

# MARLCROFT ASSET MANAGEMENT

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**March 25, 2022**

Form ADV, Part 2; our “Disclosure Brochure” or “Brochure” as required by the Investment Advisers Act of 1940 is a very important document between you, as a client or prospective client, and us, as your current or prospective investment adviser. This Brochure provides information about our qualifications and business practices.

***This brochure provides information about the qualifications and business practices of Marlcroft Asset Management. If you have any questions about the contents of this brochure, please contact us at (212) 980-3100 and/or [jim@marlcroft.com](mailto:jim@marlcroft.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any State Securities Authority.***

***Additional information about Marlcroft Asset Management also is available at the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select “investment adviser firm” and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.***

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

## **ITEM 2 MATERIAL CHANGES**

**ANNUAL FILING ON 3/25/2022**

There have been no material changes since our last filing.

## **ITEM 3 TABLE OF CONTENTS**

Item 1 Cover Page

Item 2 Material Changes

Item 3 Table of Contents

Item 4 Advisory Business

Item 5 Fees and Compensation

Item 6 Performance-Based Fees and Side-By-Side Management

Item 7 Types of Clients

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Item 9 Disciplinary Information

Item 10 Other Financial Industry Activities and Affiliations

Item 11 Code of Ethics

Item 12 Brokerage Practices

Item 13 Review of Accounts

Item 14 Client Referrals and Other Compensation

Item 15 Custody

Item 16 Investment Discretion

Item 17 Voting *Client* Securities (Proxy Voting)

Item 18 Financial Information

Brochure Supplements

## **ITEM 4 ADVISORY BUSINESS**

Marlcroft Asset Management is a registered investment adviser. The firm was formed in 1997 by Ernest Bentsen, James G. King and Geza John Marx. James G. King, one of the original founders of the Firm, now owns 100% of the business. As of December 31, 2020, assets under management totaled \$185,600,951.

Marlcroft is dedicated to providing personalized investment management for individuals, trusts and estates, charitable and endowment portfolios, and other tax-sensitive entities. We are what would best be described as a “traditional” money manager in the sense that we structure specific investment portfolios consistent with each individual’s particular return and risk preferences. With input from and discussion with our client we design a diversified portfolio that typically includes some or all of the following investment alternatives: common stocks, taxable bonds (including but not limited to United States Treasury obligations, Federal Agency bonds and corporate bonds), tax-exempt bonds and money market funds or other short-term cash equivalents.

In the last few years we have incorporated Exchange Traded Funds (“ETFs”) as a means of gaining exposure to a wider array of investment options, such as precious metals and currencies. An Exchange Traded Fund is similar to a mutual fund in structure but can be bought or sold anytime throughout the trading day unlike a mutual fund. The Exchange Traded Fund tracks an index, industry sector or specific asset like a currency or commodity.

Our investment approach is sensitive to tax efficiency as the majority of our clients are subject to high or the highest rates of income taxation.

Aside from passive index funds, we do not analyze or invest in actively-managed mutual funds or hedge funds.

### **DISCRETIONARY VS. NON-DISCRETIONARY MANAGEMENT**

We manage accounts on both a *discretionary* and *non-discretionary* basis. What is the difference?

If we are given discretion by the client, following the agreement on the diversification guidelines that are compatible with the risk and return preferences, we have the authorization to purchase and sell specific securities without consulting the client before entering the order. This does not suggest that we will not communicate with you periodically the reasons behind our thinking but is only meant to describe the process from decision-making to execution.

The non-discretionary arrangement requires us to receive the client’s prior approval, most often verbally over the telephone or electronically via e-mail, before any

investment action can be taken. The client also has the option to allow portfolio changes **only with** written authorization. This level of approval is extremely rare however.

Clients who have given us discretion as well as those who have opted for a non-discretionary relationship have the choice of placing restrictions on the type of investments we can make in their accounts. For example, a client may have a strong feeling about not investing in certain industries for social or moral reasons. Another client may impose a minimum credit quality restriction on the bonds we purchase. Or the client may set a requirement that all common stocks pay a dividend.

## **ADVISORY SERVICES**

A portfolio will typically be managed within one of the following groups:

*Equity (consisting solely of common stocks)*

*Balanced (consisting of a blend of common stocks and bonds)*

*Long-Term Fixed-Income (consisting of bonds having an average maturity greater than one year)*

*Liquidity (consisting of cash-equivalents and short-term bonds having an average maturity of one year or less)*

Based on what the client has told us about his or her risk and return preferences, tax situation and income requirements, we make an allocation across some or all of the investment alternatives listed earlier in this section that in our judgment best satisfy the objective. We also will take into account investments managed or held elsewhere to avoid undue concentration in a particular area and to coordinate tax strategies if necessary. Each client's portfolio is designed to reflect such variables as return expectations, comfort with the risk of potential loss in the value of the investments, income requirements and tax situation among other factors unique to that client.

Marlcroft does not offer model portfolios nor do we believe in a "one size fits all" approach.

## **ITEM 5 FEES AND COMPENSATION**

### **CURRENT FEE SCHEDULES**

Our fees are based on a percentage of assets under management. We have three fee schedules:

#### ***Equity and Balanced Portfolios***

**First \$1,000,000 = 1.25%**

**Next \$1,000,000 = 1.00%**

**Next \$3,000,000 = 0.70%**

**Over \$5,000,000 = 0.50%**

**Minimum Account Size \$250,000**

#### ***Long-Term Fixed-Income***

**First \$2,000,000 = 0.50%**

**Next \$3,000,000 = 0.375%**

**Over \$5,000,000 = 0.25%**

**Minimum Account Size \$500,000**

#### ***Liquidity***

**.25% on all assets under management**

**Minimum Account Size \$2,000,000**

### **FEE CALCULATION**

We do not charge a minimum fee. Accounts may be combined on the basis of a relationship for fee calculation purposes. Fees are subject to negotiation under certain limited circumstances. The expense of maintaining a custodian account may be separate from the investment management fee in which case payment is the responsibility of the client. In certain instances the custodian charges may be included in the investment management fee and paid by Marlcroft.

Fees are generally calculated on a monthly basis. Clients will receive a letter at the beginning of each month detailing the fee calculation based on the closing market value of the account as of the last business day of the previous month.

## **FEE PAYMENT OPTIONS**

There are two options you may select from to pay for our services:

### *Direct Debiting (Preferred)*

At the inception of the relationship and each month or quarter thereafter, depending on your billing cycle, we will notify your custodian of the amount of the fee due and payable to us under the fee schedule in our agreement. **The custodian does not validate or check our fee, its calculation or the assets on which the fee is based.** They will deduct the fee from your account, or, if you have more than one account from the account you have designated to pay our advisory fees.

Each month you will receive a statement directly from your custodian showing all transactions, positions and credits/debits into or from your account. The investment advisory fee you paid will also be listed in this statement.

### *Pay By Check*

At the inception of the relationship and each month or quarter thereafter, depending on your billing cycle, we will issue an invoice for our services and you pay us by check.

## **ADDITIONAL FEES AND EXPENSES**

Advisory fees payable to us do not include all the fees you will pay when we purchase or sell securities for your account. The following list of fees or expenses are what you pay directly to third parties, whether a security is purchased, sold or held in your account under our management. Fees charged are by the broker-dealer or custodian. We do not receive, directly or indirectly, any of these fees charged to you. They are paid to your broker, custodian or the mutual fund or other investment you hold. The fees include:

*Brokerage Commissions*

*Transaction Fees*

*Exchange Fees*

*SEC Fees*

*Advisory Fees and Administrative Fees charged by mutual funds and Exchange Traded Funds*

*Custodial Fees*

*Transfer Taxes*

*Wire Transfer and Electronic Fund Processing Fees*

*Commissions or mark-ups/mark-downs on security transactions*

***Among others that may be incurred***

In addition we do not have or employ any person that receives (directly or indirectly) any compensation from the sale of securities or investments that are purchased or sold for your account or to which we provide advisory or management services. As a result we are a “fee only” investment adviser. We do not have any potential conflicts of interest present that relate to any additional undisclosed compensation from you or your assets that we manage.

## **ITEM 6 PERFORMANCE-BASED FEES**

We **do not** charge advisory fees based on a share of the capital appreciation of the assets in a client account. Our advisory fee compensation is spelled out in **ITEM #5**.

## **ITEM 7   TYPES OF CLIENTS**

We provide investment management services to a number of clients:

***Individuals, including high net worth individuals***

***Trusts, estates and charitable organizations***

***Corporations or other business entities***

***Among Others***

## **ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Fundamental analysis is the core approach we employ to determine if a security is a) attractive for purchase; b) appropriately priced for continued retention or c) unlikely to produce a competitive return relative to other alternatives. Fundamental analysis incorporates a broad array of objective (quantitative) and subjective (qualitative) methods that provide the foundation of our decision to buy, hold or sell a specific common stock. While not meant to be exhaustive, among the fundamental factors we utilize are:

*Analysis of Price/Earnings Ratios of a specific stock compared to the broad stock market Price/Earnings Ratio (using the Standard & Poor's 500 as a proxy for the stock market) and industry/sector peers on a current and historic basis*

*Analysis of current and prospective earnings growth rates*

*Analysis of Balance Sheets and Income Statements*

*Assessment of the quality and depth of management*

*Assessment of competitive position, barriers to entry and potential threats*

*Analysis of general economic outlook including but not limited to such variables as the inflation rate, potential output, unemployment and interest rates*

*Analysis of industry/sector factors and trends*

The use of mathematical and statistical tools may suggest a sense of precision in the security selection process. While quantitative inputs are important the success or failure of any investment decision ultimately depends on the judgment of the portfolio manager.

We also use fundamental analysis in the management of our fixed-income portfolios. As mentioned in the previous section one of the things we do is develop an overview of the economy to project our expectations for inflation and interest rates. These two critical factors are used in determining whether current yields in the market are reasonable and what length of maturity is acceptable to minimize the loss of principal. For example, if we felt inflation and interest rates would both be higher in one year, we would be inclined to avoid bonds with longer maturities and lower interest rates.

Another important component of our bond analysis is gauging credit risk. Credit risk involves the probability of an issuer being unable to pay the principal and/or interest on its bonds. Even the perception that an issuer is having financial difficulty can cause substantial erosion in the value of its bonds. To manage credit risk in a portfolio, unless directed otherwise by the client,

we will generally avoid investing in bonds with less than an “A” credit rating by the two major rating agencies, Moody’s and Standard & Poor’s. The “A” rating is two levels above what is considered the industry standard of “investment grade”. The vast majority of our holdings have at least a “AA” rating.

## **STRATEGIES**

All of our strategies are *long-term oriented*. We seek investments that can be bought and held for an extended period of time.

We do not engage in short-term trading aimed at taking advantage of day-to-day fluctuations in the stock market.

We believe in diversification across industries and sectors but we do not copy the exact diversification of benchmarks such as the Standard & Poor’s 500. What does this mean? We try to invest more heavily in common stocks in which we have higher conviction. If our analysis concludes that the energy industry, for example, is especially attractive, we would invest more heavily than its representation of the industry in the Standard & Poor’s 500. Conversely, if we determined that the retailing industry offered little opportunity we might make a token investment or avoid the group entirely. The point is we are investing to mimic an index fund.

We have three primary strategies: ***Long-Term***

***Capital Appreciation Combination of Growth***

***and Current Income Capital Preservation***

***with Maximum Income***

## **LONG – TERM CAPITAL APPRECIATION**

The capital appreciation strategy typically invests entirely in common stocks with little or no consideration given to producing income. This strategy carries with it moderate to high risk of capital loss as common stocks fluctuate in value, both up and down, more than bonds or cash equivalents. We offer a more aggressive capital appreciation strategy that invests in smaller, less seasoned companies. Stocks of smaller companies historically have had a higher return and risk profile. The greater volatility can be attributed to such things as less financial strength, lack of management depth, inability to sustain growth and narrow product lines.

### **COMBINATION OF GROWTH AND CURRENT INCOME**

Our second strategy can be described as a *balanced* approach. As the name implies we create a blend including some or all of the investment alternatives listed in **ITEM 4** consistent with the return and risk guidelines of each client. There is no “model” or “one size fits all” portfolio. Most balanced portfolios have a unique emphasis that results in a different mix of securities within each category (common stocks, bonds, etc.) or variation in the amount invested in each category. Since common stocks have fluctuated more in value than bonds over time, a balanced portfolio more heavily invested in stocks would have greater risk of principal loss.

### **CAPITAL PRESERVATION WITH MAXIMUM INCOME**

Our third strategy invests exclusively in bonds, either taxable or tax-exempt, and in some instances, a combination of the two. The structure of the portfolio is determined by the client’s income expectations, limitations on the term of maturities, credit quality restrictions and tax situation.

### **INVERSE EXCHANGE TRADED FUNDS**

We may use a security known as an *Inverse Exchange Traded Fund*. We described what an Exchange Traded Fund is in **ITEM 4**. The Inverse Exchange Traded Fund moves in the opposite direction of the index, industry or specific asset including such things as currencies and commodities that it is tracking. For example, if we expected interest rates to increase resulting in a price decline for long-term Treasury Bonds, we could buy an Inverse ETF that would rise in price if the bond’s value declined. The risk is that if the Treasury Bond increased in price, the value of the Inverse ETF would decline. For clients with a greater tolerance for risk the Inverse ETF provides an opportunity to profit from a declining market, industry or asset/commodity.

### **RISK OF LOSS**

All investments in securities include a risk of loss of your principal (the amount of your investment) and any profits that have not been realized (the securities were not sold to take the profit). Stock and bond markets can fluctuate substantially over time. In addition, as recent domestic and global economic events have illustrated, performance of any investment is not guaranteed. As a result there is a risk of loss in the value of the assets we manage that may be out of our control. We will do our best to preserve your assets in times of market duress but this does not preclude the possibility of a loss in value.

## **ITEM 9 DISCIPLINARY INFORMATION**

We do not have any legal, financial or other “disciplinary” item to report. We are obligated to disclose any disciplinary event that would be material to you when evaluating us as your prospective Adviser or continuing an existing relationship with us.

This statement applies to Marlcroft and every employee.

## **ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither Marlcroft nor any of its owners and employees have any disclosures to make regarding financial industry activities and affiliations.

## **ITEM 11 CODE OF ETHICS**

As required by regulation, and because it is good business practice, we have adopted a Code of Ethics that governs a number of potential conflicts of interest we might encounter when providing advisory services to you. This Code of Ethics is designed to ensure we meet our fiduciary obligation to you and to make you feel confident that your interests always come first.

The Code is modified as circumstances change. Each employee and owner of the firm is immediately made aware of any changes.

Our Code includes the following:

*Requirements related to maintaining the confidentiality of our clients*

*Prohibitions on insider trading*

*Reporting of gifts and business entertainment that exceed our policy standards*

*Pre-clearance of employee transactions*

*Reporting on an ongoing and quarterly basis all personal securities transactions*

### **PRE-CLEARANCE OF PERSONAL SECURITIES TRANSACTIONS**

Our code does not prohibit personal trading by the owners and employees of Marlcroft. We feel clients will find it reassuring that in the majority of instances we follow our own advice in making our personal investments. To use a familiar cliché, “we eat our own cooking.” As a result we may purchase or sell the same or similar securities (or securities that are suitable for an owner or employee of the firm but not for a client) at roughly the same time we place transactions for your account and the accounts of other clients.

To avoid any potential of the appearance of a conflict, **all** employee and owner transactions must be pre-cleared by the compliance officer before they can be executed. If the owner/compliance officer wishes to make a trade, his request will be memorialized prior to entry. If the owner/compliance officer wishes to make a trade, it will most likely be a purchase or sale of an ETF that, due to its diversification, does not require pre-clearance. In the event of a rare non-ETF purchase or sale, the owner/compliance officer will follow/abide by the “existing blackout period” described below.

We also have a “blackout” period designed to insure that client transactions take precedent. Our “blackout” period is one full business day. For example, if a client purchases stock ABC on Monday, the employee or owner cannot buy the same stock until Wednesday. Before pre-clearing a request the compliance officer reviews the activity within the current and prior day to determine if any transactions in the security have occurred. Once pre-clearance approval has been granted it remains in effect for five business days. If the personal trade has not been entered within those five days, the pre-clearance authorization expires and a fresh approval must be requested.

The purpose of having pre-clearance requirements and a “blackout” period is to prevent an employee of an investment firm from buying or selling a security in advance of a reasonable belief that the firm will make an identical transaction in such size as to materially influence the price of the security. This is a real risk at firms with substantially greater assets under management than Marlcroft. Due to the average size of our transactions and the ease of buying or selling the typical security we invest in, this risk is remote at Marlcroft. But this policy guards against that possibility.

To validate that all personal transactions completed by an employee or owner received pre-clearance authorization, each employee and owner must report all transactions to the compliance officer within ten days of the end of each calendar quarter. The compliance officer provides his information to his deputy for review. Each employee and owner must also provide the brokerage statements for the relevant three month period to confirm that no unauthorized changes were made.

You may request a complete copy of our Code by contacting us at the address, telephone number or website on the cover page of this Part 2. Your inquiry should be directed to the firm’s Chief Compliance Officer.

## **ITEM 12 BROKERAGE PRACTICES**

Marlcroft requests that it be given discretionary authority to determine the broker-dealer to be used and the commission rate to be paid for purchases and sales.

### **GENERAL CONSIDERATIONS**

In making our selection we will seek the broker or dealer which will provide the best services at the lowest commission rates. This **does not** mean that we will ***always*** choose the broker or dealer which offers the lowest commission. The amount of the commission is balanced against the broker's ability to provide professional services, such as timely and efficient execution and research services we incorporate in our investment process. We do not have any formal commitments or understandings to trade with specific brokers to generate a specified level of commissions to receive research services.

### **RESEARCH**

We select a broker primarily on the basis of the research it can provide to assist us in managing all client accounts. If the research is of sufficient value to us that we consider it a reasonable trade-off to pay a slightly higher commission than that offered by another broker with little if any research capabilities that meet our needs. In a sense this is an example of "getting what you pay for." The research we receive in exchange for commissions covers analysis of companies and industries as well as broad economic trends that can impact security selection and diversification.

We **do not** use commissions to receive products or services that do not assist us in the investment decision-making process. For example, we do not use commissions to pay for rent or office furniture. Our only use of commissions is to obtain research we deem helpful in managing client accounts. Receiving research in this manner is beneficial to us as we do not have to produce or pay for it.

### **EVALUATION AND SELECTION OF BROKERS**

Marlcroft's portfolio managers meet periodically to review the brokers we use and to determine if their research services continue to be helpful. We also examine if we are allocating our commissions in the most productive fashion. If the research has proven to be lacking in utility, the broker may be removed from our Approved List. We will also consider adding a broker which offers a research service that provides a perspective into investment opportunities we feel would benefit our client accounts.

## **BENEFITS OF RESEARCH TO CLIENTS**

All research we obtain is intended to enhance the investment process and decision-making for all clients. While research services may be useful for all clients, not all of the research may be applicable to the account for which the particular transaction was executed. We do not make any provision to allocate research benefits to client accounts in proportion to the commissions each account generates.

## **BROKERAGE FOR CLIENT REFERRALS**

We do not seek client referrals from brokers in exchange for commission flow. We consider this an entirely inappropriate use of funds that belong to the client.

## **DIRECTED BROKERAGE**

Certain clients may have an existing relationship or develop one with a broker that is not on our Approved List. The client may direct us to execute transactions for his account with this broker. In this situation, the client is made aware that the commission may exceed what it would be if we had executed the trade. More often than not the directed broker will charge a higher, and at times significantly higher, commission per share than we could obtain. By using a directed broker the client may also not benefit from being part of an aggregated order.

## **AGGREGATION OF ORDERS**

On occasion we will combine orders for the same security in multiple accounts. The purpose is to complete the order in a more timely and efficient manner and to reduce overall commission charges for clients. Aggregating orders also may result in a better execution price than if each account bought or sold individually.

Upon completion of the trade each client account receives its allocated portion of the total shares equal to the amount designated upon entry of the order. The costs of the transaction are allocated in the same manner. If the order is partially completed, the allocation will be done on a pro-rata basis according to the initial amounts designated upon entry of the transaction. Under **very limited** circumstances the allocation of a partially completed order may be done in a different manner as long as all clients receive fair and equitable treatment in the judgment of the portfolio manager. The primary reason for not following an exact pro-rata allocation is the relatively small participation

of a client account in the total trade. The portfolio manager may decide it is practical to complete a small order for ease of administration when it will not negatively impact the remaining client accounts.

### **PRINCIPAL TRADING**

Marlcroft does not engage in principal trading.

### **CROSS TRANSACTIONS**

Cross transactions are permitted.

## **ITEM 13 REVIEW OF ACCOUNTS**

While Marlcroft continuously monitors the securities held in client accounts, each portfolio is formally reviewed on a monthly basis by the portfolio manager responsible for the account. Accounts are reviewed in the context of each client's stated investment objectives, risk tolerance and unique guidelines and/or restrictions. Investment ideas are exchanged among the portfolio managers on a regular basis but we rely on the person closest to the relationship to insure we are meeting our responsibility to the client to invest in a prudent manner. As each portfolio manager has an equal share of the business we all have a stake in doing what is right for the client as it is also in the interest of Marlcroft. In addition each portfolio manager has at least 30 years of experience investing under standards of prudence.

More frequent reviews may be triggered by changes in a client's financial circumstances. For example, the client may require that more income be generated by the portfolio so a change in the mix of bonds and stocks may be necessary. From a broader perspective changes in the economy or conditions in the financial markets may lead to a reassessment of an account's structure.

### **REPORTS TO CLIENTS**

As stated earlier we rely on the portfolio manager responsible for the account/relationship to best develop a suitable investment plan for that client/relationship. In the same vein, the portfolio manager determines what frequency, type and depth of communication is appropriate for each client. It is not a case of "one size fits all". Some clients are satisfied with periodic informal updates via telephone or e-mail. Other clients prefer a more structured schedule of formal face-to-face meetings. Others fall somewhere in between. The content of the written reports we provide can range from general comments about the economy and financial markets, commentary on a single investment issue or a detailed report on the state of the portfolio and an evaluation of its holdings.

The client also receives a monthly statement from their custodian detailing holdings, transactions, disbursements and interest and dividends received among other things. We do not provide reports of this nature.

## **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

Marlcroft **does not pay** to receive client referrals.

We **do not refer** clients to third parties for compensation.

## **ITEM 15 CUSTODY**

With the exception of two accounts, we do not have custody of client assets. We recommend several banks and broker/dealers as custodian. You also have the option of selecting your own custodian.

The custodian will send monthly, or at a minimum, quarterly statements to you. Most custodians will also provide you with the ability to access your account on-line.

It is highly recommended that you carefully review your statement for accuracy. We **do not send** separate statements to clients. For tax and other administrative information the custodian's statement is the official record of your account and assets.

## **ITEM 16 INVESTMENT DISCRETION**

Based on discussions with each client we jointly establish the framework within which the account will be managed. Guidelines will be agreed to covering such things as diversification, income requirements and risk tolerance among others. For discretionary accounts we request the authorization of the client to determine which securities and the amount of each security to be bought or sold. The client grants us discretion by signing a discretionary investment management agreement. The client ***always*** has the option to limit, change or revoke our discretion. Any changes in authorization are to be made by a written amendment to the investment management agreement.

## **ITEM 17 VOTING CLIENT SECURITIES (PROXY VOTING)**

Marlcroft **does not vote** proxies on behalf of clients.

Clients retain all authority and responsibility to vote any and all proxies.

## **ITEM 18 FINANCIAL INFORMATION**

Marlcroft does not charge or solicit prepayment of \$1200 in fees per client six or more months in advance.