

## Form ADV Part II

### Brochure Cover Page

## CapWealth Advisors, LLC SEC File No. 801-69908

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**March 30, 2021**

**This brochure provides information about the qualifications and business practices of CapWealth Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at the phone number or email address indicated above. 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 CapWealth Advisors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Form ADV- Material Changes for Part 2A CapWealth Advisors, LLC

- The Advisor moved offices on October 1, 2020.
- The Advisor disclosed disciplinary information on January 8, 2021. Please refer to page 14 for additional details.
- The Advisor no longer has an affiliate relationship with CapWealth Insights, LLC ("CWI") as CWI filed an ADV-W on January 11, 2021.

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## Advisory Business

### ***Firm Profile***

CapWealth Advisors, LLC (CapWealth) is a Securities and Exchange Commission (SEC) Registered Investment Adviser (RIA). The SEC defines an investment adviser as an individual or firm that is in the business of giving advice. Even though CapWealth is registered with the SEC, neither the SEC nor any state securities authority has approved the information disclosed in this brochure. Also, being an RIA does not imply that CapWealth or its associates have achieved any specific level of skill or training. CapWealth is a Limited Liability Company (LLC) based in Franklin, Tennessee and has been in business since 2009. The Firm is owned by CapWealth Group, LLC.

### ***Advisory Services***

CapWealth offers the following types of services:

**Investment supervisory services.** When providing this service, CapWealth will emphasize continuous and regular account supervision for the purpose of client wealth accumulation. This accounts for 95% of the firm's business.

**Management of investment advisory accounts not involving investment supervisory services.** This service consists of initially working with clients to identify investment goals, risk tolerance, and investment time horizon. This accounts for 5% of the firm's services.

**The investment services offered by CapWealth can be provided on either a discretionary or non-discretionary basis.** Under the Discretionary Investment Management Agreement, clients grant CapWealth complete and sole discretion to manage their account(s). The account(s) will be managed in accordance with each client's investment objectives, risk tolerance, and investment time horizon. Management of the account(s) is subject only to any reasonable restrictions that the client has provided to CapWealth in writing. Pursuant to this grant of discretion, clients authorize CapWealth to invest in securities and other investments of any nature whatsoever, at the time and in the manner that CapWealth determines. CapWealth will also act on the client's behalf in all other matters necessary or incidental to the handling of the account, without discussing these transactions or actions with the client in advance. The specific terms of the investment advisory relationship between each client and CapWealth are set forth in the client's Investment Management Agreement.

Under the Non-Discretionary Investment Management Agreement, CapWealth provides investment advice to clients on a non-discretionary basis. This advice is in accordance with each client's investment objectives, risk tolerance, and investment time horizon. CapWealth will recommend the purchase and/or sale of securities to clients. But, CapWealth will not execute any recommendations until such time the Firm obtains the client's authorization to do so. The specific terms of the investment advisory relationship between each client and CapWealth are set forth in the client's Investment Management Agreement.

**Individual Customization.** Each client informs CapWealth of the client's investment objectives, risk tolerance, and investment time horizon for the account(s). Each client will also notify CapWealth of any reasonable restrictions that the client wishes to impose on the management of the account(s). These restrictions could include designating particular securities or categories of securities that should not be purchased or sold in the account(s). Based on the information provided by the client, CapWealth, to the fullest extent possible, will tailor services to meet the individual needs of each client.

**Financial Planning.** One of the services offered by CWA is Financial Planning. This service may be provided as a stand-alone service or may be coupled with other wealth management services.

Financial Planning may include advice that addresses one or more areas of a client's financial situation, such as estate planning, risk management, budgeting and cash flow controls, retirement planning, education funding, and investment portfolio design and ongoing management. Depending on a client's particular situation, financial planning may include some or all of the following:

- Gathering factual information concerning the client's personal and financial situation;
- Assisting the client in establishing financial goals and objectives;
- Analyzing the client's present situation and anticipated future activities in light of the client's financial goals and objectives;
- Identifying problems foreseen in the accomplishment of these financial goals and objectives;
- and offering alternative solutions to the problems;
- Making recommendations to help achieve retirement plan goals and objectives;
- Designing an investment portfolio to help meet the goals and objectives of the client;
- Providing estate planning;
- Assessing risk and reviewing basic health, life and disability insurance needs; or

- Reviewing goals and objectives and measuring progress toward these goals.

Once Financial Planning advice is given, the client may choose to have CWA implement the client's financial plan and manage the investment portfolio on an ongoing basis. However, the client is under no obligation to act upon any of the recommendations made by CWA under a Financial Planning engagement and/or engage the services of any recommended professional.

### ***Assets Under Management***

As of December 31, 2020, CapWealth managed the following client assets:

Discretionary assets of \$1,163,342,841

Non-Discretionary assets of \$28,376,594

### ***Investments***

CapWealth offers advice on the following types of investments:

Exchange-listed securities	Money Markets
Securities traded over-the-counter	Municipal securities
Foreign issues	Variable life insurance
Corporate debt securities	Variable annuities
Commercial paper	Mutual fund shares
Common Stock	Preferred Stock
Certificates of deposit	United States government securities
Options contracts on securities	

## Fees and Compensation

### **Management Fees**

Clients pay an annual advisory fee ("Management Fee") based on a percentage of their assets under management in each account on the last trading day of each calendar quarter. This fee covers only CapWealth's investment advisory services. Pursuant to this plan, clients may pay separate brokerage commissions and charges for transactions. Transactions are directed to broker-dealers selected by the client.

Clients will be assessed fees indicated on the tables set forth below for the investment advisory services offered by CapWealth. The Management Fee is payable each quarter in advance and is expressed as an annual rate on the fee schedules set forth below. The fees will be deducted from the client's assets. The quarterly rate will be approximately one-fourth of the annual rate.

### **Fee Schedules**

#### **Investment Advisory Accounts**

<u>Assets Under Management</u>	<u>Management Fee</u>
Up to and including \$1,000,000	1.25%
\$1,000,001 to \$2,000,000	1.00%
\$2,000,001 to \$3,500,000	.75%
\$3,500,001 to \$5,000,000	.60%
\$5,000,000 +	.50%

#### **Fixed Income Accounts**

<u>Assets Under Management</u>	<u>Management Fee</u>
Up to and including \$1,000,000	.50%
\$1,000,001 to \$2,000,000	.45%
\$2,000,001 to \$3,500,000	.40%
\$3,500,001 to \$5,000,000	.35%
\$5,000,000 +	.30%

The Management Fee may be higher or lower than the fees that CapWealth charges other clients. The fee will depend on the extent of the services provided to the client and the cost of such services.

The fee can be higher or lower than the cost of similar services offered through other financial firms. The minimum annual account fee is \$1,000. The minimum fee may be waived at the discretion of the CEO or Chairman.

CapWealth may increase or decrease the standard Management Fee, which is set forth in the schedules above, in appropriate circumstances. This fee increases or decreases based on a number of factors including, but not limited to the following:

1. The anticipated services required by the client
2. The type and size of the account
3. The historical and/or expected size or number of trades for the account
4. Services provided to the account
5. The client's other accounts with CapWealth
6. The accounts of the client's family with CapWealth
7. CapWealth's assessment of the potential future business the client may generate

The fee set forth in the client's agreement will continue until 30 days after CapWealth has notified the client in writing of any change in the amount of the fee applicable to the client's account. At such time, the new fee will become effective unless the client notifies CapWealth that the account will be closed.

Any investment advisor representative of CapWealth may negotiate a discount on the Management Fee. Any increase in the Management Fee must be approved by the CEO or Chairman.

The Management Fee does not cover transaction costs, including brokerage commissions, "mark-ups," "mark-downs," "dealer spreads" or other charges resulting from transactions directed to broker-dealers.

CapWealth does not hold any customer assets and does not act as a custodian. The Management Fee does not cover the cost of custody services. A separate custody fee may or may not be charged by the custodian (which could be a bank or a brokerage firm) that holds your assets. The Management Fee also does not cover certain costs or charges that may be imposed by a custodian or other third parties, including costs associated with exchanging foreign currencies, odd-lot differentials, transfer taxes, exchange fees, wire transfer fees, postage fees, and other fees or taxes required by law. The Management Fee does not cover the annual fee that custodians or third parties may charge IRA accounts. Costs associated with using margin are not covered by the Management Fee and may result in additional costs to the client.



### ***Administrative Fees***

CapWealth imposes a \$300.00 annual administrative fee per account. This fee helps to cover the cost associated with performance measurement and reporting. This fee can be waived at the discretion of the CEO or Chairman. One fourth of the administrative fee will be deducted quarterly along with the management fee.

### ***Share Class Fees***

To determine which share class is most financially appropriate for a client, CapWealth first examines the amount of the Periodic Investment Purchase ("PIP"). If the PIP is under \$5,000, CapWealth often places these investments in an F-1 share class, as Charles Schwab does not charge a trading commission for F-1 share classes. Therefore, an F-1 share class is more cost effective for a smaller PIP. When the investment grows above \$5,000, the share class is often converted from an F-1 share class to an F-3 share class. The F-3 share class has the lowest expense ratio (the amount that a fund's assets are used for administrative and operating fees), but incurs a \$15 dollar-per-trade fee. Therefore, CapWealth believes the F-3 share class is more appropriate for investments over \$5,000 because of costs incurred through trading fees.

Accounts are regularly monitored to ensure clients are receiving the best investment at the lowest cost possible. On a daily basis, the CCO reviews trade blotters to ensure mutual fund share class purchases are the most suitable for the investor. On an annual basis, accounts are reviewed to examine if a conversion from an F-1 to F-3 share class is appropriate. The conversion is made once breakpoints (certain dollar amounts that allow for a reduction in sales charge for the investor) in expense ratios outweigh transaction costs (cost per trade).

### ***Termination of Agreement:***

The investment management agreement may be terminated by the client at any time. Any account that has paid fees in advance and terminates during a quarter will be returned a prorated portion of the fees paid for that quarter. The fee will either be credited to the account or a check will be issued to the client.

### ***Additional Fees***

CapWealth provides financial planning and financial consulting as part of our comprehensive wealth management services without any additional charge. However, under limited and special circumstances we may charge a fixed fee for financial planning and/or financial consulting projects outside of our traditional wealth management services. Fees are negotiated based upon the complexity and scope of the financial consulting and/or financial planning project. Amounts

billed are typically due one-half up front and the remaining one half upon completion of the project.

***Performance-Based Fees and Side-By-Side Management:***

CapWealth does not charge performance-based fees nor does it provide Side-by-Side Management.

## Types of Clients

CapWealth provides investment advice to the following types of clients:

- Individuals
- High Net Worth Individuals
- Charitable organizations
- Corporations and Other Businesses

CapWealth does not require a minimum account size. CapWealth does have a minimum annual account fee of \$1,000, although the minimum may be waived at the discretion of the CEO or Chairman. For additional information regarding fees please see the section entitled "Fees and Compensation".

## Methods of Analysis. Investment Strategies and Risk of Loss

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

CapWealth uses Fundamental Analysis to develop its investment strategy. The basis of fundamental analysis is that all decisions should be based on sound arguments of financial nature. This is different from a technical analysis where decisions are made mostly on patterns of price fluctuations. Fundamental analysis attempts to study everything that can affect a security's value, including macroeconomic factors and company-specific factors. The goal of performing fundamental analysis is to produce a value that can be compared with the security's current price. This would then be used to determine what position to take with the security.

Fundamental analysis is a four-step process:

- 1) Establishing initial investment criteria followed by stock screening
- 2) Analyzing financial statements and ratio analysis
- 3) Stock valuation

- 4) The decision to buy or not

CapWealth utilizes the following sources of information during the analysis process:

- 1) Bloomberg
- 2) Financial media
- 3) Research materials prepared by others
- 4) Corporate rating services
- 5) Annual reports, prospectuses, filings with the SEC
- 6) Company press releases

***Investment Strategies:***

CapWealth uses the following investment strategies to implement investment advice to clients:

**1) Long-term purchases:** Long-term investing is typically defined as any investment held for more than one year. This strategy offers a greater degree of stability and a lower risk than short-term investing. This type of strategy is used when the investor has a long-time horizon. It allows the portfolio to grow over the years. A long-term strategy typically involves investments over a wide range of segments with a diversified portfolio. Diversification across several segments or sectors can potentially help investors offset losses in certain sectors with gains in others. Risks involved with this strategy includes capital risk, economic risk, financial risk, inflation risk, interest rate risk, regulatory risk, liquidity risk, market risk, operational risk, strategy risk.

**2) Short-term purchases:** Short-term investing is typically defined as any investment held for less than one year. This strategy is used to provide investors with more current profits rather than waiting years for an investment to mature. The basic premise is to exit from the investments at a higher level instead of waiting for an additional rise in price. There are numerous market risks associated with this type of investment strategy. Any kind of "bad news" can have a negative effect on the market in the short term. Short term investing can be very volatile due to the many factors that determine prices and interest rates. Risks involved with this strategy includes capital risk, economic risk, financial risk, higher trading cost, interest rate risk, regulatory risk, liquidity risk, market risk, operational risk, strategy risk.

**3) Margin transactions:** Margin trading is borrowing funds from a broker-dealer to purchase securities. Technically, it is a loan that allows the investor to buy more stock than they would normally be able. Margin transactions are mainly used in accordance with short-term investments. The longer an investment is held, the greater the return that is needed to break even. There are many requirements and restrictions on margin transactions. Clients should not utilize this strategy without the full understanding of all costs and risks. Market changes can lead to unexpected losses and the cost of borrowing can erode any potential gains. Risks involved with this strategy includes capital risk, economic risk, financial risk, interest rate risk, regulatory risk, liquidity risk, margin risk, market risk, operational risk, strategy risk.

**4) Option Writing:** An option is the right either to buy or sell a specified amount or value of a particular underlying investment instrument at a fixed price by exercising the option before its specified expiration date. "Call" options give you the right to buy. "Put" options give you the right to sell. CapWealth utilizes covered options and other strategies such as spreads and straddles. Risks involved with this strategy includes capital risk, economic risk, financial risk, higher trading cost, interest rate risk, regulatory risk, liquidity risk, market risk, operational risk, strategy risk.

**Risk of Loss:** Investing is not risk-free. Even with detailed analysis and sound strategies investors still have to factor in several types of risks and the effects on their investments. The following risks are associated with the investments on which CapWealth provides investment advice:

**Capital Risk:** This is the risk that you may lose all or part of the principal amount invested.

**Default or Financial Risk:** Businesses can and will experience financial difficulties. This can lead to companies not being able to make required payments on their debt obligations. Due to this risk, companies with a higher default risk must pay higher interest rates on their bonds. Thus, the typical yield on a riskier bond is higher.

**Economic Risk:** This is the risk posed by possible variations in earnings, prices, sales, rates of interest and other financial variables.

**Exchange Rate Risk:** The value of an investment can be affected due to changes in currency exchange rates. An adverse movement in exchange rates can create a substantial loss for the investor. Clients invested in foreign companies must be aware of this risk. The value of their

investment in U.S. dollars can decline even if the company performs well. The decline in value would be due to the rise in the U.S. dollar relative to the value of the currency in the country where the investment is located.

***Inflation Risk:*** What will be the future real value (after inflation) of any investment? This risk involves the loss of purchasing power due to the rise in the level of prices. Clients will lose purchasing power if their investments do not return an annualized average return above the rate of inflation. This is a concern for all investments but is of particular concern for client portfolios that are heavily concentrated in fixed income investments.

***Interest Rate Risk:*** This risk is associated with interest-bearing assets, such as bonds. Interest rates and bond prices have an inverse relationship. As interest rates rise the prices of bonds will decline, and vice versa.

***Liquidity Risk:*** This risk refers to the ability to sell an asset quickly. This will be of particular interest to any investor that holds an investment that is thinly traded. The ability to find a buyer in these types of investments can be difficult and could lead to unexpected losses.

***Margin Risk:*** The risk that market conditions can change rapidly and lead to unexpected losses and the cost of borrowing can erode any potential gain.

***Market Risk:*** This is the overall risk when a client buys shares of any investment. Simply put, this is the risk that an investment will decrease. The factors associated with market risk are stock prices, interest rates, foreign exchange rates, and commodity prices.

***Operational Risk:*** This is the risk of business operations failing due to human error. The risk will change from industry to industry and is an important consideration to make when looking at potential investment decisions.

***Political Risk:*** Investments in foreign-based companies or U.S. companies with significant revenue or assets in foreign countries are subject to the risk associated with political unrest and instability. This is also known as geopolitical risk and becomes more of a factor as the time horizon of investments gets longer.

**Regulatory Risk:** The risk that a change in laws and regulations will materially impact a security, business, sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape.

**Strategy Risk:** Exposure to loss resulting from a strategy that turns out to be defective or inappropriate.

**Systemic Risk:** This risk refers to the collapse of an entire financial system or market. This risk could arise from financial system instability or a catastrophic event.

**Tax Risk:** Investors must understand the tax impact of their financial transactions. Each transaction will have or eventually have a taxable impact on the client. Also, the current tax implications must be weighed against the uncertainty of future tax rates.

## Disciplinary Information

On December 11, 2020, the SEC filed a civil action against Messrs. Timothy Pagliara and Timothy Murphy alleging that Pagliara and Murphy purchased, recommended, or held for advisory clients mutual fund share classes that charged fees pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("12b-1 fees"), even though lower cost share classes of the same funds were available. It is alleged that CapWealth's ("CWA") affiliated broker-dealer at the time received 12b-1 fees from the mutual fund share classes which, in part, went to Pagliara and Murphy as they were registered representatives of the broker-dealer at the time. It is alleged that Pagliara instructed the broker-dealer to send 12b-1 fees from Pagliara's client's accounts to the CWA holding company which Pagliara is the majority owner and from which he received compensation. Separately, Murphy is said to have received 12b-1 fees from client mutual fund investments as part of his compensation. The SEC is also alleging that Pagliara and Murphy failed to disclose material conflicts of interests with respect to the 12b-1 fees that they received. This failure to disclose is said to have prevented clients from providing informed consent to the conflicts of interest. The SEC is alleging that the Form ADV Part 2A brochure stated that only

principals may receive 12b-1 fees when Murphy, who according to the SEC was not a principal, was benefitting from the fees. The SEC is also alleging that Pagliara and Murphy breached their duty to seek best execution for their clients by investing them in share classes with 12b-1 fees rather than lower-cost share classes of the same funds. Finally, the SEC is alleging that CWA failed to adopt and implement policies and procedures reasonably designed to prevent violations of the Advisers Act of 1940.

## Other Financial Industry Activities and Affiliations

CapWealth Advisors, LLC does not have any financial industry affiliations.

## Code of Ethics, Conflicts of Interest and Personal Trading

The Investment Advisers Act of 1940 requires all Investment Advisers to adopt a Code of Ethics. The Code of Ethics sets forth the basic policies of ethical conduct for all officers and employees of CapWealth. The foundation of the Code of Ethics consists of basic standards of conduct including, but not limited to, the avoidance of conflicts between personal interests and interests of the Firm or its clients. Officers and employees of CapWealth understand and adhere to the following ethical standards:

1. The fiduciary duty at all times to place the interest of the Firm's clients first.
2. The duty to ensure that all personal securities transactions be conducted in a manner that is consistent with the Code of Ethics to avoid any actual or potential conflict of interest or any abuse of such officers and employees position of trust and responsibility.
3. The duty to ensure that the officers and employees of the Firm do not take inappropriate advantage of their position with the Firm.

All CapWealth employees have received a copy of the Code and have signed an attestation acknowledging their understanding and acceptance of the Code.



The firm will promptly forward a copy of its Code of Ethics to any client upon request. Please contact Ryan Hitt at 615-778-0740, toll-free at 877-262-2650 or via e-mail at [ContactUs@capwealthgroup.com](mailto:ContactUs@capwealthgroup.com) to request a copy.

***Limitations on Personal Trading by Employees:***

To prevent conflicts of interest, all employees of CapWealth must comply with the firm's Policies and Procedures and with the firm's Code of Ethics, which impose restrictions on the purchase and sale of securities for their own accounts and the accounts of certain affiliated persons.

A Principal of CapWealth will review all securities transactions of related persons post-trade to ensure that no conflicts of interest exist. No security may be bought or sold by a principal or employee of CapWealth before CapWealth's client accounts have had the opportunity to make such transactions as appropriate (except transactions in investment company securities and for other exempt securities). If after reviewing any employee transaction, the compliance department determines that a potential conflict of interest exists he/she shall have the authority to make any necessary adjustments, including canceling and re-billing the transaction to such other account(s) as appropriate.

***Employee Reporting Requirements:***

Any new employee of CapWealth that is considered an access person must provide their personal securities holdings no later than 10 days after becoming an employee. Each quarter thereafter, each access person must report their quarter transactions and current holdings.

***Insider Trading Policy:***

Section 204A of the Advisers Act requires that Investment Advisors establish, maintain and enforce written policies and procedures reasonably designed to prevent the misuse of

material, non-public information by the Advisor or any person associated with the Advisor. Considering the increased focus on insider trading and increased penalties, CapWealth has implemented the necessary policies and procedures in order to protect itself against the significant monetary penalties and damage in reputation that may result from an insider trading violation.

If an employee of CapWealth, regardless of position, receives information at any time he believes is material non-public information, he must convey such information to the CapWealth Compliance Department. The Compliance Department will then make a judgment as to the handling of such information in order to prevent possible charges of 204A insider trading violations.

In meeting the requirement to enforce the provisions of Section 204A, every employee of CapWealth will quarterly sign a disclosure statement attesting to his/her understanding of his/her duties and responsibilities regarding the use and/or dissemination of insider information.

## Disclosures Regarding Brokerage Practices

### ***Charles Schwab and Co.***

CapWealth may recommend/require that clients establish brokerage accounts with the Schwab Advisor Services division of Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer with FINRA, the SEC, and is a member of SIPC. Schwab will maintain custody of clients' assets and to effect trades for their accounts. The final decision to custody assets with Schwab is at the discretion of the client. Schwab can also maintain those accounts under ERISA or IRA rules and regulations, where the client is acting as either the plan sponsor or IRA account holder. CapWealth is independently owned and operated and not affiliated with Schwab. Schwab provides CapWealth with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to

independent registered investment advisors on an unsolicited basis and usually at no charge so long as a total of at least \$10 million of the aggregate clients' assets are maintained in accounts at Schwab Advisor Services. Schwab's services include brokerage services that are related to the execution of securities transactions, custody, research, advice, analyses, reports and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For CapWealth client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab also makes available to CapWealth other products and services that benefit CapWealth but may not benefit its clients' accounts. These benefits may include national, regional or CapWealth specific educational events organized and/or sponsored by Schwab Advisor Services. Other potential benefits may include occasional business entertainment of personnel of CapWealth by Schwab Advisor Services personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Some other products and services assist CapWealth in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of CapWealth fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of CapWealth accounts, including accounts not maintained at Schwab Advisor Services. Schwab Advisor Services also makes available other services intended to help CapWealth manage and further develop its business enterprise. These services may include professional compliance, legal and business

consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, human capital consultants, insurance, and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to CapWealth by independent third parties. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to CapWealth. While, as a fiduciary, CapWealth endeavors to act in its clients' best interests, CapWealth's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to CapWealth and the availability of some of the foregoing products and services and other arrangements and not based solely on the nature, cost or quality of custody and brokerage services provided by Schwab. This may create an inherent conflict of interest. However, be aware that CapWealth will accept accounts held at broker-dealers other than Schwab.

***Best Execution:***

It is CapWealth's policy to obtain the "best execution" of its customers' securities transactions on a best efforts basis since the firm does not control trade execution. CapWealth, through the trading department at Schwab or any other custodian, will cause each customers' securities transactions to be executed in such a manner that the customer's total cost or proceeds in each transaction is the most favorable under the circumstances.

***Directed Transactions:***

Some clients may reserve the right to direct security transactions in their accounts. Generally, these directed transactions will be considered market orders. Limit orders are permitted but discouraged. It is CapWealth's policy to require all customer instructions to direct transactions in customer accounts to a specific broker-dealer be in written form.

***Block (or Bunched) Trading:***

CapWealth does authorize combining purchase or sale orders ("blocking" trades) for more than one account. This is authorized where the blocking of trades appears to be potentially advantageous for each participating account. CapWealth will aggregate transaction orders only if it believes that the aggregation is consistent with its duty to seek the best execution for customer trades. Also, it must be consistent with the terms of the investment advisory agreement with each client whose trades are being aggregated.

Block trading and the related allocation practices must be performed appropriately and evenly to benefit all clients. If an Investment Advisor does not execute block trades appropriately or does not use block trading methods at all then a variety of conflicts of interest can arise. The following list identifies and describes several potential conflicts that can occur using blocking trades:

- 1) Accounts that do not participate in block trading do not receive the average price paid. This means that securities purchased at the lowest price or sold at the highest price may be allocated to favored clients on a subjective basis by the Investment Advisor.
- 2) An order memorandum lists neither the accounts participating in each trade nor the extent of their participation. The Investment Advisor waits until later in the day, or in extreme situations, until the next day to decide how the trade is to be allocated and that decision can be shaded by subsequent market movement. The result is that favored clients (or a proprietary account) may get a benefit if the price movement is favorable. This practice is known as "cherry picking" and is prohibited.
- 3) Changes in accounts participating in a trade or the extent of their participation from the stated order ticket are not documented and the reasons for such changes are not stated. Investment

Advisors may substitute other accounts depending on the market action during the day to favor particular clients or groups of clients. This is also prohibited.

4) Allocation instructions may not be given to executing brokers on trade date. This practice occurs particularly when bunched trades are executed through omnibus accounts. The Investment Advisor can use price movement in the investment subsequent to trade date to determine how the shares will be allocated among accounts and favor certain accounts to the detriment of others. This is another form of cherry picking and is prohibited.

5) When proprietary accounts participate with client accounts in bunched trades, the proprietary accounts get benefits based on the volume of client trading. Joint participation may make it easier for the Advisor to skew allocations to favor proprietary accounts and may cause the execution of the trade to be less favorable than would otherwise be the case. CapWealth does not include proprietary or personal accounts in block trades.

The Compliance Department is aware of these potential problems and reviews trades to identify any potential fiduciary concern.

***Soft Dollars:***

CapWealth may also consider the value of research or additional brokerage products and services a broker-dealer has provided or may be willing to provide. This is known as paying for those services or products with "soft dollars". Because many of the services or products could be considered to provide a benefit to the firm, and because the "soft dollars" used to acquire them are client assets, the firm could be considered to have a conflict of interest in allocating client brokerage business: it could receive valuable benefits by selecting a particular broker or dealer to execute client transactions and the transaction compensation charged by that broker or dealer might not be the lowest compensation the firm might otherwise be able to negotiate. In addition, the firm could have an incentive to cause clients to engage in more securities transactions that

would otherwise be optimal in order to generate brokerage compensation with which to acquire products or services.

Clients are advised there may be an incentive for CapWealth to recommend one broker-dealer over another based on the soft dollar benefit that CapWealth may receive rather than what may be in the client's best interest. CapWealth may use soft dollar benefits to service all client accounts and not just those clients who are generating the "soft dollars". CapWealth will not seek to allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. CapWealth believes that the selection of Schwab as a custodian for clients is not affected by this arrangement. In all cases, the firm's recommendation of Schwab is entirely based on the best interest of the client.

***Personal Trading by Employees:***

Principals and employees of CapWealth buy and sell securities that it also recommends to clients. To prevent conflicts of interest, all employees of CapWealth must comply with the firm's Policies and Procedures and with the firm's Code of Ethics, which impose restrictions on the purchase and sale of securities for their own accounts and the accounts of certain affiliated persons. For additional information regarding employee transactions please see the section entitled "Code of Ethics".

***Trading Errors:***

In all circumstances where CapWealth is aware that a trade error has occurred, the Firm will notify the broker-dealer. The broker-dealer shall be responsible for correcting the error in the Firm's Trading Errors Account either by selling the security and remitting the appropriate funds to the affected account or by purchasing the required security and posting it to the affected account.

## Review of Accounts

The CapWealth compliance department monitors all portfolio activity on a daily basis to ensure that executed transactions are in compliance with client-specified investment criteria and constraints. Any violations or discrepancies are reported to the Investment Adviser Representative and the Investment Committee.

Every account is formally reviewed at least one time per year by a Principal of CapWealth or his designee. Approximately twenty five percent (25%) of the firm's accounts will be reviewed each quarter. The review process contains each of the following elements:

- 1) Assess the client's goal and objectives
- 2) Evaluate the strategy that has been employed
- 3) Address the need to rebalance, if any
- 4) Verification of investment supervisory services
- 5) Verify the annual management fee

Any model portfolios created by CapWealth are reviewed on a regular basis by members of the Investment Committee. The review includes an evaluation of asset allocation, performance, sector breakdown and fundamental analysis of the individual holdings.

It is also the responsibility of each Investment Adviser Representative to devote the requisite amount of attention to professionally manage each of his/her accounts in accordance with the investment objectives of the client. In managing accounts, each Investment Adviser Representative is required to maintain regular communication with his/her clients.

### ***Reports to Clients:***

The nature and frequency of reports to clients are determined primarily by the particular needs of each client. Generally, clients will receive a quarterly performance report for each calendar



quarter, summarizing all portfolio activity for the quarter. In addition, the custodian or one of its affiliates will provide clients with confirmation of all transactions and monthly statements if there is account activity during the month (quarterly if there is no activity) listing the assets in the account and related information. CapWealth recommends clients compare account transactions and holdings listed on these statements to the account transactions and holdings from the custodian. The CapWealth statement may vary from the custodial statement based on accounting principles, reporting dates or valuation methodologies of certain securities. Please contact CapWealth at 615-778-0740 or toll-free at 877 -262-2650 if any discrepancies are discovered.

## Client Referrals and Other Compensation

Neither CapWealth nor any related persons have any arrangements, oral or in writing, where it:

1. Is paid cash by or receives some economic benefit from a non-client in connection with giving advice to clients.
2. Directly or indirectly compensates any person for client referrals.

CapWealth may receive economic benefits from Schwab in the form of the support products and services made available to the firm and other independent investment advisors that have their clients maintain accounts at Schwab. These products and services, how they benefit our firm, and the related conflicts of interest are described in the section entitled "Brokerage Practices". The availability of Schwab's products and services is not based on CapWealth giving particular investment advice, such as buying particular securities for our clients.

## Custody

Since CapWealth has an arrangement for automatic deduction of client fees from their brokerage account(s), CapWealth is deemed to have custody of client funds. CapWealth does not engage in any other activities such as physical possession or control of any client funds or securities.

Custody (physical possession and control) of account assets will be maintained with the independent custodian selected by the client. The custodian will be named on Schedule A of the Investment Management Agreement (the "Agreement"). CapWealth will not have custody of any assets in the account(s). Clients will be solely responsible for paying all fees or charges of the custodian.

Upon the execution of the Agreement, the client authorizes CapWealth to give the custodian instructions for the purchase, sale, conversion, redemption, exchange or retention of any security, cash or cash equivalent or other investment for the account. The client also authorizes and directs CapWealth to instruct the custodian on the client's behalf to:

1. Send clients at least quarterly a statement showing all transactions occurring in the account during the period covered by the account statement(s), and the funds, securities, and other property in the account at the end of the period.
2. Provide the Adviser copies of all periodic statements and other reports for the account that the custodian sends to the client.

CapWealth also issues quarterly statements. CapWealth recommends clients to compare account transactions and holdings listed on these statements to the account transactions and holdings from the custodian. The CapWealth statement may vary from the custodial statement based on accounting principles, reporting dates or valuation methodologies of certain securities. Please contact CapWealth at 615-778-0740 or toll-free at 877-262-2650 if any discrepancies are discovered.

## **Investment Discretion**

CapWealth offers investment supervisory services on a discretionary basis. In order for the firm to accept this authority, the client must sign a Discretionary Investment Management Agreement (the "Agreement"). Under the Agreement, clients grant CapWealth complete and sole discretion to

manage their account(s). Pursuant to this grant of discretion, clients authorize CapWealth to invest in securities and other investments of any nature whatsoever, at the time and in the manner that CapWealth determines. CapWealth will also act on the client's behalf in all other matters necessary or incidental to the handling of the account, without discussing these transactions or actions with the client in advance. The specific terms of the investment advisory relationship between each client and CapWealth are set forth in the client's Agreement. The account will be managed in accordance with each client's investment objectives, risk tolerance, and investment time horizon.

Management of the account is subject only to any reasonable restrictions that the client has provided to CapWealth in writing. Schedule B of the Agreement can be utilized by clients to list and describe any investment restrictions and guidelines that CapWealth must follow in the management of the clients' account(s).

CapWealth representatives must adhere to their fiduciary duty. All representatives have to act in the best interests of its clients and make full and fair disclosure of all material facts. This is especially of concern where conflicts of interest arise. In managing discretionary accounts, representatives will:

1. Render impartial advice
2. Make suitable investments for clients in light of the customer's financial circumstances and objectives
3. Ensure that adequate and accurate representations about risks are presented to customers
4. Have an adequate factual basis for investments, representations, and projections
5. Have a reasonable basis for investment selection
6. Obtain the best execution for customer transactions

## Voting Client Securities

CapWealth has the ability to vote proxies if this responsibility and authority has been delegated to the Firm by the client. This authorization is outlined in the Investment Management Agreement. If a client wants to delegate this authority to CapWealth, the indicated box must be marked on the Agreement. If a client does not want to delegate this authority to CapWealth, the indicated box must be marked on the Agreement. If neither box is marked, CapWealth will assume the delegation to vote has been granted by the client.

As an investment adviser that has been granted the authority to vote on portfolio proxies, CapWealth owes a fiduciary duty to its clients. As a fiduciary with respect to that responsibility, CapWealth must ensure that all proxy votes for portfolio securities are made in the best interest of CapWealth's clients.

Investment Advisers registered with the SEC, and which exercise voting authority with respect to client securities, are required by Rule 206(4)-6 of the Advisers Act to:

1. Adopt and implement written policies and procedures that are reasonably designed to ensure that client securities are voted in the best interests of clients, which must include how an adviser addresses material conflicts that may arise between an adviser's interest and those of its clients;
2. Disclose to clients how they may obtain information from the adviser with respect to the voting of proxies for their securities;
3. Describe to clients a summary of its proxy voting policies and procedures and, upon request, furnish a copy to its clients; and
4. Maintain certain records relating to the adviser's proxy voting activities when the adviser does have proxy voting authority.

CapWealth has retained Institutional Shareholder Services ("ISS") to provide legal oversight, in-depth analysis, and recommendations on all proxy matters. ISS is nationally recognized as one of the leading independent providers of corporate governance information.

All proxies will be automatically forwarded to ISS whose responsibilities will include:

- 1) Perform ballot-to-account reconciliations to ensure all ballots have been received
- 2) Implement designated voting policies and vote recommendations based on the application of such policies
- 3) Transmit the voted proxies to the issuer
- 4) Record how each proxy was voted
- 5) Maintain appropriate proxy voting records

ISS votes all proxies based on their recommendations and underlying voting guidelines and policies.

CapWealth will generally follow ISS's recommendation and will not use its discretion in the proxy voting decision. For this reason, client proxies are voted in the client's best interest, in accordance with a predetermined policy based upon recommendations of an independent third party and are not affected by any potential or actual conflict of interest of CapWealth.

If CapWealth decides not to follow ISS's recommendation and use CapWealth's discretion in the proxy voting decision, CapWealth must vote portfolio proxies without regard to any other business relationship between CapWealth and the company to which the portfolio proxy relates. CapWealth seeks to ensure that all votes are free from unwarranted and inappropriate influences. When voting proxies, CapWealth must consider the interest of its clients and not its own interests. CapWealth recognizes that potential or actual material conflicts may arise between the interests of CapWealth and its clients that must be properly addressed and resolved before CapWealth votes. To address these concerns, CapWealth's Chief Compliance Officer ("CCO") identifies conflicts of interest and resolves them in order to avoid any impropriety or the appearance of impropriety.

The firm will promptly forward a copy of its complete proxy voting policies and procedures to any client upon request. Clients may also obtain information from CapWealth about how CapWealth voted any proxies on behalf of their account(s). Please contact Ryan Hitt at 615-778-0740, toll-

free at 877-262-2650 or via e-mail at [ContactUs@capwealthgroup.com](mailto:ContactUs@capwealthgroup.com) to request a copy of either.

## **Financial Information**

### ***Balance Sheet:***

CapWealth does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. As a result, CapWealth is not required to provide a copy of the Firm's Balance Sheet from the most recent fiscal year-end.

### ***Financial Condition:***

As a registered investment advisor, CapWealth is required to provide clients with certain financial information or disclosures about our financial condition. CapWealth does not have any financial commitments that impair its ability to meet its contractual and fiduciary commitments and the firm has not been the subject of any bankruptcy proceeding.

## **Requirements for State-Registered Advisers**

CapWealth is registered with the United States Securities and Exchange Commission (SEC). Therefore, it is not considered a state-registered adviser and this section is not applicable.