

## SEC Form ADV Part 2A

### Firm Brochure

## LM Capital Group, LLC

750 B Street, Suite 3010  
San Diego, CA 92101  
Telephone: (619) 814-1401 x107  
Email: [jfrankel@lmcapital.com](mailto:jfrankel@lmcapital.com)  
Website: [www.lmcapital.com](http://www.lmcapital.com)

**March 4, 2020**

This Firm Brochure ("brochure") provides information about the qualifications and business practices of **LM Capital Group, LLC**. If you have any questions about the contents of this brochure, please contact us by telephone at (619) 814-1401 x107 or by email at [jfrankel@lmcapital.com](mailto:jfrankel@lmcapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about **LM Capital Group, LLC** is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. Our firm's CRD number is 120277.

## **Item 2 – Material Changes**

Since the firms last ADV Filing, dated March 8, 2019, there have been no material changes.

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## **Item 4 – Advisory Business**

### **A. Description of Advisory Firm**

LM Capital Group, LLC (hereinafter referred to as “LM Capital” or the “Firm”) was founded in 1989 and is an investment adviser registered with the Securities and Exchange Commission (hereinafter referred to as the “SEC”).

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company).

- Luis Maizel, Senior Managing Director
- John Edward Chalker, Managing Director

### **B. Types of Advisory Services**

LM Capital offers the following advisory services to our clients:

#### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

LM Capital manages six distinct model portfolio's (see descriptions below under "Model Portfolio Management"). The firm's Portfolio Managers are able to tailor a portfolio to an institutional client's directed mandate and/or an individual client's investment guidelines or restrictions.

Our investments are not limited to any specific product or service and generally include the following securities: U.S. Government Securities, Corporate Debt Securities, Commercial Paper, Certificates of Deposit, Municipal Securities, Futures Contracts (where permissible by client), among other types of investments.

#### **INVESTMENT SUPERVISORY SERVICES ("ISS") MODEL PORTFOLIO MANAGEMENT**

LM Capital provides fixed income investment management services to institutional investors using five separate investment strategies. Each strategy is designed to meet a particular

investment goal and/or client directed mandate. These client portfolios are managed as Separately Managed Accounts (SMAs).

**Short Term** contains a discretionary fixed income account based in US Dollars and for comparison reasons is measured against the Merrill Lynch 1-5 G/C Index. The Short Term Portfolio generally consists of securities with less than 5 years in maturity and are comprised of Treasuries, agencies and investment grade corporate issues rated A/A2 or better.

**Intermediate** contains a discretionary fixed income account based in US Dollars and for comparison reasons is measured against the Barclay's Capital Intermediate Aggregate Index. The Intermediate portfolio generally includes securities between 5-10 years in maturity and are comprised of Treasuries, agencies and investment grade corporate issues.

**Strategic Core** contains a discretionary fixed income account based in US Dollars and for comparison reasons is measured against the Barclay's Capital US Aggregate Index. The Core portfolio is comprised of Treasuries, agencies, investment grade corporate issues and may include mortgage backed securities.

**Active Core Plus** contains a discretionary fixed income account based in US Dollars and for comparison reasons is measured against the Barclay's Capital US Aggregate Index. The Opportunistic Core portfolio is comprised of Treasuries, agencies, investment grade corporate issues, mortgage backed securities, US high yield, dollar denominated Emerging Market Debt and non - US Dollar denominated issues.

**Enhanced Core Plus** contains a discretionary fixed income account based in US Dollars and for comparison reasons is measured against the Barclay's Capital US Aggregate Index. The Enhanced Core Plus portfolio is comprised of Treasuries, agencies, investment grade corporate issues, mortgage backed securities, US high yield, dollar denominated Emerging Market Debt and non - US Dollar denominated issues, US Municipals, ABS/CMS and Preferred Equity issues. The use of futures contracts to hedge interest rate and foreign currency exposure may also be utilized.

**Emerging Market Debt** contains discretionary fixed income accounts and for comparison reasons is measured against The Bloomberg Barclays Emerging Markets USD Aggregate Index. The Emerging Market Debt fixed income portfolio is comprised of; US Dollar denominated Emerging Market Debt Corporate and Sovereign Securities, non-Dollar corporate and sovereign denominated securities and Emerging Market Supranational Agency Securities. The portfolio may also hold positions in US Treasury Bonds as well as

cash or similar short term instruments.

We manage advisory accounts on a discretionary basis. Clients have the opportunity to place reasonable restrictions on the types of investments to be held in their account. Clients retain individual ownership of all securities.

To ensure that the account continues to be managed in accordance with the investment guidelines, we will:

1. at least annually, contact each participating client to determine whether there have been any changes in the client's financial situation or investment objectives, and whether the client wishes to impose investment restrictions or modify existing restrictions;
2. be reasonably available to consult with the client;
3. maintain client suitability information and client investment guidelines in each client's file;
4. maintain a copy of an Investment Management Agreement (hereinafter "IMA") for each client; and
5. review each client portfolio at least monthly to determine adherence to client investment guidelines and review portfolio holdings.

### **C. Amount of Managed Assets**

As of 12/31/2019, we are actively managing \$4,843.3 billion of client assets on a discretionary basis.

## **Item 5 – Fees and Compensation**

### **INVESTMENT SUPERVISORY SERVICES ("ISS") MODEL PORTFOLIO MANAGEMENT FEES**

Our annual fees for Model Portfolio Management Services are based upon a percentage of assets under management and generally range from 5 BPS to 40 BPS. These fees are subject to negotiation.

## MODEL PORTFOLIO MANAGEMENT FEES

The annualized fee for Model Portfolio Management Services is charged as a percentage of assets under management. These fees are subject to negotiation. Below is our general fee schedule:

Assets under Management	Annual Fee
First \$25 million	Up to 40 Basis Points
Next \$25 million	25 Basis Points
Next \$50 million	20 Basis Points
Over \$100 million	15 Basis Points
Over \$200 million	10 Basis Points
Over \$500 million	5 Basis Points

Clients are invoiced in arrears at the end of each calendar quarter.

A minimum of \$10,000,000 in assets under management is required for Model Portfolio Management Services. This account size may be negotiable under certain circumstances. Clients will incur brokerage and other transaction costs as described in the “Brokerage Practices” section (Item 12) below.

## GENERAL INFORMATION

**Limited Negotiability of Advisory Fees:** Although LM Capital has an established fee schedules, we retain the discretion to negotiate fees on a client by client basis. Client facts, circumstances and needs are considered in determining the fee schedule. These include the complexity of the client, assets to be placed under management, anticipated future additional assets; related accounts; portfolio style, account composition, reports, among other factors. The specific fee schedule is disclosed in the applicable contract between the adviser and the client.

**Termination of the Advisory Relationship:** A client agreement may be terminated at any time, by either party, for any reason, upon receipt of 30 days written notice.

**Additional Fees and Expenses:** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer .

Please refer to the "Brokerage Practices" section (Item 12) of this Brochure for additional information.

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

LM Capital does not typically utilize a "performance - based" fee schedule for its institutional clients.

The fees charged for this service will be determined by the client's individual circumstances. The inclusion of a performance based fee schedule is agreed upon prior to entering into this type of arrangement and is detailed in the client's IMA and/or contract.

Although the performance-based fee may create an incentive for LM Capital to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement, LM Capital is required to adhere to client mandated investment guidelines and overall investment strategy of the portfolio.

PERFORMANCE-BASED FEES WILL ONLY BE CHARGED IN ACCORDANCE WITH THE PROVISIONS OF RULE 205-3 OF THE INVESTMENT ADVISERS ACT OF 1940 (hereinafter referred to as the "Advisers Act") AND/OR APPLICABLE STATE REGULATIONS. THE FEES WILL NOT BE OFFERED TO ANY CLIENT RESIDING IN A STATE IN WHICH SUCH FEES ARE PROHIBITED.

Furthermore, because we also have clients who do not pay performance-based fees, we have an incentive to favor accounts that pay performance-based fees, because the compensation that we receive from these clients is more directly tied to the performance of their accounts.

## **Item 7 – Types of Clients**

LM Capital typically provides advisory services to the following types of clients:

- Investment companies
- Pension and profit-sharing plans (other than plan participants)
- Charitable organizations
- Corporations or other businesses not listed above
- State or municipal government entities
- Foundation and Endowment funds
- Taft - Hartley Plans

LM Capital typically requires a \$10 million account size for investment in all of its fixed income investment Separately Managed Accounts (SMA's).



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

### **A. Methods of Analysis**

LM Capital believes in a global approach to managing fixed income securities, based upon a fundamental, top-down analysis of global macroeconomic factors. Interest rates represent the cost of money and are driven by the world wide supply and demand for funds.

Our Investment Philosophy and Process allows us to:

- a. Be globally comprehensive in our analysis;
- b. Identify the most attractive fixed income opportunities; and
- c. Focus on long term interest rate trends and a "total return" objective for our client's portfolios.

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

***Fundamental Analysis.*** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security.

***Technical Analysis.*** We analyze current market movements and apply that analysis to the present in an attempt to time our security transactions to achieve the best possible execution price.

***Qualitative Analysis.*** We subjectively evaluate non-quantifiable factors such as various social, political and economic events that may occur to impact the fixed capital markets; this analysis serves as risk management tool.

A risk in using qualitative analysis, is that our subjective judgment may prove incorrect.

**Emerging Market Debt.** We research and evaluate bonds issued by less developed countries. LM Capital performs analyses of economic indicators, vulnerabilities, capital flows, governmental stability and central bank activity of the developing countries. Issuance of Emerging Markets Debt (hereinafter referred to as “EMD”) has increased dramatically over the past decade, due to increasing stability in global growth and more favorable supply/demand dynamics, which have supported firming commodity prices. EMD, have historically been issued in foreign currencies (external debt), either US Dollars or Euros (hard currency versus local currency). In recent years, however, the development of pension systems in certain developing countries has led to increasing issuance in local currencies.

LM Capital has entered into an agreement with iMarkServ Ltd., an established financial and market research firm that is part of IL&FS Group (a large infrastructure and financial services company in India). iMarkServ specializes in research of EMD, which LM Capital will pair with an in-house Economist/Strategist and Senior Investment Analyst to expand the firm’s research and investment capabilities into this area.

The risk of investment in EMD, is that the outlook for individual nations is constantly changing. Developing countries face challenges including infrastructure bottlenecks, credit issues, social/civil unrest and political shifts which may be unpredictable and may negatively impact the value of EMD securities.

**Risks for all forms of analysis.** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **B. Investment Strategies**

We use the following strategies in managing client accounts, provided that such strategies are suitable for the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Long - term purchases.** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy, is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-term purchases.** When utilizing this strategy, we purchase securities with the design of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

### C. Risk of Loss

Every investor faces risk of loss that can take various forms. The most basic risk faced by all investors is **market risk**. This refers to the risk that the market for an asset class declines in value and affects all securities in that asset class in a similar way. When pursuing strategic long-term investment strategies, we are assuming the financial markets will go up in the long-term, which may not be the case. Market risk applies to any asset class, not just stocks. It is a risk that cannot be eliminated even by diversification. A related form of risk of loss is **variability of returns**. This refers to the risk that the client's investments will fluctuate in value over time and may be worth less than the original investment when sold or redeemed, even if the long-term trend has been upward. Financial markets and a client's specific investment may experience varying degrees of volatility and fluctuation in value. While we attempt to mitigate these risks by using asset allocation strategies, asset allocation involves assumptions based on the historical performance of different asset classes. There is a risk that an asset class does not perform in a similar way, or that the assumptions on which we rely may be proved incorrect in the future. Consequently, there is no guarantee that an asset allocation strategy will meet its investment objective or that a portfolio will not suffer losses.

Securities investments are not guaranteed and clients may lose money on investments. LM Capital asks that clients work with the Firm to help us understand their tolerance for risk. Asset allocation and diversification are the primary tools for controlling risk. We seek to ensure that our clients' mix of fixed income assets is appropriate for their temperament, desire for growth, tolerance of risk, need for liquidity, etc.

The review of material risks provided above is not meant to be a complete description of every risk that may be applicable. All investment activities involve a high degree of risk, including the possible risk of loss of an investor's entire investment. The information contained herein is a summary only.

### **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 a client's or prospective client's evaluation of LM Capital or the integrity of our management.

Our firm and our management personnel have no reportable disciplinary events to disclose.

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

A member of our firm's management is a representative of LM Advisors LLC (hereinafter referred to as "LM Advisors"), an affiliate. LM Advisors works with high-net worth individuals. In that capacity, this individual provides advisory services through LM Advisors. The advisory services delivered by LM Advisors are generally different from those provided by our firm, which manages primarily institutional accounts.

We may occasionally trade the same or similar securities in client portfolios that are traded by LM Advisors in its client portfolios. When this occurs, our clients may receive a better or worse price or execution than LM Advisors, depending upon the order of trade execution, the type of security traded and the broker-dealer used. There are two separate trading desks that execute orders for LM Advisors clients and LM Capital clients, respectively. In addition there are two separate and distinct departments responsible for handling the trade operational processes for each firm's respective client's.

Neither LM Capital, nor our management personnel are registered or have an application pending to register as a broker-dealer or as a registered representative of a broker-dealer,

and, neither LM Capital nor our management persons are registered or have an application pending to register as a futures commission merchant, commodity pool operator, commodity trading advisor, or as an associated person of the foregoing entities.

## **Item 11 – Code of Ethics**

### **A. Code of Ethics**

LM Capital has adopted a Code of Ethics (hereinafter referred to as the “Code”) pursuant to Rule 204A-1 of the Advisers Act. The purpose of the Code is to set forth certain key guidelines that have been adopted by us and to specify the responsibility of our personnel to act in accordance with their fiduciary duty to our clients and to comply with applicable federal and state laws and regulations. The Code requires that all employees conduct themselves in accordance with the highest ethical standards, which should be premised on the concepts of integrity, honesty and trust. The Code additionally includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons must acknowledge the terms of the Code.

Our Code is updated when necessary and reviewed by the firm's Chief Compliance Officer and Senior Management of the firm. Each employee of LM Capital must annually acknowledge, in writing, to the firm's Code as well as their adherence to it.

LM Capital and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code but to the general principles that guide the Code.

Our compliance policies and procedures require submission of quarterly personal securities transactions as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. LM Capital's Code further includes the firm's policy prohibiting the use of material non-public information.

A copy of our Code of Ethics is available to both our advisory clients and prospective clients. You may request a copy by email sent to [jfrankel@lmcapital.com](mailto:jfrankel@lmcapital.com), or by calling us at (619) 814-1401.

## **B. Investment in Securities Recommended to Clients**

Our firm and/or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

As disclosed in the preceding section of this Brochure (Item 10), related persons of our firm are separately registered as an investment adviser representative of another registered investment adviser. Please refer to Item 10 for a detailed explanation of these relationships and important conflict of interest disclosures.

### **Item 12 – Brokerage Practices**

LM Capital Group, LLC. does not have any soft dollar arrangements and does not receive any soft dollar benefits.

LM Capital exercises discretion in the management of its client portfolios. This includes the selection of broker-dealers it will choose to execute trades with. LM Capital does not have any affiliated broker-dealer. Clients may include limitations on this discretionary authority in a written statement or as part of the IMA. Clients may change/amend these limitations. Such amendments must be provided to us in writing.

LM Capital will generally block trades where possible. This blocking of trades permits the trading of aggregate blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any such block.

Block trading may allow us to execute trades in a timelier, more equitable manner, and at an improved security price. LM Capital's block trading policy and procedures are as follows:

- 1) Transactions for any client account may not be aggregated for execution if the practice is prohibited by or inconsistent with the client's advisory agreement with LM Capital, or our firm's order allocation policy.
- 2) Prior to entry of an aggregated order, a written order ticket must be completed which identifies each client account participating in the order and the proposed allocation of the order, upon completion, to those clients.
- 3) If the order cannot be executed in full at the same price or time, the securities actually

purchased or sold by the close of each business day must be allocated pro rata among the participating client accounts in accordance with the initial order ticket or other written statement of allocation. However, adjustments to this pro rata allocation may be made to participating client accounts in accordance with the initial order ticket or other written statement of allocation. Furthermore, adjustments to this pro rata allocation may be made to avoid having odd amounts of shares held in any client account, or to avoid excessive ticket charges in smaller accounts.

- 4) Generally, each client that participates in the aggregated order must do so at the average price for all separate transactions made to fill the order and must share in the commissions on a pro-rata basis in proportion to the client's participation. Under the client's agreement with the custodian/broker, transaction costs may be based on the dollar amount of securities traded for each client.
- 5) LM Capital's client account records separately reflect, for each account in which the aggregated transaction occurred, the securities which are held by, and bought and sold for, that account.
- 6) Funds and securities for aggregated orders are clearly identified on LM Capital's records and to the broker-dealers or other intermediaries handling the transactions, by the appropriate account numbers for each participating client.

### **Item 13 – Review of Accounts**

The underlying securities within Model Portfolio Management Services accounts are continually monitored. Correspondingly, these accounts are reviewed daily, when transactions are placed in a client portfolio and at least monthly otherwise. Accounts are reviewed in the context of the investment objectives and guidelines of each model portfolio, as well as any investment restrictions provided by the client, when applicable. More frequent reviews may be triggered by client request, material changes in variables such as the client's individual circumstances, or the market, political or economic environments.

These accounts are reviewed by: John Chalker - Managing Director; Mario Modiano - Sr. Portfolio Manager; Rachel Wilson - Director of Fixed Income Trading; Michael Chalker - Portfolio Manager; Jeff Frankel - Chief Compliance Officer.

**REPORTS:** In addition to the monthly statements and confirmations of transactions that clients receive from their custodian, LM Capital provides reports summarizing account performance, balances and holdings. Based upon client request, reports can be provided as often as daily, but will generally be provided on at least a monthly basis. These reports will also remind the client to notify us if there have been changes in the client's financial situation

or investment objectives and whether the client wishes to impose investment constraints or modify existing restrictions.

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

It is LM Capital's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.

It is LM Capital's policy not to accept or allow our employees to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

#### **Item 15 – Custody**

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on at least a monthly basis. Clients may instruct additional reports on a daily and weekly basis if necessary. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

#### **Item 16 – Investment Discretion**

LM Capital usually receives discretionary authority from the client at the outset of an advisory relationship, to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account, as set forth in our agreements with the Client.

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign an IMA with our firm and may limit this authority by giving us further written instructions. Clients may also change/amend such limitations, at any time, by providing us with further written instructions.



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

LM Capital's authority to vote proxies or act with respect to other shareholder actions is established owing to the delegation of discretionary authority under LM Capital's investment advisory contracts. LM Capital is required to vote proxies in the best interests of our clients and in accordance with our established policies and procedures.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting Jeff Frankel - Chief Compliance Officer by telephone, email, or in writing. Clients may request, in writing, information on how proxies for their shares were voted. If any client requests a copy of our complete proxy policies and procedures or how the firm voted proxies for their account, we will provide such information to the client upon written request.

Clients may instruct LM Capital to vote proxies according to particular criteria (ie, to always vote with management, or to vote for or against a proposal to allow a so-called "poison pill" defense against a possible takeover). These requests must be made in writing. Clients may also instruct the firm on how to cast a vote in a particular proxy contest, by contacting us at (619) 814-1401.

Please note, that as a fixed income asset manager, we are rarely required to vote proxies.

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

LM Capital has no additional financial circumstances to report and has not been the subject of a bankruptcy petition at any time during the past ten years.