should verify that the transactions in both statements agree and are consistent with their investment goals and objectives. Should there be a conflict between custodial statements and reports by WCB, the custodial statement is the official statement. If you have any questions about your transactions, please contact us.

Although we do not maintain custody of our clients' accounts, we seek to safeguard our clients' assets against unauthorized access or disposition by conducting certain internal reviews. Among these are:

- Trades are entered and processed by the portfolio manager into the Bloomberg AIM system which also performs pre trade compliance. The trades are downloaded daily to our investment accounting system (Clearwater). Clearwater performs several levels of reconciliation processes. These reconciliation processes range from verifying the format of data being entered to detecting critical exceptions. Operations is notified immediately by email concerning critical exceptions.
- Clearwater performs a daily reconciliation of the previous day's

trades and transactions, including a reconciliation of the cash position for each account, ensuring trading activity and transactions were processed correctly.

- Clearwater provides an electronic reconciliation of the security positions/holdings daily to the security positions/ holdings on the custodian's data feed. Operations resolves the outstanding exceptions daily using the Clearwater reconciliation system.

## **Item 16: Investment Discretion**

We offer our advisory services on a discretionary basis. We exercise our discretion in a manner that is consistent with the stated investment objectives for the account. We only exercise discretion in accounts where we have been authorized to do so, in writing, by the client. Such authorization is typically included in the Advisory Agreement, which is signed by the client. This means that we do not need advance approval from clients to determine the type and amount of securities to be purchased and sold for their accounts. We are authorized to, without prior consent, choose broker-dealers to be used (unless instructed otherwise by the clients in writing), negotiate brokerage commissions, and withdraw funds from accounts solely for the purpose of debiting our advisory fee, pursuant

to the client's Advisory Agreement and as discussed in Items 5 and 15 herein.

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

WCB generally does not take any action or give any advice with respect to voting of proxies solicited by or with respect to the issuers of securities in which client assets are invested. If a client requests such service in writing, we can expressly agree in writing to make an exception. In these cases, WCB engages a third-party administrator to facilitate the proxy voting process. This administrator is retained to conduct proxy research, analyze each proxy proposal, and execute the proxy vote. They keep various records for tracking proxy voting materials and proxy voting actions taken for the client account.

If you would like a copy of our Proxy Voting Policy, please contact us.

In addition, we do not take any action or give any advice with respect to any securities held in any accounts that are named in or subject to class action lawsuits. We do, however, forward to the client (or their custodian) any information received by us regarding class action legal matters involving any security held in the client's account. We do take action on tender offers and consents agreements with respect to client securities.

### **Item 18: Financial Information**

We are required to provide clients with certain financial information or disclosures about our financial condition because we have discretionary authority over our clients' accounts. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to the clients. We have not been the subject of a bankruptcy proceeding.