

**Item 1 – Cover Page**

Grace Capital

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**FORM ADV PART 2A BROCHURE**

This Brochure provides information about the qualifications and business practices of Grace Capital. If you have any questions about the contents of this Brochure, please contact us at 857-317-6642 and/or [office@gracecapitalboston.com](mailto:office@gracecapitalboston.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.

Grace Capital is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information you can use to determine to hire or retain an Adviser. Additional information about Grace Capital is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Grace Capital's IARD number is 139771.

## **Item 2 – Material Changes**

Grace Capital has no material changes to report.

We will further provide you with a new Brochure as necessary based on changes or new information at any time without charge. If there are no material changes to the Brochure, we will simply notify you as such and make the entire Brochure available to you upon request.

The full Brochure may be requested by contacting Catherine Faddis, president, at 857-317-6642 or [office@gracecapitalboston.com](mailto:office@gracecapitalboston.com).

Additional information about Grace Capital is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Grace Capital who are registered, or are required to be registered, as investment adviser representatives of Grace Capital.

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#### **Item 4 – Advisory Business**

Grace Capital has been a Registered Investment Advisor since 2006. We primarily do business as Grace Capital (“GC”). As of December 31, 2019, GC assets under management were \$148,983,260. We manage assets for institutional and retail accounts. We offer investment advisory services for separately managed accounts. Our services include investment management using fundamental analysis, and company research. We also apply valuation principles to identify stocks that we find attractive to buy and in some cases bonds and preferred stocks that we believe are credit worthy.

We manage money basically one way—income with growth—but we tailor our services to the individual needs of clients. Clients may impose restrictions on investing in certain securities or types of securities. GC is 100% employee owned. The principal owner of GC is Catherine Faddis.

#### **Education and Business Background**

##### **Catherine Faddis, CPA (non-practicing)**

Year of Birth: 1969

Education: BBA—College of William and Mary; MBA—Harvard Graduate School of Business; Business background, preceding five years: Chief Investment Officer, portfolio manager, analyst—GC. A full list of our staff can be found at [www.gracecapitalboston.com](http://www.gracecapitalboston.com).

#### **Item 5 – Fees and Compensation**

Clients are charged a fee for investment management services. The fees are generally charged at a rate of 1% (100 bps) per annum with exceptions. Some clients pay less than 1%. The fee is typically charged quarterly in arrears based on the asset value at quarter end. Fees for separately managed accounts and large corporate and pension accounts are negotiable and depend on the size and complexity of the account. Clients may terminate the investment advisory contract at will. We sometimes bill clients for fees incurred and other times deduct fees from clients’ accounts, depending on the wishes of the client. Clients may pay custodian fees. Clients will incur brokerage and other transaction costs.

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

GC does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client), nor do we practice side-by-side management.

## **Item 7 – Types of Clients**

GC provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, estates, corporations or business entities, and trust programs.

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

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

We manage all equity accounts and balanced accounts.

### **Balanced Strategy:**

Our general approach is Income with Growth. This strategy employs an income with growth investment style producing current income and capital appreciation. The fixed income securities include preferred stocks, corporate bonds, US Treasuries, and cash. The equity portion of the account is to be invested primarily in large capitalization dividend paying stocks, but may own diversified growth stocks, value stocks, and international stocks of all market capitalizations. We invest in companies that we feel will grow and prosper for at least five years. We generally hold a stock as long as the company's prospects remain sound. Most of the companies in our portfolio pay a dividend. Each year we expect the dividend to increase for a significant portion of the stocks in the portfolio.

### **Equity Strategies:**

The goal of the equity strategies is to outperform the broad market using bottom-up stock selection. The firm has US large cap and all cap equity strategies as well as US small capitalization strategies. We also manage an International strategy. The strategies invest in undervalued diversified stocks with strong underlying fundamentals. A portion of the portfolios are invested in companies owned primarily for their ability to pay high dividends. The holdings include large-cap, mid-cap, small-cap, international, and some emerging market securities. The strategies generally exclude speculative companies, companies in volatile industries, and companies with opaque financials.

**No investment is guaranteed and your investment could lose value.**

GC makes its investment decisions based on meeting with company management, review of financial statements, company SEC filings and review of press releases and other information sources. We meet with more than 400 managements per year. These meetings are organized by members of the Boston investment community. Our private notes may be available upon request to certain clients.

The material risks for all our investment strategies are similar. In all strategies, the risk is that the value of the securities we own could decline, and the income payments (dividend and/or interest payments) could decline or stop completely.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of GC or the integrity of GC management. GC has had no legal or disciplinary events.

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

The firm has an agreement to compensate JBJ Investment Partners, LLC (JBJ) for services administered. The fee is 25% of management fees paid to GC for referred clients. This is an ongoing arrangement while the client utilizes JBJ's services. Clients from which JBJ will receive a fee are required to sign a disclosure document acknowledging the arrangement prior to becoming a client of GC.

## **Item 11 – Code of Ethics**

In our efforts to ensure that GC develops and maintains a reputation for integrity and high ethical standards, it is essential not only that GC and our employees comply with relevant federal and state securities laws, but also that we maintain a high standard of personal and professional conduct. GC's Code of Ethics (the "Code") is designed to help ensure that we conduct our business consistent with these high standards.

This Code is based on the principle that the officers, directors, and employees (or persons having similar status or function) of GC have a fiduciary duty to place the interests of their clients ahead of their own interests. The Code applies to all Access Persons and focuses principally on the monitoring and reporting of personal transactions in securities. Access Persons must avoid activities, interests, and relationships that might interfere with making decisions in the best interest of the clients.

**GC holds the following principles:** We are fiduciaries. Our duty is at all times to place the interests of our clients first. Access Persons must scrupulously avoid serving their own personal interests ahead of the interests of clients. An Access Person may not induce or cause a client to take action, or not to take action, for personal benefit rather than for the benefit of the client. All personal securities transactions will be conducted in such a manner as to be consistent with the Code and to avoid any actual or potential conflict of interest or any abuse of an Access Person's position of trust and responsibility. The principle of independence in the investment decision-making process is paramount.

We will provide the Code of Ethics to any client or prospective client upon request.

## Item 12 – Brokerage Practices

There are no limitations on the authority of GC to determine which securities are bought and sold, the amount of securities bought and sold, the broker or dealer used, and the commission rate paid. GC has discretion to determine which broker-dealer is used to execute client trades and the commission rate to be paid for such trades. The exceptions are accounts that direct GC to use a certain broker (directed brokerage accounts). Where client's direct brokerage activity, such directed brokerage may prevent GC from obtaining the best execution of transactions.

GC will endeavor to seek best execution when placing trades for clients. In attempting to achieve best execution, we will not necessarily seek to obtain the lowest commission, but rather will seek the best overall qualitative execution. We consider several factors when placing a trade, including: speed of execution, price improvement, size improvement, commission, research, quality of overall execution services, expertise, financial condition, and skill. GC reviews trades to ensure that the prices obtained fall within an acceptable range in comparison to readily available quote information from publicly recognized pricing services and/or providers. We also periodically review the reasonableness of the commissions paid. That reasonableness will be determined based on commissions paid by GC to other brokers and commissions paid to brokers by other investment managers.

Soft-dollar practices come into play when an investment adviser executes transactions with a broker dealer with whom it has an agreement to receive research products and services. Grace Capital uses soft dollars to acquire research products and services that fall within the safe harbor provided by the SEC under Section 28(e) of the Exchange Act.

Research obtained with soft dollars may not be utilized by Grace Capital for the specific account that generated the soft dollars. It should be noted that the value of research cannot be measured precisely, and commissions paid for research services certainly cannot always be allocated to clients in direct proportion to the value of the services to each client. Grace Capital does not usually attempt to allocate the relative costs or benefits of research among client accounts because we believe that—in the aggregate—the research benefits clients and assists us with fulfilling its overall duty to its clients.

A commission incurred by the client may be higher on any given transaction. However, the selection of the executing broker/dealer is made with all factors in mind, including execution efficiency, settlement capabilities, research, and overall financial health of the broker.

We employ safeguards in order to mitigate conflict:

- We do not enter into agreements with any broker regarding the placement of securities based solely on soft-dollar research.
- Research acquired by Grace Capital through soft dollars is used for the benefit for all clients, even though not all client transactions are executed at one brokerage firm.

Soft-dollar arrangements will acquire research services through soft-dollar transactions including, but not limited to the following:

- Economic, industry, or company research reports or investment recommendations;
- Compilations of securities prices, earnings, dividends, and similar data;
- Meetings with corporate executives;
- Conferences that relate to investment research;
- Quotation services, research, or analytical computer software and services (ie. Thomson Reuters Eikon).

We do not direct trades to any broker as an incentive to refer clients to us. From time to time in the regular course of our investment business and interaction with brokers, we may get a client referral, but that is very rare.

Services other than trading execution from brokers consist of management meetings. We may pay a higher commission for such service. All clients, depending on the strategy, may pay higher trading commissions. We do not receive any non-research or mixed-use products or service from any broker-dealers.

GC does not have any interest in or material business with market makers.

GC does not use client brokerage to pay for client referrals or other arrangements that promote our business.

Similar trade orders are aggregated, and trade allocation is *pro rata* if the size of each account's order allows. An account's order may be filled completely before other accounts, or not filled at all for a particular trade, if partially filling an order for that account would be more costly to the client.

### **Item 13 – Review of Accounts**

The firm provides a written quarterly and annual report/reviews which contain information and data conventionally provided by the industry. The report is reconciled to the custodians' reports. The principal owner of the firm, Catherine Faddis, and other members of the investment team under her direct supervision review the client accounts, which currently number approximately 135 accounts. Although the accounts are reviewed to ensure they are invested in line with the account's objective in a general way, all the accounts are managed with the same objective: income with growth. The custodians provide periodic account reports common to the industry directly to clients.

### **Item 14 – Other Compensation**



See Item 10.

### **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank, or other qualified custodian who holds and maintains client's investment assets. GC urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

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

GC usually receives discretionary authority from clients at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, discretion is exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, GC observes the investment policies, limitations, and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to GC in writing.

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

GC will accept the authority to vote proxies for clients' securities, however GC will not allow clients to direct us to vote in a particular solicitation. GC expects to vote its equity holdings in accordance with management of the applicable company. In the event GC votes in opposition to management, we expect to sell the stock. Clients may obtain a copy of the adviser's proxy voting policies and procedures upon request.

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

GC 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.