

Form ADV Part 2A Disclosure Brochure

**Westchester Capital Management, Incorporated**

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Date of Brochure: September 2020

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This brochure provides information about the qualifications and business practices of Westchester Capital Management, Incorporated. If you have any questions about the contents of this brochure, please contact Cindy Christensen at 402-392-2418 or [cindyc@westchestercapital.com](mailto:cindyc@westchestercapital.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.

Additional information about Westchester Capital Management, Inc. is also available on the Internet at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can view our firm's information on this website by searching by our firm's name or by our CRD number. Our firm's CRD number is **110961**.

\*Registration as an investment advisor does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

Since filing our last annual amendment in September 2019, we have made the following material changes to this brochure.

- Item 12 has been updated to remove prior references describing the receipt of research services provided by Telemet America, Inc. which had been provided to us by Charles Schwab through a soft-dollar agreement. We ended the soft dollar agreement for that service.
- Item 13 has been updated to explain that written Westchester Capital Management, Inc. prepared position and performance reports are provided to clients on an as-requested basis.

We will ensure that you receive a summary of material changes, if any, to this and subsequent disclosure brochures within 120 days after our fiscal year-end. Our fiscal year ends on June 30<sup>th</sup>, so you will receive the summary of material changes, if any, no later than the end of October each year. At that time, we will also offer a copy of the most recent disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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#### **Item 4 – Advisory Business**

Westchester Capital Management, Inc. (also referred to as “the Firm”, “us”, and “we” throughout this brochure) is an investment advisor registered with the United States Securities and Exchange Commission (“SEC”) and is a Corporation formed under the laws of the State of Nebraska.

- We have been registered as an investment advisor since December 1986 and began providing services in January 1987.
- Cindy Christensen, President and Chief Executive Officer, is the sole owner of the firm.

#### **Description of Investment Advisory Services**

We provide advisory services in the form of investment (or asset) management services. Investment management services involve providing clients with continuous and on-going supervision over their accounts. This means we continuously monitor a client's account and make trades in client accounts when deemed necessary.

If you decide to engage us for our Investment Advisory Services, we develop and implement customized and individualized investment plans for your accounts placed under our management and supervision. Your income level, tax status, income needs, other investments, outstanding obligations and various other factors are obtained at the beginning of our arrangement (and confirmed or updated periodically) for use in managing each account. This information is updated, when necessary, to reflect any changes in your investment objectives, asset mix, tax status or other relevant financial information.

#### ***Additional Disclosure for ERISA Retirement Plan Clients.***

If you elect to engage Westchester Capital Management, Inc.'s services to manage one or more ERISA Qualified Retirement Plans, then Westchester Capital Management, Inc. will be acting as an Investment Manager to the Plan, as defined by ERISA section 3(38), with respect to our services, and Westchester Capital Management, Inc. hereby acknowledges that it is a fiduciary with respect to our Investment Advisory Services.

Westchester Capital Management, Inc. will disclose, to the extent required by ERISA Regulation Section 2550.408b-2(c), to you any change to the information that we are required to disclose under ERISA Regulation Section 2550.408b-2(c)(1)(iv) as soon as practicable, but no later than sixty (60) days from the date on which we are informed of the change (unless such disclosure is precluded due to extraordinary circumstances beyond our control, in which case the information will be disclosed as soon as practicable).

In accordance with ERISA Regulation Section 2550.408b-2(c)(vi)(A), we will disclose within thirty (30) days following receipt of a written request from the responsible plan fiduciary or Plan Administrator (unless such disclosure is precluded due to extraordinary circumstances beyond our control, in which case the information will be disclosed as soon as practicable) all information related to our agreement and any compensation or fees received in connection with our agreement that is required for the Plan to comply with the reporting and disclosure requirements of Title 1 of ERISA and the regulations, forms and schedules issued thereunder.

If we make an unintentional error or omission in disclosing the information required under ERISA Regulation Section 2550.408b-2(c)(1)(iv) or (vi), we will disclose to you the correct information as

soon as practicable, but no later than thirty (30) days from the date on which we learn of such error or omission.

Certain ERISA clients may periodically request that we provide informational meetings to plan participants. Such meetings are incidental to the investment supervisory services Westchester Capital Management, Inc. provides to each client, and no separate fee is received for such services.

At least quarterly, all clients have the responsibility to notify Westchester Capital Management, Inc. whether their financial situation or investment objectives have changed, or if they want to impose and/or modify any reasonable written restrictions on the management of their accounts. We also contact clients annually to determine whether their financial situation or investment objectives have changed, or if they want to impose and/or modify any reasonable restrictions on the management of their accounts. All changes and restrictions need to be submitted to Westchester Capital Management, Inc. in writing. We are always available to consult with clients relative to the status of their accounts. Clients have the ability to impose reasonable restrictions on the management of their accounts, including the ability to instruct us not to purchase certain securities. A client's beneficial interest in a security does not represent an undivided interest in all the securities held by the account custodian, but rather represents a direct and beneficial interest in the securities, which comprise the client's account(s). Separate accounts are always maintained for each client with the account custodian.

Westchester Capital Management, Inc. provides investment advisory services through accounts maintained at a qualified custodian recommended by Westchester Capital Management, Inc. or selected by the client. Most accounts will be established at Charles Schwab & Company, Inc. as a result of our decision to utilize Schwab Advisor Solutions, an institutional program developed for investment advisory firms (see Item 12 of this brochure for more details regarding our brokerage arrangements). In order to manage and trade client accounts, each client must grant Westchester Capital Management, Inc. with trading authorization on the accounts they would like us to manage. We manage client portfolios on a discretionary basis (please refer to Item 16 for more information). Hence, Westchester Capital Management, Inc. directs investment transactions in client accounts. In the event a particular client wishes to direct a transaction in his or her respective account, Westchester Capital Management, Inc. documents the client request in writing, requiring a signed authorization from the client that such trade was at the full discretion of the client. In the event such client submits his/her directive in electronic communication, Westchester Capital Management, Inc. shall contact such client for verbal confirmation. If a client makes a verbal request to buy or sell a certain security a client-directed trade letter will be required to be signed by such client and maintained as a permanent record.

Solely, as an accommodation and courtesy to clients, from time to time, and only at the specific request of a client, we may be willing to provide limited advice on accounts owned by the client, but not otherwise managed by Westchester Capital Management, Inc. through our Investment Advisory Services. These are typically accounts where trading authorization has not been granted to Westchester Capital Management, Inc. Examples include a client's 401(k) or other retirement account, 529 college planning account, and other accounts held "away" from the Westchester Capital Management, Inc.'s platform. Clients must understand that Westchester Capital Management, Inc. does not include these non-managed accounts in the fee calculation described in Item 5 of this brochure. Further, we do not provide on-going reviews of such accounts, and information we have about such accounts is limited to information provided exclusively by the client. When we provide advice on non-managed accounts, the client will have the sole discretion to accept or reject our advice. When we provide advice on non-managed

accounts, the client must implement all trades in such accounts because Westchester Capital Management, Inc. will have no access to the account.

### ***Courtesy Account Services***

Upon consideration, and final approval, by Westchester Capital Management, Inc., some clients may be allowed to establish a courtesy account through Charles Schwab & Co., Inc. and appoint Westchester Capital Management, Inc. as the investment advisor to the account. While our Firm will be listed as an investment advisor on a courtesy account; courtesy accounts do not receive ongoing supervision and monitoring services like the services provided through our Investment Advisory Service described above. Our advice under this service is extremely limited in that we only provide advice on available money market funds and other mutual funds that can be used instead of holding client funds in cash-only positions. A client may direct Westchester Capital Management, Inc. to execute a trade by either purchasing or selling individual securities as well.

Through this service, the client will provide Westchester Capital Management, Inc. trading authorization on the account, but Westchester Capital Management, Inc. will make trade implementations strictly on a non-discretionary basis. Further, trades other than the purchase and sale of money market positions and other mutual funds and exchange traded funds used instead of holding client funds in cash-only positions are implemented by Westchester Capital Management, Inc. strictly on an unsolicited basis. This means clients shall be responsible for initiating all purchase and sale decisions of general securities; clients will be solely responsible for approving all purchase and sale instructions; and clients must instruct Westchester Capital Management, Inc. to make changes within the account. Clients with courtesy accounts, and not Westchester Capital Management, Inc. or any of our employees, will have the exclusive responsibility for the performance and monitoring of all securities that are purchased for, or held, in the courtesy account. Westchester Capital Management, Inc. does not currently charge a fee for its Courtesy Account Service. However, clients will be required to enter into a written agreement with Westchester Capital Management, Inc., and they will be provided a copy of this disclosure brochure prior to establishing a courtesy account.

### **Limits Advice to Certain Types of Investments**

Westchester Capital Management, Inc. provides investment advice on the following types of investments:

- Exchange-listed securities (i.e. stocks)
- Securities traded over-the-counter (i.e. stocks)
- Preferred securities (i.e. preferred stocks)
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Mutual fund shares
- United States government securities
- Exchange traded funds (ETFs)

Westchester Capital Management, Inc. does not provide management and supervision services on foreign issues, variable life insurance, variable annuities, options, and futures contracts on tangibles or intangibles, although the firm may be willing to discuss such investments with clients.

When providing investment management services, Westchester Capital Management, Inc. typically constructs each client's account holdings using equities, bonds, and, in some limited cases, we will hold mutual funds or exchange traded funds to build diversified portfolios. We will also select money market mutual funds for cash positions. It is not Westchester Capital Management, Inc.'s typical investment strategy to attempt to time the market, but we may increase cash holdings, as deemed appropriate, based on the client's risk tolerance and our expectations of market behavior. Our investment strategy will take into account specific requests to accommodate special situations, such as cost basis of the stock, stock options, legacy holdings, inheritances, closely held businesses, collectibles or special tax situations.

(Please refer to Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss for more information.)

### **Tailor Advisory Services to Individual Needs of Clients**

Westchester Capital Management, Inc.'s services are always provided based on the individual needs of each client. This means, for example, that clients are given the ability to impose restrictions on the accounts we manage, including specific investment selections and sectors. We work with each client on a one-on-one basis through interviews and data collection to determine the client's investment objectives and suitability information.

### **Client Assets Managed by Westchester Capital Management, Inc.**

The amount of client's assets managed by Westchester Capital Management, Inc. totaled \$357,620,656.00 as of September 2, 2020. The entire amount is managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

This item provides details how we charge for our firm's services, with descriptions of each service's fees and compensation arrangements.

### **Fees for Investment Advisory Services**

We have implemented the following fee schedule for our Investment Advisory Services.

Value	Annual Rate
First \$2,500,000	1.00%
Next \$2,500,000	0.80%
Next \$2,500,000	0.60%
Next \$2,500,000	0.50%
Next \$5,000,000	0.40%
Next \$5,000,000	0.35%
Over \$20,000,000	Negotiated

The fee schedule listed above is the typical fee schedule applied to clients. However, at the discretion of Westchester Capital Management, Inc., the fee schedule is negotiable depending on the client's financial situation, complexity and relationship with Westchester Capital Management, Inc. (i.e. employees and family-related accounts may have their fee waived or reduced). Also, accounts of family members not living in the same household can be combined to receive a lower fee on our tiered schedule. New accounts will receive a fee reduction for the quarter in which account inception occurred. There are scenarios for which Westchester Capital Management, Inc. will not bill on certain securities held in the account (i.e. investment holdings that are not part of the Westchester Capital Management Inc.

Investment Committee's coverage and/or assets that transferred to our platform for which a subsequent sale would create current taxation issues).

Westchester Capital Management, Inc. has implemented a policy whereby related accounts are grouped (i.e. combined) together to aggregate assets under management for fee billing purposes. By doing this, we will combine multiple accounts to reach breakpoints on our standard tiered fee schedule resulting in a lower annual fee applied across included accounts. We call this policy "householding" as it is a common method to group or combine accounts of family members living in the same household. In addition, it is our policy to extend the opportunity to "household" accounts to family members not living in the same household and to clients that have a related (for example a business practice) non-family relationship. For example, we have extended the householding fee policy to clients that have or had a mutual combined relationship with WCM. The Exhibit 1 below illustrates a sample of three accounts billed on WCM's standard fee schedule as individual accounts in table one. The second table shows the same three accounts under the "householding" provision.

EXHIBIT 1 FOR EXAMPLE PURPOSES:	Market Value	Fee calculation - Quarterly Rate at 0.25%
Account 1 Quarter End Market Value:	\$2,000,000	\$5,000
Account 2 Quarter End Market Value:	\$750,000	\$1,875
Account 3 Quarter End Market Value:	\$500,000	\$1,250
Combined FeeTotal:	\$3,250,000	\$8,125

At the end of the billing cycle, if the accounts are not householded, their combined fees would be \$8125. Combining, or "householding" the related accounts, the quarter-end value is \$3,250,000, making the combined accounts eligible for the graduated fee schedule. The fee schedule that would apply would be 1% per annum (0.25%/quarter) on the tier \$0-\$2,500,000 and then 0.80% per annum (0.20%/quarter) on the \$2,500,001-\$5,000,000. In this exhibit, \$750,000 of the combined account values would be eligible for the discounted fee schedule of 0.20%. With the discounted fee schedule applied to \$750,000 of the householded value, the Combined Fee Total would be \$7750, a savings of \$375 (\$8125 - \$7750). Each respective household member is responsible for paying their share of each accounts' respective percent of the combined discounted fee. In this exhibit, Account 1 would pay 62% of \$7750 (\$4805 a discount of \$195). Account 2 would pay 23% of \$7750 (\$1782.50 a discount of \$92.50). Account 3 would pay 15% of \$7750 (\$1162.50 a discount of \$87.50).



	Market Value	Fee calculation - Discount Rate
	\$2,500,000	\$6,250
House Hold Accounts Combined Value		
\$3,250,000	\$750,000	\$1,500
Combined Discounted FeeTotal		\$7,750

		Percent of combined value	Share of Discounted Fee
House Hold Account 1 Quarter End Market Value:	\$2,000,000	$\$2,000,000 / \$3,250,000 = 62\%$	\$4,805
House Hold Account 2 Quarter End Market Value:	\$750,000	$\$750,000 / \$3,250,000 = 23\%$	\$1,782.50
House Hold Account 3 Quarter End Market Value:	\$500,000	$\$500,000 / \$3,250,000 = 15\%$	\$1,162.50
	\$3,250,000	100%	\$7,750

When calculating the value of client assets for purposes of fee billing, it is our policy to round up or down to the nearest dollar. For example, a client account valued at \$775,430.55 will be valued at \$775,431 for fee billing purposes. Quarterly fees are also rounded up or down to the nearest dollar. For example, a fee totaling \$1,938.58 will be rounded up to \$1,939, whereas a fee of \$3,571.49 would be rounded down to \$3,571 and billed to the client.

Annual fees are divided and payable quarterly, in arrears, on the basis of 25% of the annual rate applied to the net asset value of the account at the end of each calendar quarter.

If we hold mutual funds or exchange traded funds in your managed accounts, all fees paid to Westchester Capital Management, Inc. for investment advisory services are separate from the fees and expenses charged by the mutual fund company and financial institution issuing the exchange traded fund. A complete explanation of the expenses charged by the issuing company is contained in each fund's prospectus.

### **Termination of Accounts**

A client has the ability to terminate Investment Advisory Services by providing us written notice. Upon termination, the fee for the final period will be based upon the value at termination date, prorated over the portion of the calendar quarter during which the account was managed by Westchester Capital Management, Inc. There are no termination fees for discontinuance of services.

### **General Disclosure Regarding "Other" Fees**

Our services are **not** provided on a "wrap-fee" basis. A "wrap-fee" program is where investment advisory services, and the cost for transactions, are covered under one, all-inclusive "wrap-fee". Through our program, our advisory and management services are charged separately from transaction costs. Thus, brokerage commissions and/or transaction ticket fees charged by your custodian will be billed directly to

your account. We do not receive any portion of such commissions or fees from the custodian or our clients.

In addition, clients may incur certain charges imposed by third parties other than Westchester Capital Management, Inc. in connection with investments made or held through the account, including but not limited to, mutual fund sales loads, 12b-1 fees, variable annuity fees (if applicable), surrender charges, IRA and qualified retirement plan fees (if applicable). Management fees charged by Westchester Capital Management, Inc. are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients, and Westchester Capital Management, Inc. does not share in the receipt of any such fees. A description of these fees and expenses are available in each investment company security's prospectus.

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

Item 6 is not applicable to this Disclosure Brochure because Westchester Capital Management, Inc. does not charge or accept performance-based fees. Performance-based fees are fees based solely on a share of capital gains or capital appreciation of the assets held within a client's account.

#### **Item 7 – Types of Clients**

Westchester Capital Management, Inc. generally provides investment advice to the following types of clients:

- Individuals (including trusts and estates)
- High-Net Worth Individuals
- Family limited partnerships
- Limited liability companies
- Pension and profit sharing plans
- Charitable organizations
- Corporations such as small businesses

#### **Minimum Investment Amounts Required**

We require a minimum account size of \$100,000 for our Investment Advisory Services. However, in certain circumstances, we may waive or negotiate our account minimum level. All clients are required to execute an agreement for services in order to establish a client arrangement with Westchester Capital Management, Inc.

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

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

Westchester Capital Management, Inc. primarily uses fundamental analysis when formulating investment advice. Fundamental analysis is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). The objective of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of determining what type of position to take in that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using historical and projected data to evaluate a security's value.

The risk associated with fundamental analysis is that it is subjective. While a quantitative approach is possible, fundamental analysis usually entails a qualitative assessment of how market forces interact with one another and their impact on the investment in question. It is possible for those market forces to point in different directions, thus necessitating an interpretation of which forces will be dominant. This interpretation may be off the mark and could therefore lead to an unfavorable investment decision.

### **Investment Strategies**

Westchester Capital Management, Inc. primarily develops "long-term" investment strategies when managing client assets and/or providing investment advice. Long-term strategies are designed to identify and select investments that will be held for a period of at least one year or longer. We do not regularly use short-term strategies, investments held under one year, or investments held less than one month. Further, we do not attempt to "time" the market, and we do not use frequent trading strategies, which could result in increased brokerage and other transaction costs and taxes.

We consider ourselves to be "value investors." Value investing is a style of selecting stocks that trade for less than their intrinsic values. Value investors actively seek stocks of companies that they believe the market has undervalued. They believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with the company's long-term fundamentals. The result is an opportunity for value investors to profit by buying when the price is deflated. Typically, value investors select stocks with lower-than-average price-to-book or price-to-earnings ratios and/or high dividend yields.

A risk associated with value investing is estimating intrinsic value. This is because there is no "correct" intrinsic value. Two investment advisors can be given the exact same information and place a different value on a company. For this reason, another central concept to value investing is that of "margin of safety". This means that we select securities at what we believe to be a large enough discount to allow some room for error in our estimations of value.

Also, keep in mind, that the very definition of value investing is subjective. Some value investors only look at present assets/earnings and do not place any value on future growth. Other value investors base strategies completely around the estimation of future growth and cash flows. Our firm's approach is to primarily look at present assets including the balance sheet, but we also consider future growth by analyzing price-to-earnings ratios. Despite the different methodologies, it all defaults to trying to buy something for less than its projected value.

### **Risk of Loss**

Past performance is not indicative of future results. Therefore, you should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, exchange traded funds, and bonds) involves risk of loss. Further, depending on the different types of investments, there may be varying degrees of risk. You should be prepared to bear an investment loss, including loss of original principal.

Because of the inherent risk of loss associated with investing, our firm is unable to represent, guarantee, or imply that our services and methods of analysis can, or will, predict future results. Our firm may not successfully identify market tops or bottoms or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through our investment management program:

- Market Risk – The stock market as a whole goes down resulting in a decrease in the value of client investments. This is also referred to as systemic risk.
- Equity Stock Market Risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence, and perceptions of their issuers, changes. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.
- Company Risk – When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike, or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk – When investing in bonds, there is the risk that an issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their purchasing power.
- Mutual Fund Risk – When investing in a mutual fund, you will bear additional expenses based on your pro rata share of the mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning a mutual fund also reflects the risks of owning the underlying securities the mutual fund holds.
- Exchange Traded Fund Risk – When investing in an exchange traded fund, you will bear additional expenses based on your pro rata share of the exchange traded fund's operating expenses, including the potential duplication of management fees. The risk of owning an exchange traded fund also reflects the risks of owning the underlying securities the exchange traded fund holds.
- Management Risk – Your investment with our firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produce the expected returns, the value of the investment will decrease.
- Interest-Rate Risk – Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.

## **Item 9 – Disciplinary Information**

Item 9 is not applicable to this Disclosure Brochure because there are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our business or integrity.

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

Westchester Capital Management, Inc. is an independent investment advisory firm and only provides investment advisory and management services. The Firm is not engaged in any other business activities and offers no other services than those described in this Disclosure Brochure.

Westchester Capital Management, Inc. is **not**, and does **not**, have a related company that is a (1) broker/dealer, municipal securities dealer, government securities dealer or broker, (2) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund), (3) other investment adviser or financial planner, (4) futures commission merchant, commodity pool operator, or commodity trading advisor, (5) banking or thrift institution, (6) accountant or accounting firm, (7) lawyer or law firm, (8) insurance company or agency, (9) pension consultant, (10) real estate broker or dealer, or (11) sponsor or syndicator of limited partnerships.

We do not have arrangements with third-party investment advisors, or third-party money managers, to refer our clients to such companies for their investment advisory and investment management services.

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

### **Code of Ethics Summary**

Rule 204A-1 under the Investment Advisers Act of 1940, requires all investment advisers to establish, maintain and enforce a Code of Ethics. We have established a Code of Ethics that applies to all of our personnel. An investment adviser is considered a fiduciary according to the Investment Advisers Act of 1940. As a fiduciary, it is an investment adviser’s responsibility to provide fair and full disclosure of all material facts, and to act solely in the best interest of each of our clients at all times.

We have a fiduciary duty to all clients. This fiduciary duty is considered the core underlying principle for our Code of Ethics, which also covers our Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our personnel to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment, or affiliation, and, when changes occur, all personnel must sign an acknowledgement that they have read, understand and agree to comply with the Westchester Capital Management, Inc. Code of Ethics. Westchester Capital Management, Inc. has the responsibility to make sure the interests of all clients are placed ahead of Westchester Capital Management, Inc.’s, or our personnel’s own investment interest. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to any services being conducted. We take pride in conducting business in an honest, ethical and fair manner, and we strive to avoid all circumstances that might negatively affect, or appear to affect, our duty of complete loyalty to all clients. This disclosure is provided as a summary of Westchester Capital Management, Inc.’s Code of Ethics. However, if a client, or a potential client, would like to review our Code of Ethics in its entirety, a copy will be provided promptly upon request.

### **Affiliate and Employee Personal Securities Transactions Disclosure**

Our personnel may buy or sell, for their personal accounts, investment products identical to those recommended to clients. The same is true for accounts owned directly by Westchester Capital Management, Inc. However, it is our expressed policy that no person employed by Westchester Capital Management, Inc. may purchase or sell any security prior to a transaction being implemented for an advisory account; and, therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts. To help enforce these policies, we have established internal procedures

designed to monitor and supervise the trading activity of our personnel. The procedures include requiring all personnel to report holdings and transactions of certain “reportable” securities such as stocks, bonds, options and exchange traded funds (ETFs). In addition, personnel must seek prior approval from the firm’s executive committee members prior to purchasing new holdings of “reportable” securities.

## **Item 12 – Brokerage Practices**

### **Recommendation of Charles Schwab**

Westchester Capital Management, Inc. generally requires that clients establish brokerage accounts through our Investment Advisory Service with the Schwab Institutional division of Charles Schwab & Co., Inc. (Charles Schwab), a registered broker-dealer, member SIPC, to maintain custody of all client assets and to effect trades for their accounts. Westchester Capital Management, Inc. is independently owned and operated, and is not affiliated with Charles Schwab. Charles Schwab provides us with access to its institutional trading and custody services, which are typically not available to Charles Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them, as long as a total of at least \$10 million of the investment advisor's clients' assets are maintained in accounts at Schwab Institutional, and the services are not otherwise contingent upon the investment advisor committing to Charles Schwab any specific amount of business (assets in custody or trading).

Charles Schwab's services include brokerage, custody, research and access to mutual funds, exchange traded funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. On an annual basis, Westchester Capital Management, Inc. performs a Best Execution Review, whereby we assess Charles Schwab on a variety of issues to validate the suitability of their relationship with Westchester Capital Management, Inc.

Charles Schwab does not charge custody fees for Westchester Capital Management, Inc.'s client accounts. Charles Schwab is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Charles Schwab, or that settle into Charles Schwab accounts.

Charles Schwab also makes products and services available to Westchester Capital Management, Inc., that facilitate managing and administering clients' accounts, but which may not directly benefit clients' accounts. These products and services include software and other technology that provide access to client account data (such as trade confirmation and account statements); facilitate trade execution; provide research, pricing information and other market data; facilitate payment of Westchester Capital Management, Inc.'s fees from its clients' accounts; and assist with back-office functions; including recordkeeping and client reporting. Many of these services generally may be used to service all, or a substantial number, of Westchester Capital Management, Inc.'s accounts, including accounts not maintained at Schwab Institutional.

Schwab Institutional also makes available to Westchester Capital Management, Inc. other services intended to help Westchester Capital Management, Inc. manage and further develop its business enterprise. These services may include consulting, publications, conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Charles Schwab may make available, arrange and/or pay for these types of services rendered to Westchester Capital Management, Inc. by an independent third party providing these services to Westchester Capital Management, Inc. While as a fiduciary, Westchester Capital Management, Inc. endeavors to act in its clients' best interests. Westchester Capital Management, Inc.'s recommendation that clients maintain

their assets in accounts at Charles Schwab may be based, in part, on the benefit to Westchester Capital Management, Inc. of the availability of the foregoing products and services, and not solely on the nature, cost or quality of custody and brokerage services provided by Charles Schwab. This may create a potential conflict of interest.

Through its relationship with Charles Schwab, Westchester Capital Management, Inc. may also use the Charles Schwab Prime Brokerage service. Prime Brokerage is a service allowing Westchester Capital Management, Inc. to place trades with other broker/dealers without the need to have individual accounts with the other broker/dealers. The use of Prime Brokerage allows greater flexibility to access more fixed income products, ability to implement trades with companies that may make a market in a security, the ability to access Initial Public Offerings (IPO's), and the ability to access new issue bonds. Prime Brokerage Service is beneficial because it allows Westchester Capital Management, Inc. to place trades through several executing broker/dealers, yet receive centralized custody, clearing and settlement, recordkeeping and other services from one source, Charles Schwab. Westchester Capital Management, Inc.'s decision to use an executing broker/dealer will depend on the executing broker's respective expertise and costs. All assets will be kept in a Charles Schwab account, with all confirmations and statements generated by Charles Schwab.

We do not receive client referrals from Charles Schwab or any other broker/dealer.

#### **Client Directed Brokerage Arrangements**

Upon the approval of Westchester Capital Management, Inc., clients may instruct Westchester Capital Management, Inc. to manage client accounts and execute trades at broker/dealers, or other qualified custodians, selected by the client. Under such circumstances, Westchester Capital Management, Inc. will not have the authority to negotiate commissions or obtain volume discounts. Therefore, a disparity in commission charges may exist between the commissions charged to other clients. Accordingly, clients are required to submit to Westchester Capital Management, Inc. written authority instructing Westchester Capital Management, Inc. to direct trading to a specific broker/dealer or other qualified custodian. By doing so, the client may not necessarily obtain the same price and execution that Westchester Capital Management, Inc. clients receive through Charles Schwab.

#### **Handling Trade Errors**

Westchester Capital Management, Inc. has implemented procedures designed to prevent trade errors. However, trade errors in client accounts cannot always be avoided. Consistent with its fiduciary duty, it is the policy of Westchester Capital Management, Inc. to correct trade errors in a manner that is in the best interest of the client. In cases where the client causes the trade error, the client will be responsible for any loss resulting from the correction. Depending on the specific circumstances of the trade error, the client may not be able to receive any gains generated as a result of the error correction. In all situations where the client does not cause the trade error, the client will be made whole, and any loss resulting from the trade error, will be absorbed by Westchester Capital Management, Inc. if the error was caused by Westchester Capital Management, Inc. If the error is caused by the broker-dealer, the broker-dealer will be responsible for covering all trade error costs. If an investment gain results from the correcting trade, the gain will remain in the client's account, unless the same error involved other client account(s) that should also receive the gains, as it is not permissible for all clients to retain the gain. Westchester Capital Management, Inc. may also confer with clients to determine if the client should forego the gain (e.g., due to tax reasons).

Westchester Capital Management, Inc. will never retain any portion of any gains made as a result of trade error corrections, or profit in any way, from trade errors. If the gain does not remain in the account, and

Charles Schwab is the custodian, Charles Schwab will donate the amount of any gain \$100 and over to charity. If a loss occurs greater than \$100 due to an error made by Westchester Capital Management, Inc., Westchester Capital Management, Inc. will pay for the loss. Charles Schwab will maintain the loss or gain (if such gain is not retained in the client's account) if it is under \$100, to minimize and offset its administrative time and expense. Generally, if related trade errors result in both gains and losses in an account, they may be netted. If the gain does not remain in the account, and the account is held by a custodian other than Charles Schwab, the client's broker/dealer, or custodian, may retain gains that may result from correcting a trade error. In some instances, they may use such gains to offset overall losses the broker/dealer or custodian incurred from trading errors.

### **Block Trading Policy**

Westchester Capital Management, Inc. groups (i.e. blocks) orders at each broker for accounts that are purchasing/selling the same security, at the same broker dealer, so that all trades in the block receive an identical execution price. When placing trades with numerous broker-dealers, Westchester Capital Management, Inc. considers the liquidity of the particular security, and places orders in a fashion that will achieve the best execution of trades for all accounts. In the process of executing a block trade, the price of a security may move outside of Westchester Capital Management, Inc.'s desired price, causing a partial fill of the trade block. In the event of such partial fills, Westchester Capital Management, Inc. has a method in place that establishes a rotational allocation system. The method allocates trades to accounts in the block, working in good faith to assure that no account is consistently advantaged, and no account is consistently placed at a disadvantage. To the extent that Westchester Capital Management, Inc. determines to block client orders for the purchase or sale of securities, including securities in which Westchester Capital Management, Inc.'s executive committee members (and/or associated persons) may invest, Westchester Capital Management, Inc. shall generally do so in accordance with the parameters set forth in the SEC No-Action Letter, SMC Capital, Inc. Westchester Capital Management, Inc. shall not receive any additional compensation remuneration as a result of a block order.

## **Item 13 – Review of Accounts**

### **Account Reviews and Reviewers**

Westchester Capital Management, Inc.'s Investment Committee and Portfolio Committee consist of the following personnel:

1. Cindy Christensen, President and Chief Executive Officer;
2. Donna C. Erickson-Nelson, Executive Vice President, Chief Operating Officer, and Chief Compliance Officer; and
3. Maximilian W. Vogt, Vice President of Research.

Ms. Christensen is the Chair of both committees. In Ms. Christensen's absence, Donna Nelson shall fulfill this role. The Investment Committee is responsible for overall direction of Westchester Capital Management, Inc.'s recommended list. This list is comprised of equity holdings and exchange traded funds that have been researched and approved by the Investment Committee. A unanimous vote of Investment Committee members is needed to approve overall additions and deletions to this list. The Portfolio Committee is responsible for reviewing client accounts for suitability of investments, client objectives and compliance with policy. No trades are performed in client accounts without the prior approval from the Portfolio Committee's chairperson. The Investment Committee converses daily to discuss global news, economic trends and recent market events. The Portfolio Committee convenes bi-weekly to review client accounts for proposed trades, account structure and specific client directives.



### **Statements and Reports**

Written reports containing the security positions and the market value of clients assets are furnished by Westchester Capital Management, Inc. upon client request. Written reports containing portfolio performances are also furnished by Westchester Capital Management, Inc. upon client request. Clients will receive account statements monthly or quarterly, depending on the activity within their account, from the custodian at which their accounts are maintained. It is important for clients to review all account statements received directly from the custodian. Further, clients are urged to compare position and performance reports provided by Westchester Capital Management, Inc. against the account statements received directly from the custodian.

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

Westchester Capital Management, Inc. does not directly, or indirectly, compensate any person or company for client referrals.

The only form of revenue received by Westchester Capital Management, Inc. is the fee we charge for providing investment advisory services (as described in Item 5 of this brochure). As disclosed in Item 12, we also receive non-economic and soft-dollar benefits from Charles Schwab. We receive no other forms of compensation.

### **Item 15 – Custody**

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented.

Westchester Capital Management, Inc. is deemed to have custody of client funds and securities whenever we are given the authority to have fees deducted directly from client accounts. However, this is the only form of custody we maintain over client funds and securities. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

For accounts in which Westchester Capital Management, Inc. is deemed to have custody, the Firm has established procedures to ensure all client funds and securities are held at a qualified custodian (i.e. Charles Schwab & Company, Inc.) in a separate account for each client under that client's name. Clients, or an independent representative of the client, will direct, in writing, the establishment of all accounts; and therefore, are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from Westchester Capital Management, Inc. When clients have questions about their account statements, they should contact us or the qualified custodian preparing the statement.

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

#### **Investment Advisory Services**

Upon receiving written authorization from the client in our agreement for services, Westchester Capital Management, Inc. manages client accounts on a discretionary basis. By granting discretionary authority, Westchester Capital Management, Inc. will have the authority to determine the type of securities, and the

amount of securities, that can be bought or sold for the client portfolio, without obtaining the client's consent for each transaction. All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our firm, so long as the limitations are specifically set forth, or are included as an attachment, to the client agreement.

Westchester Capital Management, Inc. may elect to purchase bonds through bond broker/dealers in order to obtain a better price for the client, and then have the bonds delivered into the client's brokerage account. This practice is conducted through the Charles Schwab Prime Brokerage Service. This is the only case in which Westchester Capital Management, Inc. selects a broker/dealer to be used without specific client consent. Charles Schwab & Co., Inc. charges the client a Prime Brokerage Service Fee per order entered at an executing broker/dealer by Westchester Capital Management, Inc. The Prime Brokerage Service Fee will be charged to the client's account. Westchester Capital Management, Inc. clients must execute the Charles Schwab Brokerage Account Agreement - Prime Brokerage Amendment form before Westchester Capital Management, Inc. can execute trades at broker/dealers other than Charles Schwab that settle in the client's Charles Schwab account.

#### Courtesy Account Services

Changes to accounts recommended by Westchester Capital Management, Inc. under our Courtesy Account Services will be traded on a non-discretionary basis. This means you will be required to communicate with us prior to Westchester Capital Management, Inc. implementing changes in your account. Therefore, you will be contacted, and required to approve investment recommendations including:

- The security
- The number of shares or units
- Whether to buy or sell

Once the above factors are agreed upon, Westchester Capital Management, Inc. will be responsible for placing the trade at the client's directives.

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

In accordance with Rule 206(4)-6 of the Investment Advisers Act of 1940, Westchester Capital Management, Inc. has developed and implemented client proxy-voting policies and procedures. The following is a summary of those policies and procedures. Clients may obtain a copy of Westchester Capital Management, Inc. complete proxy voting policies and procedures by calling Westchester Capital Management, Inc. at 402-392-2418. You may also request, in writing, information on how your proxies were voted by our Firm. If any client requests a copy of Westchester Capital Management, Inc.'s complete proxy policies and procedures, or how Westchester Capital Management, Inc. voted proxies for his/her accounts, Westchester Capital Management, Inc. will promptly provide such information to the requesting client.

When voting proxies, Westchester Capital Management, Inc. evaluates, on a case-by-case basis, all proposals submitted by firms where our clients have an investment. In this regard, our voting responsibility is to protect and enhance the value of assets under management for the exclusive benefit of the clients' portfolio beneficiaries.

The procedure involves Routine and Non-Routine issues. Routine issues may involve the election of directors, name changes and appointment of auditors. Non-Routine issues will focus on the impact of the vote on the specific investment. Areas that are evaluated with these issues may include the following:

- I. Corporate Governance Proposals
- II. Incentive Compensation, Director's Liability and Similar Items
- III. Corporate Finance, Capital Structure and Ownership Proposals
- IV. Takeover Defenses
- V. Social and Environmental Issues and Proposals

All material conflicts of interest on proxy matters, when identified, will be disclosed to the client and resolved to the benefit of the client. When a conflict is disclosed, Westchester Capital Management, Inc. will request that the client review the proxy issue, and instruct in writing, its voting direction and consent. If the client is unable to direct, or is uninformed on an issue, Westchester Capital Management, Inc. will suggest that an independent third party be retained at the client's expense to determine how the proxy should be voted. Westchester Capital Management, Inc. will ensure that all votes are submitted in a timely manner unless Westchester Capital Management, Inc. otherwise determines that voting a proxy is not in a client's best interest.

#### **Class Action Lawsuits**

Clients retain the right under the applicable securities laws to initiate, individually, a lawsuit, or join a class-action lawsuit against the issuer of a security that was held, purchased or sold by, or for, the client. Westchester Capital Management, Inc. will not initiate such a legal proceeding on behalf of an advisory client, nor will Westchester Capital Management, Inc. provide legal advice to its clients regarding potential causes of action against such a security issuer, including whether a client should join a class-action lawsuit. Westchester Capital Management, Inc. recommends that clients seek legal counsel prior to making a decision regarding whether to participate in such a class-action lawsuit. Upon client's specific instruction, Westchester Capital Management, Inc. may provide assistance to its clients regarding a client's investment history related to the security underlying the individual, or class-action lawsuit, and may provide assistance with the completion of this portion of certain class-action paperwork. At no time should such assistance by Westchester Capital Management, Inc. be deemed as a substitute for consulting with legal counsel.

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

This item is not applicable to this brochure. Westchester Capital Management, Inc. does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, Westchester Capital Management, Inc. has not been the subject of a bankruptcy petition at any time.

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