

# **CARMEL CAPITAL MANAGEMENT L.L.C.**

**26350 CARMEL RANCHO LANE  
SUITE 225  
CARMEL, CALIFORNIA 93923**

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## **Form ADV Part 2A Firm Brochure March 2022**

**This brochure provides information about the qualifications and business practices of Carmel Capital Management L.L.C. If you have any questions about the contents of this brochure, please contact us at (831) 625-1375. 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.**

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## **MATERIAL CHANGES**

Carmel Capital Management, L.L.C.'s Form ADV Part 2A dated March 2022 contains certain changes from the prior versions dated March 2021. The current versions contain the following changes from the prior version:

- Updated assets under management information at Part 2A, Item 4.
- Updated information regarding disciplinary information at Part 2A, Item 9.

## **ADVISORY BUSINESS**

Carmel Capital Management L.L.C. ("CCM" or the "Firm") is an investment adviser registered with the Securities and Exchange Commission. CCM has been in business since 1999. Its Principal and sole owner is West D. Whittaker. As of December 31, 2021, CCM had \$244.9 million in assets under management. All assets are managed on a discretionary basis.

CCM is an independent investment advisory firm that provides wealth and portfolio management through separately managed accounts for trusts, retirement accounts, primarily high net-worth individuals, family offices, corporations, pensions and profit-sharing plans, endowments and foundations. The Firm typically tailors its services to the individual needs of each client. CCM generally manages all client accounts on a discretionary basis. CCM's initial minimum account size is \$4.5 million for new clients. CCM will consider waivers to the minimum account size; however, CCM, in its sole discretion, may charge accounts below the usual minimum higher investment advisory fees.

CCM advisory services are tailored to its clients' needs as determined by the information provided by each client, such as investment objectives and experience, financial condition, family circumstances, retirement goals, and other relevant information.

CCM is a fiduciary under applicable federal regulations and as a fiduciary, the Firm provides services and advice that are in the best interest of each client and at all times places the best interests of each Firm client ahead of the Firm's or its employee's own interests.

CCM does not participate in wrap fee programs.

## **FEES AND COMPENSATION**

CCM generally charges an annual advisory fee equal to 1% of the assets under management in a client account. In some cases, when CCM accepts an initial investment that is below CCM's usual account minimum, CCM may charge a higher advisory fee (up to 1.5%). CCM may also charge consulting fees for investment consulting projects; fees depend on the specific services provided.

Advisory fees are payable in advance through quarterly installments. Valuation of client accounts is determined in accordance with market prices and industry procedures. Clients may consent to having

their fees deducted from their accounts by count custodians, or may have their fees billed to them, as provided in the investment advisory agreement between CCM and its clients.

Clients pay the typical fees associated with an investment account, such as custodial fees, commissions and markups charged by broker-dealers. Should client assets be invested in mutual funds, exchange traded funds, or private funds, clients also pay their share of advisory fees and other expenses charged

by the funds. Clients should refer to **Brokerage Practices**, below, for more information on CCM's brokerage practices.

Neither CCM nor its Principal accepts compensation for the purchase or sale of securities or other investment products. No other compensation is charged by CCM with respect to its client accounts.

Generally, CCM or a client may terminate an individually managed account upon a 5-day written notice to the other party. Clients will receive a pro-rata refund of any pre-paid unearned fees. CCM uses its account valuation procedures to determine the value of the client's account at termination.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

CCM does not charge performance-based investment advisory fees. In addition, CCM does not engage in side-by-side management where an investment adviser advises different types of client accounts separately from its investment management accounts.

## **TYPES OF CLIENTS**

CCM provides investment advisory services to trusts, retirement accounts, primarily high net-worth individuals, family offices, corporations, pensions and profit-sharing plans, endowments and foundations. CCM may also have accommodation accounts for minor children of high net-worth clients.

## **METHOD OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

A focus on fundamental analysis and value investing are the cornerstones of Carmel Capital Management's investment philosophy. The firm seeks to build wealth through the purchase of high-quality underpriced securities in a diversified portfolio. CCM utilizes "bottom-up" research to identify and purchase investments in companies that are undervalued compared to their earnings prospects and intrinsic value.

CCM may invest in equity securities, fixed income securities, Exchange Traded Funds (ETFs), Exchange Traded Notes (ETNs), mutual funds, Rule 144A securities, and other securities. CCM also recommends private fund investments to eligible clients. The mix of securities held in client portfolios will vary depending upon CCM's portfolio management decisions and client investment objectives.

No specific level of gain can be guaranteed, as there is always a risk of loss, including loss of principal investments, when investing in the markets due to market volatility and company specific issues. Some investments have limited liquidity, including those in pooled investments, which may impede the ability to conduct purchases or sales of those investments in a timely fashion or at expected valuations.

## **DISCIPLINARY INFORMATION**

1. No individual CCM financial professional has any disciplinary history.
2. CCM entered into a settlement with the sec on July 26, 2021, without admitting or denying any factual allegation, which resulted in the entry of a settled administrative order for violating the requirement that it timely file and deliver to clients its initial Form CRS that included a \$25,000 civil monetary penalty. In accordance with best practices, CCM has implemented policies and procedures for distributing its Form CRS going forward.
3. There are no adverse events affecting CCM that would be material to a client's decision to use CCM's investment advisory services.
4. There have been no criminal or civil actions in a domestic, foreign or military court of competent jurisdiction involving either CCM or any member of its management team.
5. CCM entered into a settlement with the sec on July 26, 2021, without admitting or denying any factual allegation, which resulted in the entry of a settled administrative order for violating the requirement that it timely file and deliver to clients its initial Form CRS that included a \$25,000 civil monetary penalty. In accordance with best practices, CCM has implemented policies and procedures for distributing its Form CRS going forward.
6. There have been no self-regulatory organization (SRO) proceedings involving either CCM or any member of its management team.

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

1. Neither CCM nor its management persons are registered or have a pending registration as a broker-dealer or a registered representative of a broker-dealer.
2. Neither CCM nor its management persons are registered or have a pending registration as a futures commission merchant, commodity pool operator, a commodity-trading adviser, or as an associated person of the foregoing types of entities.
3. Neither CCM nor its Principal are affiliated with other companies in the financial services industry, including those companies that provide services to client accounts, such as custodians, brokers or funds in which client assets are invested.

4. CCM does not recommend or select other investment advisers.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

1. CCM has a Code of Ethics that sets forth its policies on personal and client security transactions. Copies of the CCM Code of Ethics are available free of charge upon request.
2. Neither CCM nor any related person recommends a security in which CCM or investment persons related to CCM have material financial interests.
3. In order to prevent conflicts of interest, CCM has adopted a set of procedures for its officers and employees (including a pre-clearing procedure) with respect to transactions by its officers and employees for their “personal accounts.”
4. In order to monitor compliance with its personal trading policy, CCM has adopted a quarterly securities transaction reporting system for all of its employees. In addition, CCM employs numerous other safeguards to ensure compliance in this area including the following: employees cannot buy or sell a security until all client trades have been completed on a given day. An employee “personal account” may participate in block trades if such participation does not preclude client orders from being fully filled.

## **BROKERAGE PRACTICES**

### Description of Factors in Selecting/Recommending Broker-Dealers

CCM has discretion to determine which broker-dealers it uses for client transactions, and to determine the amount of commissions and other transaction costs paid by client accounts. The following disclosures describe how CCM uses its discretionary brokerage authority when placing transactions for client accounts. Certain individual clients may have different guidelines or restrictions for their accounts. When CCM places orders for the execution of portfolio transactions for clients, CCM allocates transactions to broker-dealers that CCM in its good faith judgment believes is in the best interest of its clients – taking into consideration all circumstances surrounding the transactions.

As an investment adviser, CCM is a fiduciary with respect to its clients. As a fiduciary, CCM has a duty to act in the best interest of its clients. When selecting broker-dealers for client transactions, CCM has a duty to obtain the most favorable available execution. In certain circumstances, the most favorable execution may not necessarily have the lowest transaction cost. For example, discount broker-dealers may charge lower transaction fees, but they may be lacking in other factors needed to provide the most favorable execution for client accounts. CCM believes that it has a duty to consider the full range of factors that result in execution that is more favorable.

When selecting broker-dealers for client account transactions, CCM considers a number of factors. While the transaction cost associated with client transactions is always an important consideration, there are a myriad of considerations, when taken together, are as important as the cost of transactions.

Other relevant factors taken into account include such things as:

- execution capabilities;
- custodial and other services provided by such brokers and dealers which are expected to enhance the general portfolio management capabilities of CCM;
- the size of the transaction;
- the difficulty of execution;
- the operational facilities of the broker-dealer involved;
- the risk in positioning a block of securities;
- the quality of the overall brokerage and research services provided by the broker-dealer; and
- the value of an ongoing relationship of CCM with such brokers and dealers.

#### Research and Other Soft-Dollar Benefits

Under Section 28(e) of the Securities Exchange Act of 1934, as amended, an investment adviser with investment discretion over an account is permitted to pay a broker-dealer commissions in excess of commissions that may be charged by another broker-dealer if the adviser:

1. Determined in good faith the amount of commissions paid was reasonable in relation to the value of the brokerage and research provided by the broker-dealer.
2. Determined the arrangement was reasonable in light of a specific transaction or the adviser's overall responsibilities for its client accounts.
3. Obtained "brokerage and research" services from a broker-dealer who:
  - furnishes advice, either directly or through publications or writings, as to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or purchasers or sellers of securities;
  - furnishes analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; or
  - effects securities transactions and performs functions incidental thereto (such as clearance, settlement, and custody) or required in connection therewith by rules of the Commission or a self-regulatory organization of which such person is a member or person associated with a member or in which such person is a participant. [Securities Exchange Act, Section 28(e), Subsections (2)(A)-(C)].

The provisions in Section 28(e) create a "safe harbor" for investment advisers who receive brokerage and research services from broker-dealers in view of the commissions paid, if advisers comply with Section 28(e) regarding the services received and the advisers' disclosure of its policies. Underscoring

Section 28(e) is an adviser's good faith belief that the amount of commissions paid is reasonable in view of the brokerage and research services received.

CCM is not required to use the broker-dealers who provide research to CCM for any specific level of brokerage. The research provided to CCM includes economic forecasts, investment strategy advice, fundamental advice on individual securities, valuation advice and market analysis. The research that CCM receives falls within the "safe harbor."

#### Brokerage for Client Referrals

CCM does not have a client referral arrangement with any broker-dealer used for client account transactions.

#### Directed Brokerage

Clients may direct CCM to use broker-dealers for custodial services and/or account transactions. When clients do so, they may not receive the benefits of aggregated transactions as described below.

#### Aggregating Client Transactions

If CCM believes that the purchase or sale of a security is in the best interest of more than one client, and it is consistent with CCM's duty to obtain the most favorable available execution for all clients, it may (but is not obligated to) aggregate the securities to be sold or purchased to obtain the most favorable available execution or lower brokerage commissions, to the extent permitted by applicable laws and regulations. Aggregation should, on average, reduce slightly the costs of execution and CCM will not aggregate a client's order, if, in a particular instance, it believes that aggregation would cause the client's cost of execution to be increased. Where trades are aggregated, the transactions, as well as the expenses incurred in the transactions, will be allocated by CCM according to a policy designed to ensure that such allocation is equitable (no advisory client will be favored over any other client) and consistent with our fiduciary duty to our clients (including our duty to obtain the most favorable available execution of client trades). Pursuant to this policy, each client that participates in an aggregated order will participate at the average share price for that aggregated order. Transaction costs will be shared pro-rata based on each account participating in the transaction.

### **REVIEW OF ACCOUNTS**

#### Account Reviews

CCM's portfolio accounting system is reconciled with custodian records generally on a daily basis. All accounts are reviewed as needed. Global account reviews, which encompass decisions regarding initiating, maintaining, increasing or decreasing one or more security positions, performance, and suitability may be triggered by events such as additions to or subtractions from funds under management, modifications in client objectives, risk profile, investment time constraints, etc.



## Account Reports

All clients receive independent trade confirmations and monthly statements of their account(s) from the custodian(s) where the account is held. CCM sends monthly reports that are reconciled with custodian records.

Clients receive at least quarterly statements from the custodian(s) for the clients' account(s). Most custodians provide monthly reports. The custodian statements represent the official account statements.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

CCM currently does not receive other compensation associated with its clients account, in addition to its advisory fees.

CCM may enter into client referral arrangements through which CCM would pay for client referrals. In these cases, CCM would enter into a written referral agreement with the entity referring clients. The referral fees paid by CCM would not increase the advisory fees paid by clients. The referral fees would be deducted from CCM's advisory fees. Should CCM enter into a referral agreement, CCM would disclose the details of the referral fee arrangement to its clients.

## **CUSTODY**

CCM does not have custody of client assets. Client assets are held by qualified custodians.

## **INVESTMENT DISCRETION**

CCM provides investment management services on a discretionary basis. Each client enters into an investment management agreement that gives CCM the discretionary authority to determine which securities to buy or sell for the client's account. In addition to the agreement with CCM, each client must also sign an agreement with custodian for its account enabling CCM to place trades for the client's account.

## **VOTING CLIENT SECURITIES**

Generally, CCM votes proxies for all of its client accounts, unless proxy-voting rights are retained by the client. Each proxy is reviewed and voted in a manner that is consistent with the interests of CCM's clients.

Clients may request a copy of CCM's proxy voting policies as well as information concerning how a specific proxy was voted by contacting CCM in writing at the address shown on the cover sheet of this Form ADV Part 2A.

## **FINANCIAL INFORMATION**

1. CCM does not require or solicit payment of more than \$1,200 in fees per client, six months or more in advance.
2. CCM has no financial condition that is reasonably likely to impair CCM's ability to meet contractual commitments to its clients.
3. CCM has not been subject to a bankruptcy petition.