

## *Orca Investment Management, LLC*

*2250 Aviation Drive, Suite 3  
Roseburg, Oregon 97470*

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

*Telephone: 541-672-3469*

*Fax: 541-672-1610*

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This Brochure provides information about the qualifications and business practices of Orca Investment Management, LLC ["Orca"]. If you have any questions about the contents of this Brochure, please contact us at 541-672-3469 or [info@orcaim.com](mailto:info@orcaim.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Orca Investment Management, LLC is a Registered Investment Advisor. Registration of an Investment Advisor with the SEC does not imply any level of skill or training. The oral and written communications of an advisor provide you with information about which you determine to hire or retain an advisor.

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

## **Item 2 – Material Changes**

This Item discusses only material changes that were made to this Brochure since our last annual update.

There were no material changes made to this Brochure since our last annual update dated March 27, 2019:

We will ensure that you receive a summary of any material changes to this Brochure with an offer to provide a copy of the current brochure within 120 days of the close of our business' fiscal year. We will further provide other ongoing disclosure information about material changes as necessary.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Kimberly Friel, Chief Compliance Officer at 541-672-3469 or [kfriel@orcaim.com](mailto:kfriel@orcaim.com), free of charge.

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#### Item 4 – Advisory Business

Orca Investment Management, LLC (Orca) has been a Registered Investment Advisor (RIA) since June 2007. Until December 24, 2009, Orca's name was Cygnus Capital, LLC.

On December 31, 2009, Orca acquired the advisory assets of KLD Investment Management, LLC (KLD) which had been a Registered Investment Advisor since 1993. Effective January 1, 2013, Orca acquired the advisory assets of Bane Barham & Holloway Assets Management Inc. (BB&H) which had been a Registered Investment Advisor since 1982. Shawn P. Willard is the principle owner of Orca and acts as Managing Member and President for Orca.

Orca offers asset management services tailored to meet your stated investment objective. This objective may be to grow the value of your account, to provide a source of income from your account, or a combination of growth and income. We offer investment objectives which range from conservative capital preservation to aggressive capital appreciation. This is discussed in more detail in Item 8 of this brochure. We tailor our asset management services to the needs of our *clients*. You may request, in writing, restrictions on investing in certain securities or type of securities in your account with the exception of individual stocks held in any given mutual fund (Orca will not accept the responsibility of ensuring a certain security or type of security is not held in a mutual fund purchased within any of our strategies). Any *client* directed purchases will be treated as restricted assets, and the monitoring of such assets will be the responsibility of the *client*. Due to the specific needs or requests of certain *clients*, there will be instances where one account does not hold the same securities or perform similarly to other managed accounts. Unless instructed otherwise, *clients* grant Orca discretionary authorization, the ongoing and continuous authority to invest their money without consulting or prior approval from the *client* about the price, the type of security, the amount, and when to buy or sell to carry out their investment recommendations. These recommendations are based on the responses the *client* provides on the Client Investment Objectives & Suitability form and/or during personal conversations with the client and on the Advisory Agreement. Under this authority, you allow us to:

- Purchase and sell securities, including - but not limited to - stocks, bonds, mutual funds, exchange traded funds, money market funds (or other cash equivalent holdings) in your accounts,
- Arrange for delivery and payment in connection with such purchases and sells, and

- Act on your behalf in most matters necessary or incidental to handling your account, including monitoring certain assets.

It is the responsibility of the *client* to give us complete information and to notify us of any changes in financial circumstances or goals.

As of December 31, 2019, Orca managed the following *client* assets:

Discretionary Client Assets:	\$ 151,184,283
Non-Discretionary Client Assets:	\$ 678,509
Total Client Assets:	\$ 151,862,792

## Item 5 – Fees and Compensation

### Maximum Management Fee Schedule:

First \$100,000 .....	.5% per quarter (2% annually)
Next \$400,000 .....	.375% per quarter (1.5% annually)
Next \$500,000 .....	.25% per quarter (1% annually)
Over \$1,000,000 .....	.1875% per quarter (.75% annually)

For *clients* whose portfolio is invested solely in fixed income investments, Orca may agree, in our discretion, to charge an annual fee with a fixed percentage that will typically range between 0.25% to 1.00% per year.

Orca does not require a minimum account size. Fees are negotiable and due to account size, servicing requirements and other factors may be quoted at a fixed percentage rate or a different tiered schedule. The range of negotiated fees is based on assets under management ranging from 2% down to zero. Fees are payable quarterly in advance based on the value of your account. Fees are generally paid directly from the *client's* account (known as direct debiting); however, *clients* may also select to have Orca invoice them for fees earned. If you have requested to be billed directly, payment is due within 10 days from the date of the invoice. The fee will be equal to the market value of the account at the end of the previous quarter times the agreed upon rate per annum divided by four. The market value used for fee calculation is the sum of the value of all assets in the account including any accrued income, not adjusted by any margin debit. You are responsible for verifying the accuracy of fee calculations. The custodian will not receive sufficient information to verify the accuracy of the fee. For some legacy clients, ORCA has arranged a quarterly fixed fee in lieu of the management fee based on assets under management. Securities will be sold

from your account for the sole purpose of paying the fee if there is insufficient cash in the account. Accounts opened or closed during a quarter will be prorated based on the number of days the account was open during the quarter. If we decide to increase our billing rates, written notice of the change will be provided. Most *clients* are charged an asset-based fee which can create a conflict of interest. The more assets there are in a *client's* advisory account, the more a *client* will pay in fees, and Orca may therefore have an incentive to encourage the *client* to increase the assets in his or her account.

Orca does not take physical possession of your assets (custody), because of this you are asked to open an account with an independent qualified custodian. A custodian is a company that has physical possession of your assets. Orca will manage your account by directing the investments in your account through the custodian. Since your account is held by a custodian, you generally will incur fees charged by the broker and custodian such as:

- Brokerage commissions,
- Transactions fees,
- Exchange fees,
- Regulatory fees,
- Odd-lot differentials,
- Wire-transfer and electronic fund processing fees, and
- Other related costs and expenses (custodial fees).

The fees and expenses charged by the custodian and broker are in connection with transactions for the account and are in addition to Orca's management fee. Such fees will be paid out of your account, and Orca shall not receive any portion of these commissions, fees, and costs. Mutual funds and exchange traded funds typically also charge internal management fees, which are disclosed in a fund's prospectus (this is calculated into the daily Net Asset Value – NAV). You are responsible for verifying the accuracy of fee calculations. Item 12 further describes the factors that Orca considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

An investment advisory agreement may be canceled by written notice to the other party, as provided in the client agreement:

- At any time,
- By either party, and
- For any reason.

Any prepaid, unearned fees in excess of \$1.00 will be promptly refunded on a prorated basis based on the number of days the account was under management during the quarter. Any earned, unpaid fees will be due and payable. If your account is closed or moved to another custodian or broker-dealer, the custodian will typically charge you commissions, account closure fees, and other expenses associated with the liquidation and/or transfer of the account.

Upon *client* request, we will assist with special projects which may involve lengthy research and/or communication with the *client's* attorney or tax advisor. Any fees for such services are based on a negotiable fee, due at the time of service or as otherwise negotiated.

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

Orca and our supervised persons do not accept any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a *client*).

#### **Item 7 – Types of *Clients***

Orca provides asset management services to:

- Individuals,
- High Net Worth Individuals,
- 401K Plans and Profit-Sharing Plans, and
- Trusts, Estates and Charitable Organizations

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

##### **Methods of Analysis**

Orca uses a combination of methods of analysis when evaluating securities.

The methods work together to assist us in determining whether to, or when to, buy or sell a security. We generally use the following methods of analysis:

- **Fundamental Analysis** – the study of the security as an operating business. When we buy or sell a security of a company, we are taking or disposing of ownership in that business. Therefore we try to determine the value of that business by applying ratios relative to a security's price as it relates to earnings, debt, cash flow and other data. Fundamental analysis considers current and projected business growth and income and their expected impact on the value of the company and its related securities. Consideration is also given to management's effectiveness in achieving company objectives, product markets, intellectual property, barriers to entry and other competitive advantages.
- **Technical Analysis** – the method of evaluating securities based on statistical data reflected by market activity. It relies on historical trends (short and long-term trends) relative to price, security price changes and the trading volume involved. We use technical analysis in conjunction with fundamental analysis.
- **Charting Analysis** – It tracks the price and other relevant metrics of a security over time to determine a trend. We look at stock charts to decide if there is a short or long-term pattern or trend. Charting can aid in determining when to buy or sell.
- **Cyclical Analysis** – We look for business and economic indicators to determine where we believe we are in a particular economic cycle and then determine which types of securities would be expected to flourish in such an environment. We also use this to determine when it would be appropriate to sell securities that have run their course and need to have their capital reallocated to more advantageous opportunities.

The risks associated with using these methods of analysis have to do with changing information. The fundamentals of a company can change as a result of internal factors such as reorganization, departing leadership or product failure. Company fundamentals may also be affected by outside factors such as economic, environmental or political climate changes. These changes can, in turn, cause changes to the technical data we rely on to make our investment decisions, and ultimately the direction we expected the stock price to go.



Orca uses information from a variety of sources when researching a security. Some sources provide technical information such as charts or statistical data while other sources provide information we use to determine the fundamentals of a company.

Equity Methods of Analysis:

For Equity investments, we use the following sources of information most often:

- Financial newspapers, magazines and newsletters, which provide a source for certain charts and articles on specific businesses and the overall economy.
- Research materials prepared by others such as an analyst report on a company we are studying. The analyst collects information on a company and summarizes their findings in a report.
- Annual reports, prospectuses, and other filings with the Securities and Exchange Commission are used to gather information regarding a company's financial statements and other important information. This information assists us in determining the fundamental value of a company.
- Company press releases provide news and product or service announcements from a company.
- Bloomberg Professional service – a service which gives computer access to real-time financial market data, news, and charts.
- Company conference calls – companies often present their quarterly earnings report on a conference call. This call also provides an opportunity to ask questions of senior management participating on the call.
- Personal communication – telephone calls or visits to the company are made to speak directly with senior management of companies being considered as investments or to stay current with management decisions in companies which Orca has existing holdings.

Fixed Income Methods of Analysis:

For Fixed Income we use the following sources of information most often:

- Bloomberg Professional service – a service which gives computer access to real-time financial market data, news, and charts. This service also provides relevant issuer and issue-related descriptive information.
- Ratings agencies (such as Moody's and Standard & Poor's) ratings, as well as underlying supporting documentation, when available.
- Annual reports, prospectuses, and filings with the Securities and Exchange Commission (SEC) for corporate issuers, and the Municipal Securities Rulemaking Board (MSRB) for municipal issuers, are used to get an issuer's financial statements and other important information about an issuer.
- Financial newspapers, magazines and newsletters provide a source for certain charts and articles on specific businesses and the overall economy.

## Investment Strategies

Orca uses different investment strategies in an effort to help the *client* meet their investment goals. After a discussion with the *client* about their investment objectives, risk tolerance (your ability and willingness to lose some or all of your original investment in exchange for greater potential returns), and time horizon (the expected number of months, years, or decades you will be investing to achieve a particular financial goal), a strategy is decided upon to best meet the needs of the *client*. The following strategies are used by Orca:

- **Equity-Centric**
  - **Capital Appreciation (Equity Focused Growth)** – this strategy can experience the highest volatility and potentially the highest chance for loss of capital. Accounts will hold small-cap (capitalization), mid-cap, large-cap and mega-cap companies with a bias for growth opportunities. This multi-cap strategy helps us to diversify the level of risk in the account in an effort to meet the objective of the *client*.
  - **Growth at a Reasonable Price ("GARP") (Equity Moderate Growth)** – this strategy can experience medium to high price volatility and potential for loss of capital. The concept behind GARP is to find stocks that show consistent growth rates and future potential but that can also still be considered undervalued or bargains based on their valuation metrics. This is a multi-cap strategy with limited exposure to small-cap and other illiquid positions.

- **Dividend Portfolio** – this strategy typically will have less volatility than the more aggressive types listed above, but as with all equity investments there is always market price fluctuations and potential loss of capital. Accounts will typically hold mega-cap, large-cap, and to the upper range of mid-cap equities. Generally, all positions will be dividend paying securities.

Typical types of investments used in this strategy are:

- **Equity securities** - shares of a security are bought, giving the *client* ownership in that company. We buy shares of a company that are available for trading (listed) on the major stock exchanges (ex. NASDAQ, New York Stock Exchange or NYSE).
- **Stock in a foreign company** that trades on a U.S. exchange (American Depositary Receipt or ADR). This is a way to buy shares in a foreign company while receiving any dividends and capital gains in U.S. dollars. This type of investment is subject to currency, political and economic risks. For example, if the value of the U.S. dollar is increasing while the value of the Euro is decreasing, the dividend payment, once converted to U.S. dollars, would be worth less.
- **Mutual fund shares** - mutual funds are a pool of stocks, bonds, or other investment instruments. The value of each portfolio is the sum of the value of the investments (stocks, bonds) which they hold, which is referred to as the NAV (Net Asset Value). All transactions are completed relative to the daily NAV depending on the particular class of fund the *client* holds. The *client* owns a portion of the portfolio when you purchase shares in a mutual fund. If the fund manager sells enough shares at a profit so that the fund has realized capital gains in a given year, the *client* will have to pay tax on a share of those gains even if you haven't sold shares of the fund (in a taxable account). Also, realized taxable income in a mutual fund is a taxable event.
- **Exchange-traded fund (ETF)** - securities that closely resemble mutual funds, however they can be bought and sold during the day just like common stocks. The price of these funds are set by the market place and they may trade at a premium or discount to the underlying NAV at any point in time. These investment vehicles allow investors a convenient way to purchase a broad

basket of securities in a single transaction. ETFs offer the transactional convenience of a stock along with the broad diversification of a mutual fund.

An account invested in this strategy will be primarily invested in individual stocks, but consideration will also be given to investing in exchange traded funds (ETF) and/or mutual funds. ADRs, ETFs and U.S. Mutual Fund companies that invest in international securities may also be purchased to gain global exposure.

When a security is purchased for this strategy, it is typically expected that it will be held in the account for a period of more than a year (long-term). Although a long-term hold period is generally expected upon purchase, there will be securities bought in the account that are sold within a year (short-term) or even within 30 days (short-term trade). This will generally occur if the fundamentals of the company have changed or the price of the stock has made a significant movement relative to the price Orca has set as a target in which to sell the security. In the case of a gain in a security's value, selling securities before you have owned them for more than one year will generally cause you to have to pay a higher tax rate on any increased value over what you originally paid for the security (short-term capital gains rather than long-term capital gains) in a taxable account.

Since the stock market tends to be volatile in nature, investing in only individual stocks will likely result in daily fluctuations in the overall value of your account. Investing in stocks brings with it an increased risk that you will lose capital. In an effort to reduce the risk of loss, Orca researches each investment by using a combination of different methods of analysis as discussed above, along with the following tools to help reduce the risk in an account:

- **Diversification** – spreading money among different investments to reduce risk. The rationale behind this technique contends that a portfolio of different kinds of investments will pose a lower risk than any individual investment found within the portfolio.
- **Allocation** – using only a certain percentage of the overall account value for an individual security. This helps to ensure that the portfolio does not overemphasize one or more asset categories (small-cap, mid-cap, and large-cap) or sectors, as defined by the Standard & Poor's (S&P), within an equity-centric strategy.

- **Rebalancing** - bringing a portfolio back to its original asset allocation mix. Some of the investments in an account will grow faster than others causing the account to be out of alignment with the investment goals. By rebalancing, this ensures that the portfolio does not overemphasize one or more asset categories.
- **Capital Preservation (Fixed Income)** - this strategy is the most conservative of the strategies that we offer. Although this style of investing is considered conservative, even it carries a level of risk which can result in a loss of capital. This capital preservation strategy is a conservative strategy which includes investing in lower-risk, lower-return fixed income instruments such as:
  - **Corporate bonds** – offering corporate bonds is a way for private and public corporations to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or general working capital needs due to growing the business.
  - **Municipal bonds** – bonds issued by state and local governments in the U.S. and its territories that may be tax-exempt from Federal and/or State (where issued) income taxes. These are generally considered to be less risky than corporate bonds, as many of the municipalities have taxing authority associated with the outstanding bonds, and in some cases the bonds carry third party insurance.
  - **U. S. government securities** - these securities are guaranteed (either explicitly or implicitly) by the U.S. government and may be exempt from state and local income taxes (US Treasury Securities). But because of the near absence of default risk they offer lower investment yields than do most other fixed income securities.
  - **Fixed income mutual fund shares and ETFs** - collection of bonds, money market and other investment instruments. The value of each portfolio is the sum of the value of the investments (bonds, money markets) which they hold. In effect, you own a portion of the portfolio when you purchase shares in a mutual fund or ETF. With a mutual fund, if the fund manager sells enough of the underlying securities at a profit so that the fund has realized capital gains in a given year, you will have to pay tax on a share of those gains even if you haven't sold shares of the fund (in a taxable account).

Corporate and municipal bond purchases will generally be investment grade quality (medium - highest credit quality), meaning that high risk junk bonds or companies in financial trouble will not usually be purchased in this strategy. We do not include stocks or similar riskier investments. This strategy is more concerned with preserving the deposits you made to your account than with increasing the value of your account. Typically, the safer the investment the lower the return.

*Clients* should be aware that with either a bond fund or an individual bond, prices will fluctuate. This is a result of the securities being influenced by economic and other factors. As a result, the value of your investment will increase or decrease. Bonds held to maturity (a future date on which the issuer pays the principal to the investor) are expected to return the full principal amount to the bondholder upon maturity. However, those sold prior to maturity are subject to gain or loss depending on the market price at the time of sale. The price of a bond fund will vary daily as the underlying bond prices change. Upon selling shares in the fund, the shareholder will realize a gain (the profit resulting from selling an asset at a price higher than the original purchase price) or loss depending on the net asset value of all assets in the fund (NAV) at the time of sale.

In an effort to mitigate risk in an account, bonds are purchased in such a way that they mature or come due at different times. For example, an account may hold a bond that matures in one year, another in two years, and another in three years. In addition, a diverse mix of bonds will be purchased, and generally only a small percentage of an account will be invested in any one particular bond.

- **Balanced** - this strategy is generally a combination of an equity-centric strategy and the capital preservation strategy. In some cases, the equities included in this portfolio may be drawn from all three of the equity-centric strategies above depending upon the client's overall objectives. It is expected that smaller accounts will be balanced using a combination of the mutual fund strategy and the capital preservation strategy. The investment objective of the *client* will determine the percentage of capital appreciation-centric holdings and fixed income in the account. Although this strategy aims to balance risk and return, it does carry more risk than the capital preservation strategy.
- **Mutual Fund** - this strategy is the only investment strategy option we offer for smaller accounts (accounts with values below \$30,000) unless prior approval has been granted for special situations only. This strategy is considered to be a

moderate growth strategy. In addition to mutual funds (open-end or closed-end), we will consider the use of exchange traded funds (ETF), exchange traded notes (ETN), or other similar fund structures in this strategy. Accounts will remain in this strategy until the account size has increased enough to warrant equity and/or fixed income investments, and a new strategy has been elected by the *client*.

The Mutual Fund strategy is used in an effort to effectively diversify smaller accounts while minimizing or eliminating trading and other costs. Accounts will hold a variety of funds in order to create a moderate growth centric, diversified account. The holdings typically include a selection of Large Cap, Mid Cap, and Small Cap funds. In addition, sector or geographically centric funds such as Emerging Market funds, Commodity/Currency funds or Fixed Income funds will be used when deemed appropriate to provide further diversification. We expect the turnover of these holdings will be minimal over the long-term.

Although this strategy provides greater diversification which helps to lower the risk of loss, there is still potential for loss because this is considered to be a growth oriented strategy (this strategy is subject to market volatility). This strategy generally includes funds which have:

- No transaction fees – there are no commissions to buy or sell these funds provided they are held for the minimum required holding period set by the custodian which could be up to 90 days. If the fund shares are sold within the holding period, a redemption charge will typically be assessed by the mutual fund company in addition to a commission fee charged by the custodian.
- Low or no minimum purchase requirements – this enables us to buy an amount of a particular fund that is appropriately balanced for a *client* or an account. This allows smaller accounts to be invested according to our parameters.

## **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. Orca will use our best judgment and good faith efforts in providing services to you. Not every investment decision or recommendation made by us will be profitable and we cannot

guarantee any particular level of account performance, or that your account will be profitable over time.

Orca has an obligation to act in the best interest of the *client* (fiduciary duty). As a fiduciary, Orca must apply all of the skill, care and thoroughness available to Orca when acting on behalf of the *client*. So, unless the law states otherwise, Orca will not be legally responsible to the *client* for:

- Any loss caused by an investment decision made or other action taken or not taken in good faith by Orca that a reasonable person acting as a fiduciary would make;
- Any loss caused because Orca followed the *client's* instructions; or
- Any act or failure to act by the custodian of the *client's* account.

### Equity Risks

- **Market risk** – the risk that the value of the investments in your account will decrease due to the change in value of the stock price, interest rates, foreign exchange rates, and commodity prices or other market forces.
- **Currency risk** – a form of risk that results from the change in price of one currency against another. (i.e. U.S. dollar vs. Canadian dollar)
- **Economic risk** – the possibility that an economic downturn will negatively impact an investment.
- **Political risk** – the risk that an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns because of a change in government, legislative bodies, other foreign policy makers, or military control.
- **Business risk** – the risk that a loss considered normal in a company's operations and environment (such as competition and poor economic conditions) that result in a company not having enough cash to meet its operating expenses and/or financial leverage.
- **Environmental risk** – this is often referred to as “acts of God.” Floods, hurricanes, tsunamis, earthquakes, volcanoes and other forces of nature are unpredictable and may cause both short and long term negative impacts to financial markets.



- **Fraud** – criminal activity. While this activity is not anticipated as a result of the due diligence (the process of investigation, performed by investors, into the details of a potential investment, such as an examination of operations and management and the verification of material facts) completed by Orca, it can occur and is generally very difficult to detect.

### Fixed Income Risks

- **Interest Rate Risk** – if interest rates rise, bond prices usually decline. If interest rates decline, bond prices usually increase. This risk exists because as interest rates rise, investors require higher yields and with a fixed coupon, the price of a bond must fall to create a higher yield. The longer a bond (or bond fund's) maturity, the greater the impact a change in interest rates can have on its price. If you don't hold your bond until maturity you may experience a gain or loss when you sell your bond due to this effect.
- **Credit Risk** – Bonds carry the risk of default, which means that the issuer is unable to make further income and principal payments. Many individual bonds are rated by a third party source such as Moody's or Standard & Poor's to help describe the creditworthiness of the issuer.

Since a bond fund is made up of many individual bonds, diversification can help mitigate the credit risk of a downgrade (a reduction in the credit rating) or a default, either of which could affect a bond's price. Bonds are typically classified as investment grade-quality (medium - highest credit quality) or below investment grade-quality (commonly referred to as high-yield bonds or junk bonds), as are bond funds. Credit risk is a greater concern for high-yield bonds and bond funds that invest in lower-quality bonds and bonds of issuers whose ability to pay interest and principal may be considered speculative.

- **Call Risk** – A callable bond has a provision that allows the issuer to call, or repay, the bond early (usually at 100 cents on the dollar ... known as "par"). If interest rates drop low enough, the bond's issuer can save money by repaying its callable bonds and issuing new bonds at lower interest rates. If this happens, the bond holder's interest payments cease and they receive their principal early. If the bond holder then reinvests the principal in bonds, he or she will likely have to accept a lower coupon rate, one that is more consistent with prevailing interest rates. This will lower the value of an account's interest payments received.

- **Reinvestment Risk** – Even if you hold non-callable securities, during periods of declining interest rates, you may be forced to buy new bonds at lower, prevailing interest rates as your existing investments reach maturity thus resulting in the same situation discussed in “Call Risk” above.
- **Inflation Risk** – The money you earn today is always worth more than the same amount of money at a future date. This is because goods and services usually cost more in the future, due to inflation. So we try to invest in such a way that your investment return is higher than the inflation rate. Because a high inflation rate can erode the real value (the value of income received today minus inflation) of the income you receive, inflation can jeopardize the real value of any fixed income payments you may be counting on. To combat this risk, we will give consideration to purchasing a bond or bond fund that has its principal adjusted for increases in the inflation rate, such as U.S. Treasury Inflation-Protected bonds (TIPs) and bond funds that invest in TIPs.

Nothing in the advisory agreement or this disclosure document shall relieve Orca from any responsibility or liability we may have under state or federal statutes.

### **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Orca or the integrity of Orca’s management. To date, Orca and its predecessors have not had any items to report under this Item.

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

Orca participates in the Institutional Services Programs offered to independent investment advisers by Charles Schwab & Co. and Pershing Advisor Solutions LLC that provide custody services for our *clients*. Orca will typically recommend these custodians to *clients* in need of brokerage and custodial services. We are independently owned and operated, and are not affiliated with these custodians. As part of the Institutional programs, the broker-dealer normally provides Orca with access to their institutional trading and operations services. These services are typically not available to retail investors. They are generally available to

independent investment advisors at no charge as long as a minimum balance of *client* account assets are kept at the broker-dealer. For more information, see our Brokerage Practices section, Item 12.

## Item 11 – Code of Ethics

Orca has adopted a code of ethics for all supervised persons of the firm describing our high standard of business conduct and fiduciary duty to our *clients*. Orca requires that all supervised persons must follow all applicable Federal securities laws governing registered investment advisory practices. The code of ethics generally outlines proper behavior related to all services provided to *clients*. The code states no supervised person may knowingly participate in insider trading activities such as:

- Trade on the basis of material, non-public information,
- Provide material, non-public information to others who trade based upon such information,
- Recommend the purchase or sale of securities based on material, non-public information,
- Provide assistance to a person trading on the basis of material, non-public information,
- Trade in securities of an issuer involved in a tender offer (an offer to purchase some or all of shareholders' shares in a corporation) while in possession of material, nonpublic information, or
- Misappropriate material, non-public information in a manner that breaches a fiduciary duty owed to someone.

All supervised persons are required to read and accept the terms of the code of ethics each year, or as amended. Each supervised person is required to promptly report any internal violations of the code of ethics. Furthermore, Orca's Chief Compliance Officer regularly evaluates access persons' performance to ensure compliance with the code of ethics.

Orca's *clients* or prospective *clients* may request a complete copy of our code of ethics by contacting the Chief Compliance Officer.

To supervise compliance with our code of ethics, Orca requires that any of our access persons (officers and employees who have access to information regarding *client*

investment recommendations or transactions) must provide a report of all of their securities holdings annually, and report any transactions that occur in their account(s) quarterly to the firm's Chief Compliance Officer. Orca also requires such access persons receive approval from the Chief Compliance Officer before investing in any Initial Public Offerings or private placements (limited offerings). In addition, the code of ethics requires pre-approval of certain transactions in personal accounts depending on the circumstances of the transaction.

Subject to following the code of ethics and applicable laws, Orca's officers and employees are allowed to buy and sell the same securities for their own account that Orca buys and sells for our *clients*. The code of ethics is designed to assure that the personal securities transactions, activities and interests of the officers and employees of Orca will not interfere with (i) making decisions in the best interest of the *clients* and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Nonetheless, there is a possibility that employees could benefit from market activity by a *client* in a security held by an employee. Employee trading is continually monitored under the code of ethics to minimize potential conflicts of interest between our access persons and our *clients*.

Orca will buy or sell a security for all of our existing *client* accounts, as appropriate, either before or at the same time it is purchasing any of the securities for our officer and employee accounts. Sometimes Orca's access persons will buy or sell securities for their own account for reasons unrelated to the investment strategies adopted by Orca's *clients*. Access person accounts, managed by Orca, are included in the allocation mix and are treated the same as any other *client*. In an effort to mitigate any potential conflict of interest caused by this action:

- Orca aggregates trades (purchases shares throughout the trading day and aggregates them together to get an average price, therefore the same share price is paid by all those participating in the allocation of that security on that day),
- Orca's allocation procedures are consistently followed, and
- Access person's trading is continually monitored under the code of ethics.

Please see Item 12 of this Brochure for more information on our allocation procedures.

Under Orca's Allocation Policy (See Item 12), in the case of partially filled orders, access person's accounts may (depending on the allocation rotation required for the order)

receive allocations before other *client* accounts. If Orca receives an unsolicited order to buy or sell, Orca's officers and employees are not permitted to trade that same security for their own accounts on the same day.

## Item 12 – Brokerage Practices

Orca participates in the Institutional Services Programs offered to independent investment advisers by the various registered broker-dealers (See Item 10) that provide custody services for our *clients*. We require *clients* to have a third party broker-dealer / custodian relationship, and will suggest these broker-dealers for *clients* to use as a custodian. The *client* is not required to effect transactions through any broker-dealer recommended by Orca. Orca may, but is not required to, accept *clients* who instruct us to execute all transactions through a particular broker-dealer. If the *client* directs their trades to a certain broker-dealer, *client* may pay higher brokerage commissions or receive less favorable execution on same transactions than non-directing clients at least in part because the directed broker may maintain a higher commission schedule or provide less favorable service or because such transactions may be excluded from combined or block order and any corresponding economies of scale.

Suggesting a broker-dealer may create a conflict of interest. In an effort to mitigate any such conflict, Orca reviews each broker-dealer providing trading services for our *clients* for best execution. Orca will suggest a broker-dealer that we believe is best suited to meet the investment needs of the *client*, based on the *client*'s specific circumstances, and best execution. The brokers we recommend may not always offer the lowest fees or commission rates available. We strive to execute the transaction that is most favorable for the *client* under the circumstances. Best execution does not necessarily mean the lowest commission cost; rather, it refers to the best total cost of purchasing or selling a security taking into account several factors, such as:

- Reputation, reliability, financial strength, security and stability,
- Combination of transaction execution services and asset custody services,
- Capability to execute, clear, and settle trades (buy and sell securities for your account,
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.),
- Quality of services,

- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.), and
- Any other factors Orca considers to be relevant.

An arrangement that provides an advisor with products or services other than transaction execution from or through a broker-dealer in exchange for *client* brokerage transactions (*client* brokerage commissions) is known as "soft dollars." The broker-dealer is compensated by account holders through commissions ("soft-dollars") or other transaction-related fees for securities trades that are executed through the broker-dealer or that settle into the *client* accounts held with the broker-dealer (trade away). When we use *client* brokerage commissions to obtain research or other products or services, we receive a benefit because we do not have to pay for the research, products or services.

Orca has informal soft-dollar arrangements with the broker-dealers we recommend to *clients*. Orca may, in our discretion, cause the *client's* account(s) to pay broker-dealers a commission greater than another qualified broker-dealer might charge to effect the same transaction where Orca determines in good faith that the commission is reasonable in relation to the value of the brokerage, research and other services received. Orca's recommendation that *clients* use a particular custodian may be based on our interest in receiving the research or other products or services, rather than on our *clients'* interest in receiving most favorable execution. Therefore, Orca may be considered to have a conflict of interest when allocating transactions.

Orca received the following products and services during our last fiscal year that were paid for by *client* brokerage commissions:

- Custody of *client* assets,
- Brokerage services and software that provide access to *client* account data (such as trade confirmations and account statements), and assists with back-office support, record keeping and *client* reporting,
- Trade execution and software that assists in trade execution (and allocation of aggregated trade orders for multiple *client* accounts),
- Research created or developed by the broker-dealer, and occasionally developed by a third party,
- Pricing information and other market data,

- Access to mutual funds, fixed income and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment, and
- Software that assists in requesting payment of management fees from *client* accounts.

In addition to the above products and services that directly benefit the *client*, Orca will also use the following products and services that are paid for by *client* brokerage commissions, which do not directly benefit the *client*. These services include:

- Consulting,
- Educational webinars and events,
- Publications and conferences on practice management,
- Information technology,
- Business succession,
- Regulatory compliance, and
- Marketing.

In addition, the broker-dealers may reduce or waive fees it would otherwise charge for some of these services, or pay all or some of the fees charged by the third party providing these services to Orca.

Many of these soft-dollar benefits are used to service all *client* accounts. Soft dollar benefits are not limited to those *clients* who have generated a particular benefit although certain soft dollar allocations are connected to particular *clients* or groups of *clients*. Orca will not allocate soft dollar benefits to *client* accounts proportionately to the soft dollar credits the accounts generate.

Your accounts will trade in the same securities with other Orca *client* accounts on an aggregated basis when consistent with our obligation of best execution. Each account that participates in an aggregated order that is filled at several different prices through multiple trades will receive the average share price. In addition to the execution price of each security, each *client* will pay an additional transaction fee for certain trades. This transaction fee may not be equal among *clients*. Factors affecting the transaction fee may not relate to volume discounts, but rather to other circumstances such as the *clients'* decision to receive confirmations and statements electronically, or the value of the *clients'* account will also have a bearing on the amount of transaction fee charged. However, when

aggregating a fixed income order through Charles Schwab & Co., Inc., each account will share the non-account specific transaction costs on a pro rata basis based on trade dollars. Pershing Advisor Solutions LLC does not have non-account specific transaction costs, simply a flat per account commission.

Accounts participating in an aggregated equity order will be allocated shares based on an ongoing allocation rotation. In the case of partially filled trade orders, this rotation schedule will determine which accounts will be filled in their entirety on the first day of trading a particular security and each day thereafter until the order is filled in its entirety. This rotation schedule is used in an effort to not advantage or disadvantage particular *client* accounts over time.

Consideration will be given to investing *client* accounts in initial public offerings (IPOs) and secondary offerings (FO Offering). An initial public offering is the first sale of stock by a private company to the general public. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded. These can be a risky investment due to a number of factors including, limited operational history and public market experience. A secondary offering is when a company is already publically traded on an exchange, and is wishing to sell newly issued stock, in order to raise money. IPOs and FO offerings sometimes include the sale of securities by one or more major stockholders in the company who want to sell all or a large portion of their holdings in a single transaction which may not be possible through traditional means.

IPO offerings are commonly limited in size and availability. The allocation of such investments will be made on the basis of matching *clients'* suitability, investment objective and risk tolerance. In addition, allocations will be made to each account based on a pro-rata basis. In the event a pro-rata allocation does not make the allocation a worthwhile position in each account, the shares will be allocated based on the percentage of the account Orca determines the security should occupy in each account using a rotation schedule. Those accounts that received shares in the IPO or secondary offering will be moved to the bottom of the allocation list for the next offering, requiring that all eligible accounts must participate once before an account is eligible to participate in another IPO or secondary offering.

Orca will also engage in Trade Away or Prime Brokerage transactions from time to time (place a trade using a dealer or market maker other than the custodian for the account) for



qualified *client* accounts. This is typically done to provide better pricing and/or execution for specific securities. In most cases this allows for aggregation of trades which provides *clients* with an overall better price and in many cases can lower net transaction costs. In particular, fixed income trades are highly price sensitive based on individual trade size. Dealers typically discount commissions for block orders above minimum thresholds. Per the Securities and Exchange Commission (SEC) regulations, these opportunities may only be offered to accounts with a net balance above minimum thresholds so these particular types of trades will not be available to all *clients*.

Orca does not participate in principal or agency cross transactions. In addition, Orca does not participate in internal cross transactions. These cross transactions involve the investment adviser or such other person to act as broker for and receive commissions from both parties of the transaction. With respect to balanced and fixed income accounts that need to raise cash, Orca will, on occasion, arrange for a third party to cross fixed income securities from a selling client to another client eligible to purchase such a security. These cross trades will be processed through an independent broker-dealer/custodian, not affiliated with Orca. The prices will be determined by the relevant broker-dealer/custodian utilizing an open market bid price for the security as well as a crossing bid/ask price for both parties. Orca will evaluate the prices and determine what they believe to be the best option for both the seller and the potential buyer. Each client pays a commission for the transacted trade to the custodian. Such a cross will not occur unless Orca feels it is in the best interest of the participating clients.

### **Item 13 – Review of Accounts**

Orca's portfolio managers are responsible for the continuous monitoring of securities in a portfolio. This review includes changes in the fundamentals of the companies or entities issuing securities, price fluctuations and significant economic or industry developments. Any *client* directed purchases will be treated as restricted assets and are the responsibility of the *client* to monitor. *Client* accounts are reviewed at least quarterly by Orca's portfolio managers. Accounts are reviewed for consistency with each *client's* stated investment objectives, restrictions and guidelines. More frequent reviews can be triggered by material changes in a *client's* individual circumstances, excess market movements, and a request from a *client*.

*Clients* will receive monthly or quarterly account statements and trade confirmations

directly from the custodian. Orca will provide additional written reports on a quarterly basis. This report package will include one or more reports such as:

- Performance,
- Holdings, or
- Other pertinent information as deemed appropriate.

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

Orca does not receive monetary benefit from anyone who is not a *client* for providing investment advice or other advisory services to our *clients*. As discussed above in Item 12, we do have arrangements with various Brokers whereby Orca receives an economic benefit from non-*clients* in connection with giving advice to *clients*. Orca does not directly or indirectly compensate anyone for *client* referrals.

#### **Item 15 – *Custody***

Orca is not a broker-dealer and does not take physical possession of *client* assets. Our *clients'* assets are housed in nationally recognized banks or brokerage firms, otherwise known as qualified custodians. Orca has a limited power of attorney to place trades on the *client's* behalf. Orca is deemed to have custody of the assets of its clients within the meaning of Rule 206(4)-2 under the Advisers Act (the “Custody Rule”) because of our authority to transfer money from client account(s) at the request of the client via a standing letter of authorization (SLOA). Accordingly, Orca (in conjunction with the client’s custodian) will comply with seven circumstances specified by the SEC to protect client assets rather than obtain a surprise accountant’s exam. If authorized by our *client*, Orca will also have the authority to ask the custodian to pay management fees from your account, and give the payment directly to Orca (direct debit), and therefore is deemed to have custody. For more details, see Item 5 of this Brochure.

You will receive account statements directly from your broker-dealer, bank or other qualified custodian at least quarterly. We urge you to carefully review these statements and compare these official custodial records to any reports that we provide to you. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## Item 16 – Investment Discretion

Orca usually receives discretionary authority from the *client* at the outset of an advisory relationship. This authority allows Orca to determine the securities bought or sold, the amount of securities bought or sold, and which brokers to transact through without having to get the *client's* consent for each transaction. When selecting securities and determining amounts, Orca observes the investment policies, limitations and restrictions received from the *client*. Investment guidelines, limitations and restrictions must be provided to Orca in writing.

Orca allows *clients* to place restrictions on particular securities as well as the amount and type of securities to be purchased. *Clients* may also limit which brokers Orca can use when executing a transaction. Please see the Brokerage Practices section (Item 12) for more information on Directed Brokerage arrangements. Any such limitations shall be included in the *client's* Investment Advisory Agreement with Orca. *Clients* may make changes to these limitations at any time. Such changes must be submitted in writing.

When making decisions regarding the purchase and sale of securities, Orca consistently follows the allocation procedures in place, as described in Item 12, to ensure that all *clients* have equitable access to investment opportunities. These procedures are in place to make sure that no *client* benefits more than other *clients* as a result of Orca's trading decisions.

Orca uses various methodologies in an effort to identify unusual trading patterns, analyze comparative performance and compare the allocation of investment opportunities. These tests and reviews are designed to ensure no conflicts of interest, favoritism or misallocation of investments occur.

## Item 17 – Voting *Client* Securities

### Proxy Voting

It is the responsibility of Orca to submit and retain proxy votes. We will vote proxies in the best interest of our *clients* which we believe in general, will be with management's recommendations. Any deviation to this will be documented.

Orca will vote proxies on behalf of the *client* with few exceptions.

- Orca will only vote proxies on your behalf if you have provided written authorization to your custodian allowing Orca to do so.
- Orca shall only vote proxies in the best interest of the *client*. Where potential conflicts of interest may exist, Orca will either forward or arrange for the custodian to forward the proxy to the *client* for voting. A conflict of interest could exist in either of the following examples:
  - Where Orca has an affiliation with an issuer, sponsor, or custodian (however, Orca generally maintains no such affiliations); and
  - Where there is a potential for financial benefit to Orca such as voting for higher fees and sharing in those fees.

Orca maintains a record of proxy votes and will furnish voting details of specific situations to a subject *client* upon request.

Unless or until you have provided written authorization to your custodian to allow Orca to vote proxies on your behalf, Orca will not vote your proxies. We are not authorized to receive and vote proxies on securities held in your account, nor receive annual reports without your authorization. You retain the responsibility for receiving from your custodian or transfer agent and voting proxies for any and all securities maintained in your accounts.

### **Class Actions, Bankruptcies and Other Legal Proceedings**

*Clients* should note that Orca will neither advise nor act on behalf of the *client* in legal proceedings involving companies whose securities are held or used to be held in the *client's* account(s), for example, the filing of "Proofs of Claim" in class action settlements. *Clients* may direct Orca to send copies of class action notices to the *client* or a third party. Orca will make a good faith effort to forward such notices in a timely manner.

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

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