



**Part 2A of Form ADV:**

***Firm Brochure***

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March 30, 2023

This firm brochure provides information about the qualifications and business practices of Davidson Investment Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 800-332-0529 or [DavidsonInvMarketing@dadco.com](mailto:DavidsonInvMarketing@dadco.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration as an investment adviser with the Securities and Exchange Commission does not imply any specific level of skill or training.

Additional information about Davidson Investment Advisors, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by our firm's CRD number, which is 110552.

## Item 2 Material Changes

The Securities and Exchange Commission ("SEC") adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure ("Brochure") is our disclosure document prepared according to the SEC's requirements and rules.

This Brochure dated March 30, 2023 contains the following material changes from the last annual update, the December 22, 2022 Brochure:

- We updated the following within Item 4, Advisory Business:
  - **Acquisition of Caprin Asset Management, LLC.** On March 1, 2023, Davidson Investment Advisors completed its acquisition of Caprin Asset Management, LLC ("Caprin"). Caprin, a provider of municipal and taxable fixed income investment advisory services, operates as "Caprin Asset Management, a division of Davidson Investment Advisors."
  - **Assets Under Management.** Stating that as of February 28, 2023, Davidson managed approximately \$2.7 billion in assets on a discretionary basis and \$29 million on a non-discretionary basis. As of February 28, 2023, Caprin Asset Management had \$1.26 billion in assets, all on a discretionary basis.
- **Intermediate Municipal Fixed Income Strategy Portfolio Manager Update.** Since 2017, Davidson Investment Advisors and Davidson Fixed Income Management (DFIM), an affiliate company within the Asset Management and Trust division of D.A. Davidson Companies, have dually-employed two investment team members – Chris Johns and Tim Iltz – who have served as co-portfolio managers of the Intermediate Municipal Strategy. Mr. Johns retired effective Feb. 28, 2023, and Mr. Iltz accepted a position to work directly for Aquila Funds effective March 6, 2023, for which DFIM served as sub-advisor. Since DFIM ceased all business activities as of March 6, 2023, DFIM filed an ADV-W to withdraw its SEC registration.

Stephen Frahm and Robert De Meulenaere, CFA® serve as co-Portfolio Managers for the Intermediate Municipal Fixed Income Strategy. They are further supported by the investment team within our Caprin division, which has a collective 40 years of municipal fixed income portfolio management experience.

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## Item 4 Advisory Business

Davidson Investment Advisors, Inc. ("Davidson Investment Advisors" or "Davidson" or "Firm") is a Securities and Exchange Commission ("SEC")-registered investment adviser. The purpose of this Firm Brochure ("Brochure") is to describe and disclose the services, fees, potential conflicts of interest, and other necessary information clients should consider prior to becoming a client. The information contained herein is current as of the date of this Brochure and is subject to change at Davidson's discretion. Please retain this Brochure for your records.

Davidson Investment Advisors is wholly owned by D.A. Davidson Companies, a financial services holding company. Davidson Investment Advisors has been conducting business since 1975. Its headquarters are in Great Falls, Montana with additional offices in Seattle, Washington; Carlsbad, California; Spokane, Washington; Bozeman, Montana; and Richmond, Virginia.

Caprin Asset Management ("Caprin") operates as a division of Davidson Investment Advisors. Caprin offers fixed income portfolio management services for both institutional and individual clients.

### TYPES OF ADVISORY SERVICES

The Firm offers professional portfolio management to individuals and institutions desiring investments in equity and fixed income products. The advisory services offered by Davidson generally include portfolio management, investment advice, consulting services, performance reporting, and related account services. These advisory services are offered through the following types of programs:

- A direct relationship with Davidson, with full investment and trading discretion
- As a subadvisor to other investment advisers or broker-dealers, with full investment and trading discretion. This includes participation in wrap fee programs sponsored and administered by D.A. Davidson & Co., a related person and broker-dealer, and unaffiliated parties (the "Sponsors").
- As a model provider to other investment

advisers or broker-dealers for equity strategies. As a model portfolio provider, Davidson monitors and updates the model portfolios; the investment advisers or broker-dealers are then responsible implementing the model portfolios for their clients and adjust the model portfolio as recommended by Davidson. Davidson does not have any trading authority over the third-party investment adviser's clients' assets invested in such model portfolios.

- As investment adviser to the Davidson Multi-Cap Equity Fund, which is a series of the Adviser Series Trust ("Trust"), and registered under the Investment Company Act of 1940 as an open-end management investment company. U.S. Bank Global Fund Services acts as the Fund's administrator and provides fund accounting and transfer agency services.

In addition, Davidson offers discretionary and non-discretionary advisory services to direct clients via our own sponsored wrap fee program. In Davidson's wrap fee program, the Firm acts as your investment adviser, and brokerage services (such as trade execution and custody services) are provided by our affiliated broker-dealer, D.A. Davidson & Co. for a single "wrap fee." Conversely, in a non-wrap fee program, Davidson acts as your investment adviser and brokerage services (such as trade execution and custody services) are negotiated by you with the account custodian and paid separately. For a complete description of these services and fee arrangements, clients should refer to the Firm's Form ADV Part 2A: Wrap Brochure. To receive a copy of this wrap brochure, contact us at 800-332-0529 or [DavidsonInvMarketing@dadco.com](mailto:DavidsonInvMarketing@dadco.com).

Davidson offers four primary investment strategies: Equity Income, Multi-Cap Equity, Intermediate Taxable Fixed Income, and Intermediate Municipal Fixed Income. In addition, Davidson offers custom and multi-asset portfolio management and asset allocation services for high net worth and institutional clients. Caprin has a separate Brochure that describes investment strategies and investment advisory services offered by Caprin.

Regardless of the type of program our advisory services are provided through, portfolios utilizing the same investment strategy are constructed and

managed similarly.

Davidson also offers optional tax overlay services, which seek to reduce the overall tax burden of client accounts while maintaining the risk and return characteristics of our core investment strategies. Tax overlay services in an investment account offer benefits and limitations, as described below.

- Tax overlay management services will be implemented based on the information and instructions provided by the client for their account(s).
- Tax overlay management services do not include general tax advice, tax return preparation or tax planning services.

Tax overlay management services are provided with the assumption that Davidson will continue to provide services to the account(s) for an entire tax year. The termination or removal of the overlay management services before the completion of an entire tax year may result in adverse tax consequences, including without limitation realization of short-term capital gains. Regardless of account size or any other factors, Davidson strongly recommends that clients continuously consult with a tax professional prior to and throughout the investing of assets.

Subject to the agreement with Davidson, a client may impose reasonable restrictions on the securities or types of securities held in the client's account, including directing Davidson to not purchase or liquidate certain securities in their account. If the request for restrictions is deemed reasonable by Davidson, Davidson will select replacement securities as appropriate. Note that restrictions placed on an account may positively or negatively affect account performance, and may cause the account to perform differently (including worse) than a like account with no restrictions.

The investment strategies discussed in this Brochure may not be appropriate for all clients. Davidson will only select or recommend those strategies it believes to be suitable for a particular client.

## ASSETS UNDER MANAGEMENT

As of February 28, 2023, Davidson managed approximately \$2.7 billion in assets on a discretionary basis and \$29 million on a non-discretionary basis. As of February 28, 2023, Caprin Asset Management had \$1.26 billion in assets, all on a discretionary basis. Additionally, Davidson provides several investment strategies via a model-based solution to other investment advisers. As of February 28, 2023, Davidson serviced approximately \$700 million in model-based assets, which is not included on the Firm's ADV Part 1. Caprin serviced approximately \$57 million in model-based assets, which is also not included on the Firm's ADV Part 1.

## SCOPE OF SERVICES AND APPLICABLE STANDARDS OF CARE

**Advisers Act Fiduciary Duty.** As a registered investment adviser, Davidson Investment Advisors is subject to a fiduciary duty under the Investment Advisers Act of 1940 (the "Advisers Act"), which includes both a duty of care and a duty of loyalty (referred to in this Brochure as the "Advisers Act Fiduciary Duty"). This means Davidson is required to act in the client's best interest when providing investment advice and managing client accounts. The duty of care requires, among other things, for Davidson to seek best execution and to provide advice that is in the client's best interest based on the client's investment objectives, risk level, investment time horizon, financial information and other circumstances or mandate (collectively, client's "Investment Profile"). The duty of loyalty requires Davidson to eliminate or mitigate material conflicts of interest with clients, and to provide full and fair disclosure of such conflicts of interest. The duty also requires Davidson to provide ongoing monitoring of clients' accounts and its recommendations in advisory accounts.

**Special Rules for Retirement Accounts.** When it comes to retirement and other qualified accounts, including employer-sponsored plans ("plans"), individual retirement accounts ("IRAs"), SEP IRAs, SIMPLE IRAs, Keogh plans, Coverdell educational savings accounts, and other similar accounts (collectively, "retirement accounts") our fiduciary status is highly technical and dependent on the particular services Davidson is providing. The Firm

is subject to an additional fiduciary obligation under Title I of the Employee Retirement Income Security Act of 1974 (“ERISA”) and/or the Internal Revenue Code (the “Code”), which are laws governing retirement accounts (such fiduciary obligations referred to in this Brochure as the “DOL Fiduciary Duty”). These laws limit the types of products and services Davidson can offer and provide when the Firm acts as a fiduciary to client’s retirement accounts.

Any discussions to open, rollover or transfer assets to a Davidson IRA account are not reasonably intended to be viewed or construed as an individualized/personalized suggestion for a client to take a particular course of action with respect to their retirement accounts (“General Information and Education”), and may also include:

- General Information and Education about the financial markets, asset allocations, financial planning illustrations and the advantages and risks of particular investments;
- General Information and Education materials about issues and alternatives that should be considered when deciding whether to roll out or transfer retirement account assets to the Firm;
- Transfers of IRA assets held at a financial service company other than the Firm (including directly with an investment product sponsor);
- Recommendations about investments in accounts that are not retirement accounts (i.e., taxable accounts);
- Transactions clients enter into without a recommendation from Davidson or that are contrary to, or inconsistent with, their recommendation;
- Ongoing recommendations of securities or other transactions or discretionary investment advice, except as otherwise agreed to in writing in any applicable agreements or disclosures;
- Recommendations or investment advice that the Firm provides to clients with respect to an account that they have at the Firm, which clients choose to implement in another account or at another financial services company without the Firm’s written consent; and

- Recommendations that are not fiduciary “investment advice” as defined in Department of Labor regulation section 2510.3-21 (i.e., investment advice for a fee or other compensation rendered on a regular basis pursuant to a mutual understanding that such advice will serve as a primary basis for client’s investment decision, and that will be individualized to the particular needs of client’s retirement account).

#### **The Best Interest Standard and Reasonable**

**Compensation.** The best interest standard under both the Advisers Act Fiduciary Duty and the DOL Fiduciary Duty does not require that Davidson guarantee the performance of any investment or that client’s investment objectives will be achieved. In addition, Davidson may provide recommendations and take actions in connection with the accounts of other clients that may differ from the recommendations and services provided to client. There may be times when Davidson is legally prohibited from making a recommendation that may be otherwise considered to be in client’s best interest, such as due to insider trading. Client understands any recommendations Davidson makes will reflect the information client provides to the Firm about their investment objectives, risk level, investment time horizon, financial information and other circumstances and Davidson will not be responsible for any information client omits or fails to provide, including changes thereto. Davidson’s recommendations and advice will also reflect any limitations client imposes, including through applicable investment restrictions and guidelines. Clients are responsible for notifying Davidson if their investment objectives, risk tolerance and financial circumstances change. Davidson will not be responsible for clients’ decision to invest or transfer their IRA; clients assume the risk of such decisions.

Reasonable compensation under the DOL Fiduciary Duty has generally been determined based on the compensation paid or received in an arm’s-length transaction considering the nature and extent of all services (including products, features and benefits) provided. This standard does not require Davidson to offer its services at the lowest cost, or for the least compensation, in the marketplace, or that it offer its services to clients at the same or lower cost or compensation levels than it offers to other

clients, including similarly situated clients. Certain clients may have negotiated lower fees and compensation for their accounts than those that apply to client's advisory account. By entering into an agreement with Davidson, client agrees that they believe the fees and other compensation payable for the Firm's services are reasonable in light of the totality of the services provided. If client decide not to use all or some of the services made available, client agrees the Firm has no obligation or responsibility to reduce or lower its fees and compensation during the period those services are available. If client wants to change the services the Firm makes available to them, or have any concerns regarding the level of fees their retirement account pays or Davidson's compensation, clients should contact Davidson immediately.

## Item 5 Fees and Compensation

### DESCRIPTION

A client's investment management agreement will set forth the actual compensation the client will pay to Davidson. A client pays Davidson an ongoing fee based on the market value of the assets in the account on the last day of the preceding quarter. Davidson does not have one standard annual fee schedule that is applicable across all strategies but has a fee schedule per strategy and account type. Advisory fees are negotiable. Below are typical strategy-specific fee schedules applicable to separately managed accounts for which Davidson has trading discretion:

#### Equity Income Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.50%
Above \$10m	negotiable

#### Multi-Cap Equity Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.65%
Above \$10m	negotiable

#### Intermediate Taxable Fixed Income Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.35%
Above \$10m	negotiable

#### Intermediate Municipal Fixed Income Strategy:

<u>Value of assets</u>	<u>Annual Fee</u>
0 - \$10m	0.25%
Above \$10m	negotiable

Fees for custom and multi-asset portfolio management solutions, which may include asset allocation services, are negotiable.

The typical fee schedule for model provider services to other investment advisers or broker-dealers is 0.30% of the market value of assets invested using Davidson's models.

### ADDITIONAL FEE INFORMATION

**How Fees are charged.** Fees are generally charged quarterly, in advance, based on the market value of assets in the account (including cash and cash-equivalents) on the last business day of the prior calendar quarter. Depending on the terms of the investment management agreement, some clients may be charged in arrears and/or monthly. If management begins after the start of a month or quarter, fees will be prorated accordingly. The initial billing period begins when an investment management agreement is signed by the client and accepted by Davidson. Clients may choose to have fees deducted directly from their account or be invoiced quarterly.

**Services Covered by the Fees.** The fee includes Davidson's investment management and other administrative services.

**Services NOT Covered by the Fees.** The fee does not include commissions for account transactions, custodial fees, or charges arising from retirement account fees, trust fees, margin interest charges, exchange fees, redemption fees that may be assessed on mutual fund shares, transfer fees or other special service fees and charges by the account custodian. Note that Davidson does not receive any commissions or other the account fees noted above in addition to the advisory fees described in the fee schedule.



**Additional Fees and Expenses.** Davidson may invest client assets in one or more pooled investment vehicles, such as mutual funds and exchange-traded funds, if such investments are consistent with the investment objectives and policies of the client accounts involved. If Davidson makes such an investment on behalf of its clients, those clients will be responsible, indirectly as investors in the pooled investment vehicles, for a portion of the operating expenses of the pooled investment vehicles in which they are invested. In effect, those clients would be paying multiple advisory fees. When investing in mutual funds, including money market funds, a 12b-1 fee may be assessed, depending on the fund selected. 12b-1 fees are sales charges that are incorporated into the expense ratio of the fund. As a matter of Davidson's policy, any new purchases of mutual funds in a Program account must be in an advisory share class that does not impose a 12b-1 Fee, where such a share class is available. Davidson does not guarantee clients will always be invested in the most favorable share class offered by a mutual fund company or that more favorable share classes will be made available in advisory accounts. In no case does Davidson receive compensation from mutual fund companies in which client assets are invested. For client accounts custodied at D.A. Davidson & Co., in the event Davidson receives a 12b-1 Fee in relation to an existing mutual fund position in an advisory account, the Firm will pass on and rebate the fee to the client. For accounts managed by the Firm that are held at custodians other than D.A. Davidson & Co., please refer to the custodian's 12b-1 rebate practices, as Davidson is unable to rebate any such 12b-1 fees.

**Termination of the Advisory Relationship.** If either Davidson or client terminates the client's investment management agreement, any prepaid, unearned fees will be refunded. In calculating a client's reimbursement of fees, Davidson will credit the client's account with a pro-rated refund based on the number of days remaining in the billing period.

**Purchasing Like Services Outside of an Advisory Relationship.** The products and services provided to a client in connection with a Davidson advisory account may be available to a client outside of the advisory account. Clients are cautioned that,

depending on factors such as: the level of fees charged by the executing broker-dealer, the amount of trading activity in the client's account, the value of the client's account, the types of securities held in the client's account, the client's investment strategy, and the level of service sought by the client, the aggregate cost of the client's advisory account may be higher than if the client had selected the services separately. In addition, fees charged by Davidson may be higher or lower than the fee charged by another firm that offers comparable advisory services.

**Additional General Fee Information.** Davidson may modify a client's existing fees and/or add additional fees or charges by providing the client thirty (30) days prior written notice. The fee schedules set forth above are current fee schedules for various strategies. Each strategy has had different fee schedules in effect over time, which may have reflected fees that are higher or lower than those currently stated.

Davidson, at its discretion, may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members of associated persons of our Firm.

**Other Advisory Fees Collected by Davidson:**

Davidson Investment Advisors receives fees for the investment advisory services it provides for the Davidson Multi-Cap Equity Fund. Investors are invited to visit our website at [www.davidsonmutualfunds.com](http://www.davidsonmutualfunds.com) and read the Fund's prospectus for more information. If shares of the Davidson Multi-Cap Equity Fund are held in an advisory account managed by Davidson Investment Advisors, the market value of Fund holdings will be excluded from the market value of assets in the account used in the management fee calculation.

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

Davidson Investment Advisors, Inc. does not charge performance-based fees.



## Item 7 Types of Clients

Davidson offers its services to all types of current or prospective clients, including, but not limited to: individuals; banks or thrift institutions; pension and profit sharing plans; trusts; estates; charitable organizations; corporations or other business entities; and registered investment companies.

**Minimum Account Requirements.** A minimum of \$100,000 of assets under management is generally required to participate in the Equity Income and Multi-Cap Equity strategies. A minimum of \$250,000 of assets under management is generally required to participate in the Intermediate Taxable Fixed Income and Intermediate Municipal Fixed Income strategies. This account size may be negotiable under certain circumstances. The account minimum for multi-asset portfolio solutions and/or asset allocation services is negotiable. Please refer to Item 8 for a detailed description of the Firm's core investment strategies.

As noted in Item 5 above, Davidson Investment Advisors may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

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

### METHODS OF ANALYSIS

The investment team process leverages one team, with shared responsibility for due diligence and explicit accountability for decisions. There is a focus on discipline in portfolio construction and risk-adjusted investment performance.

Davidson utilizes three primary methods of analysis for all its investment strategies:

**Fundamental Analysis.** Davidson attempts to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security.

**Quantitative Analysis.** Davidson uses mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used are based on assumptions that may prove to be incorrect.

**Qualitative Analysis.** Davidson subjectively evaluates non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and attempts to predict changes to market value based on that data.

A risk of using qualitative analysis is that our subjective judgment proves to be incorrect.

**Risk of loss for all forms of analysis.** Securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis becomes compromised by inaccurate or misleading information. Investing in any security involves risk of loss that clients should be prepared to bear.

### RISK OF LOSS

Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal. The following provides information on specific types of investment risks depending on the type of underlying investments.

**Asset Allocation.** A risk of an incorrect asset allocation decision is that the client does not participate in a sharp increase in a particular security, industry, or market sector. Another risk is

that the ratio of equities, fixed income, and cash holdings will change over time due to security value and market movements and, if not corrected (i.e. through rebalancing), will no longer be appropriate for the client's goals.

**Mutual Fund and/or ETF Analysis.** A common risk of mutual funds and/or ETF analysis is that, as with other securities investments, past performance does not guarantee future results. A manager who has been successful in identifying profitable opportunities among mutual funds may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a mutual fund or ETF, managers of different funds held by the client may purchase the same security, creating concentrated exposure for the client to that security and increasing the risk to the client if that security were to fall in value. There is also a risk of a manager deviating from the stated investment mandate or strategy of the mutual fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

**Interest Rate Risk.** Fluctuations in interest rates cause investment prices to fluctuate. For example, bond market values have an inverse relationship to changes in interest rates. Rising interest rates cause bond market values to decline and declining interest rates cause market values to rise. Generally, the longer a bond's maturity, the greater the interest rate risk and the higher its yield. Similarly, equities may also suffer from a rising interest rates.

**Market Risk.** Market risk is the risk of investment losses in a client's account due to a variety of reasons outside of Davidson's control, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, epidemic, pandemic, or social events, independent of the intrinsic valuation of one or more securities in the client's account.

**Inflation Risk.** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation. Inflation risk is the risk of inflation exceeding or eroding the return of

an investment in the client's account.

**Currency Risk.** Among other risks, investments in non-U.S. securities are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk. Currency risk could lead to a loss to a client, for example, when the proceeds from the sale of the non-U.S. security, which may be in a devaluing foreign currency, are converted to a relatively stronger U.S. dollar.

**Reinvestment Risk.** This is the risk that future proceeds from investments have to be reinvested at a potentially lower rate of return (i.e. due to reductions in interest rates). This primarily relates primarily to client account investments in fixed income securities.

**Business Risk.** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of potential profitability than an electric company, which generates its income from a steady stream of customers who buy electricity of the prevailing macroeconomic environment.

**Liquidity Risk.** Liquidity is the ability to readily convert a security into cash. Generally, securities in a client's account are more liquid if many individuals are interested in buying or selling them. For example, Treasury bills are highly liquid, while real estate properties are relatively illiquid. Liquidity risk is therefore the risk that a client will not be able to promptly sell a security due to a limited market for that instrument.

**Financial Risk.** Excessive borrowing to finance a business' operations may create a degree of stress on the firm to the point of jeopardizing its profitability, and potentially triggering a default on one or more outstanding loans. Depending on the circumstances, such a development could lead to a declining value in the company's securities, or even its bankruptcy.

**Global Economic Risk.** National and regional economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country, region or market might adversely impact issuers in a

different country, region or market. Changes in legal, political, regulatory, tax and economic conditions may cause fluctuations in markets and securities prices around the world, which could negatively impact the value of an account's investments. Major economic or political disruptions, particularly in large economies, may have global negative economic and market repercussions. Additionally, events such as war, terrorism, natural and environmental disasters and the spread of infectious illnesses or other public health emergencies may adversely affect the global economy and the markets and issuers in which an account invests. These events could reduce consumer demand or economic output, result in market closure, travel restrictions or quarantines, and generally have a significant impact on the economy. Such events could materially increase risks, including market and liquidity risk, and significantly reduce account values.

**Cybersecurity Risk.** Client portfolios are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events that include, but are not limited to, gaining unauthorized access to digital systems, misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches by a third party service provider and the issuers of securities in which the portfolio invests, have the ability to cause disruptions and impact business operations, potentially result in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

**Technology Risk.** Davidson's investment offerings are dependent upon various computer and telecommunication technologies, many of which are provided by or are dependent on third parties. The successful operation of our firm could be severely compromised by system or component failure, telecommunication failure, power loss, a software-related system crash, unauthorized system access or use (such as "hacking"), computer viruses and similar programs, fire or water damage,

human errors in using or accessing relevant systems, or various other events or circumstances. It is not possible to provide comprehensive and foolproof protection against all such events, and no assurance can be given about the ability of applicable third parties to continue providing their services. Any event that interrupts such computer and/or telecommunication systems or operations could have a material adverse effect on the firm. Such a material effect may have a heightened impact on the investment strategies, given the automated nature of the services provided.

## INVESTMENT STRATEGIES

Davidson offers the following core investment strategies:

### Equity Income Strategy

The Davidson Equity Income strategy is actively managed and invests in high-quality companies with solid balance sheets, ample cash flow and a strong competitive position generating attractive return on capital. Key to the investment strategy is our focus on Dividend Power - looking beyond current dividend yield to include a company's future capacity for dividends. Using a multivariate appraisal process, we assess value across three dimensions (Asset Value, Dividend Power and Growth Value) to uncover quality companies underappreciated by the broader market.

### Multi-Cap Equity Strategy

The Davidson Multi-Cap Equity strategy is actively managed and unconstrained by market capitalization and style classifications. As fundamental investors, we are cognizant of cyclical and secular dynamics, and focus on profitable companies with attractive return on capital, cash flow and growth prospects. We take active industry positions, with relative position sizes commensurate with risk. Our holdings are diversified by economic sector and adjusted based on where we view the greatest market opportunities.

### **Intermediate Taxable Fixed Income Strategy**

The Davidson Intermediate Taxable Fixed Income strategy is actively managed and focuses on the intermediate portion of the yield curve. We invest in investment grade or higher issues with maturities generally ranging from one to ten years. Stability of principal value is a primary focus of the strategy; we perform rigorous fundamental credit analysis and monitor issuers and credit trends daily. We believe that fixed income assets are best managed actively with respect to duration and credit exposures, as we monitor, anticipate, and respond to changes in the broad economy and the interest rate environment.

### **Intermediate Municipal Fixed Income Strategy**

The Intermediate Municipal strategy is actively managed and focuses on the intermediate portion of the yield curve, purchasing issues rated “A” or higher with maturities ranging from one to fifteen years. Emphasis is placed on purchasing issues with predictable income and principal stability, while managers also remain aware of resiliency to credit stress, changing interest rates, and market volatility. Given the tax-sensitive nature of the asset class, attention is also paid to the management of portfolio turnover and the opportunity to realize gains or losses as advantageous for clients, as well as Alternative Minimum Tax and state tax considerations.

### **Custom and Multi-Asset Portfolio Management**

Davidson also offers custom and multi-asset portfolio management to meet the needs of our clients, which include, but is not limited to, asset allocation services. We tailor portfolios to client specifications regarding exposure to various asset classes (including, but not limited to, equities, fixed income securities, international securities, alternative investments, and private equity), as well as desired portfolio characteristics (such as quality parameters or cash flow projections). Such specifications may be outlined in an institutional client’s Investment Policy Statement (IPS), a document that aligns the objectives of an organization with its financial goals to ensure financial assets support organizational objectives.

We also offer multi-asset portfolios designed to provide both strategic and tactical allocations based upon broad capital market exposures consistent with our Investment Team’s views of market opportunities.

### **Item 9 Disciplinary Information**

Davidson Investment Advisors does not have any material legal, financial, or disciplinary events that require disclosure. We are required to disclose any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

Davidson is a wholly-owned subsidiary of D.A. Davidson Companies, a financial services holding company with other subsidiaries: D.A. Davidson & Co. and D.A. Davidson Trust Company. D.A. Davidson & Co. is a broker-dealer registered as such with FINRA (Financial Industry Regulatory Authority) and a SEC Registered Investment Adviser. D.A. Davidson Trust Company is a federal savings bank. This presents a conflict of interest, as each of these firms are under common ownership. However, as discussed in further detail under the Code of Ethics-section below Davidson has a fiduciary duty to place its client’s interest above all else.

Davidson may recommend clients use D.A. Davidson & Co. and D.A. Davidson Trust Company, related parties, for custody and safekeeping purposes. The client also retains the right to direct Davidson to use another broker. If a client elects to use D.A. Davidson & Co. or D.A. Davidson Trust Company, the client may terminate the arrangement at any time. See additional information in regard to Directed Brokerage under Item 12 – Brokerage Practices.

D.A. Davidson Trust Company employs Davidson to manage money for some of its clients who have granted investment discretion to the Trust. Davidson also manages four D.A. Davidson Trust Company common trust funds.

D.A. Davidson & Co. Financial Professionals may refer clients to Davidson Investment Advisors, Inc. in its capacities as independent investment adviser and as an investment adviser participating in D.A. Davidson's advisory programs. D.A. Davidson and its Financial Professionals have an incentive to recommend a Program or an investment manager that is affiliated with D.A. Davidson because the entire client fee is retained by D.A. Davidson and its Affiliate. However, in providing investment advisory services to clients, D.A. Davidson and its Financial Professionals are required to act solely in the best interest of clients. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products.

**Mutual Fund.** Davidson previously disclosed in "Advisory Business" (Item 4) and "Fees and Compensation" (Item 5) of this brochure that it is the investment adviser to the Davidson Multi-Cap Equity Fund, a series of the Adviser Series Trust, an investment company registered under the Investment Company Act of 1940. Please refer to these items for a detailed explanation of this relationship and important conflict of interest disclosures.

For additional information, the Fund's Prospectus and Statement of Additional Information are available on-line at: [www.davidsonmutualfunds.com](http://www.davidsonmutualfunds.com). Prospective investors should review these documents carefully before making any investment in the mutual fund.

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

### **CODE OF ETHICS**

Davidson Investment Advisors has adopted a Code of Ethics ("Code") which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Davidson's Code establishes rules of conduct for all employees and is designed to govern personal securities trading activities in the accounts of employees, among other things. The Code is based upon the principle that Davidson and its

employees owe a fiduciary duty to its clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid: serving their own personal interests ahead of clients; taking inappropriate advantage of their position with the Firm; and any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by calling us at 800-332-0529.

### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

As a general practice, Davidson does not engage in principal transactions.

Davidson employees are allowed to invest in the same securities recommended to or owned by clients. However, in order to avoid conflicts of interest, all Davidson employees are required to receive prior approval to trade in personal security accounts.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

### **D.A. DAVIDSON & CO. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

As previously noted, Davidson Investment Advisors may recommend D.A. Davidson & Co., a related party and broker-dealer, as the qualified custodian for many Davidson Investment Advisor clients. Subject to the requirements of applicable law, D.A. Davidson & Co. may act as principal, buying securities for itself from, or selling securities it owns to, an advisory client, but only on a case-by-case basis with advance written authorization from the client, and when it is in the best interest of a client to do so.

D.A. Davidson & Co.'s policy generally prohibits agency cross transactions for advisory clients, but in rare cases exceptions may be granted. An agency cross transaction is a transaction in which



D.A. Davidson & Co. acts as broker for the party or parties on both sides of the transaction. However, no cross transactions may be made in ERISA-covered or IRA advisory accounts. For additional information regarding D.A. Davidson & Co.'s principal trading and agency cross transaction policies, please refer to D.A. Davidson & Co.'s Wrap Fee Program Brochure. You may also request a copy by calling us at 800-332-0529.

For additional information regarding D.A. Davidson & Co.'s principal trading and agency cross transaction policies, please refer to D.A. Davidson & Co.'s Firm Brochure.

## Item 12 Brokerage Practices

For discretionary clients, Davidson Investment Advisors will determine: (1) which securities are bought and sold; (2) the total amount of such purchases and sales and whether a client's transaction should be aggregated with those of other clients; (3) the broker through which transactions will be executed (with the exception of directed brokerage arrangements, as described later in this section); and (4) the commission rates paid to effect the transactions, as negotiated with the executing broker. Such determinations are made in the good faith judgment of the Firm so that such orders will be placed at prices and commissions that will be in the best interest of the account.

**Best Execution.** Davidson has the obligation to seek best execution when it places trades with broker-dealers. Best execution entails the efficient placement of orders, clearance, settlement and the overall quality of execution as well as the cost of the transaction.

**Selection of Broker-Dealers.** Davidson considers the full range and quality of the services in selecting or approving broker-dealers to meet best execution obligations which include but are not limited to: ability to provide anonymity; promptness of execution; access to inventory in case of fixed income, or access to multiple centers and alternative networks in case of equity; best available price; competitive bids/offers; adequate backup for the trader; financial stability/business reputation; overall responsiveness, and communication.

**Soft Dollars.** Consistent with obtaining best execution for clients, Davidson maintains trading arrangements with various broker-dealers whereby it has access to its research. Davidson may direct trades to one of those broker-dealers and pay commissions that are competitive but that are higher than the lowest available rate that another broker might have charged, if Davidson determines in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided.

The provision of such services in exchange for brokerage business is commonly referred to as a "soft dollar arrangement." Research services and products may include tangible research products (publications or writings as to the value of securities, analysis and reports concerning issuers, industries, economic factors and trends), as well as direct access to analysts and traders. This creates an incentive to select or recommend a broker-dealer based on Davidson's interest in receiving research, rather than clients' interest in receiving most favorable execution. However, Davidson has a fiduciary duty to act in the best interest of clients and to obtain best execution for its advisory clients. Davidson does not enter into soft dollar arrangements that are not covered by the safe harbor of Section 28(e) of the Securities Exchange Act of 1934.

**Directed Brokerage.** Some clients, when undertaking an advisory relationship, may already have a pre-established relationship with a broker-dealer. Therefore, the client may instruct Davidson to execute all transactions through that broker-dealer. If the client directs Davidson to use a particular broker-dealer, the client recognizes that Davidson will likely have no authority to negotiate commissions, to obtain volume discounts and best execution may not be achieved. Under these circumstances, there may be a disparity in commissions charged among Davidson clients.

**Order Aggregation.** Davidson will aggregate client trades where possible and when advantageous to clients. This aggregation of trades permits the trading of blocks of securities composed of assets from multiple client accounts, so long as transaction costs are shared equally and on a pro-rated basis between all accounts included in any

such block. All participating accounts receive an average share price for trade execution.

**Directed Brokerage in Wrap Programs.** Client accounts managed by Davidson which originate through a Wrap Program ordinarily are directed brokerage accounts. Sponsors of these programs typically charge the program participants a fee which covers the costs of executing transactions for the participants' accounts when such transactions are placed by the program sponsor. Trades not placed by the program sponsor are referred to as "step-out" trades and will incur the client additional trading costs. A Wrap Program client should confer with the program's sponsor and determine that the direction of brokerage provided for under the program is reasonable in view of the benefits received, and that the trade execution provided by the program's sponsor is in the client's best interest.

Davidson "steps-out" the majority of its trades, since it believes that "step-out" trades are more likely to provide Wrap Program clients with best execution and offer a higher degree of liquidity. Since Davidson will frequently trade away from the program sponsor, Wrap Program clients will incur trading costs that are in addition to the fee they pay to the program sponsor.

**Trade Rotation.** Davidson employs a trade rotation policy for block trades, by which a rotating, pre-determined order is used to bring clients' shares to the market.

In the event that an aggregated trade takes multiple trading sessions to complete, the overall trade rotation for subsets is adhered to, and allocation of shares is conducted on a random basis using the trade order management system.

## Item 13 Review of Accounts

**Reviews.** The investment team continually monitors the underlying securities within each core investment strategy's portfolios. Depending on the type, accounts are generally reviewed on a quarterly basis or at least on an annual basis. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, the market, political or economic environment.

These accounts are reviewed by various members of the investment team, client service professionals and portfolio administrators.

**Reports.** Davidson generally provides written reports to clients on the performance of their account(s) on a quarterly basis. Client performance reports typically include a portfolio valuation, the asset allocation, and account performance. Performance returns include the deduction of advisory fees, transaction costs, and market appreciation or depreciation.

When preparing a client's account statements and performance reports, Davidson relies on third parties, such as third party quotation services and other custodians when determining the value of account assets. The Firm does not conduct an in-depth review of valuation information provided by third party quotation services or other custodians, and it does not verify or guarantee the accuracy of such information. The prices obtained by Davidson from the third party quotation services it uses may differ from prices that could be obtained from other sources. If a client has assets held by a third party custodian, the prices shown on a client's account statement provided by that custodian may be different from the prices shown on statements and reports provided by Davidson due to the use of different valuation sources by the custodian and Davidson.

## Item 14 Client Referrals and Other Compensation

### CLIENT REFERRALS

Davidson will from time to time pay referral fees to independent persons or firms, as well as Financial Professionals at D.A. Davidson & Co., a related person and broker-dealer, ("Promoters") for introducing clients to us. Whenever Davidson pays a referral fee, we require the Promoter to provide the prospective client with a copy of this Brochure and a separate disclosure statement that includes: the Promoter's name and relationship with the Firm; the fact that the Promoter is being paid a referral fee; the amount of the fee; and whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Promoter.



As a matter of firm practice, the advisory fees charged to clients referred by Promoters or related parties are not increased as a result of any referral.

## **OTHER COMPENSATION**

It is Davidson Investment Advisors' policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that when client assets are custodied at our related person, D. A. Davidson & Co., a qualified custodian, advisory fees can be directly debited from client accounts. In some instances, a client appoints a separate custodian to maintain client assets in which advisory fees may also be directly debited with written authorization from the client on file

As a related person to D.A. Davidson & Co. and D.A. Davidson Trust Company, Davidson is deemed to have indirect custody of some clients' assets. However, all client assets are held with financial institutions known as qualified custodians who are responsible for maintaining the assets and records of those assets.

Clients will receive account statements directly from their qualified custodian. That statement is the official record of your account and the assets contained in it. As previously noted under Item 13, Davidson also delivers statements and reports to clients on the performance of their account. We urge you to compare the information contained in the Davidson quarterly account statements and other reports to the information contained in your official statements for the same period. In the event of a discrepancy between an official account statement and other reports or statements for the holdings and transactions shown, the client's official account statement shall prevail.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case Davidson places trades in a client's account without

contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client: determine the security to buy or sell and/or amount of the security to buy or sell.

Clients give us discretionary authority when they sign an investment management agreement with Davidson, and may limit this authority by giving us written instructions. Clients may also change such limitations by providing us with subsequent written instructions.

## **Item 17 Voting Client Securities**

Davidson generally votes proxies for client accounts; however, clients always have the right to vote proxies. Clients can exercise this right by instructing us in writing (including by email) to not vote proxies in your account. Clients may also direct Davidson to vote a proxy in a particular manner, so long as the client timely notifies Davidson in writing (including by email).

Davidson has engaged a third-party Proxy Service Vendor to provide proxy voting administrative duties and proxy voting recommendations from another third-party Proxy Advisory Form ("Proxy Advisor"). The Proxy Advisor recommendations are pre-populated into the Proxy Service Vendor's electronic voting platform, and are automatically executed pursuant to the Proxy Advisor's recommendations. However, Davidson reserves the right to exercise its own judgment on a case-by-case basis, to serve its clients' best interests once it has determined that such a vote would not involve an identified firm-related conflict of interest. In these situations, Davidson will generally vote in favor of proxy proposals that enhance the independence of board membership, against measures that promote anti-takeover defenses, and for incentive compensation that would align management interests with shareholder interests, including stock-based compensation and restricted stock award programs. Corporate governance issues, however, are diverse and continually evolving and these general policies may not be relevant in some circumstances.

An Investment Adviser Proxy Voting Committee (the "Committee"), with members including senior personnel from Davidson and other D.A. Davidson Companies' subsidiaries, meets periodically. The Committee monitors Davidson's overall adherence to and effectiveness of the Firm's proxy voting policies and procedures. It reviews the rationale for some proxy votes that are not covered by the policies and procedures, or that present a potential conflict of interest. It also reviews the internal controls and independence of the third-party vendors on no less than an annual basis. The Committee periodically reviews policies and procedures and provides advice for revisions thereof.

A summary of Davidson's proxy voting policies and procedures can be found on the Internet at [www.davidsoncompanies.com/dia](http://www.davidsoncompanies.com/dia) or a copy of the policies can be mailed, free of charge, at client's request to the following address:

Davidson Investment Advisors' Compliance Department, 8 Third Street North, Great Falls, MT, 59401.

With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies. To direct us to vote a proxy in a particular manner, clients should contact his or her Davidson representative by telephone, email, or in writing.

**Class Actions.** Davidson will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

## **Item 18 Financial Information**

We are also required to disclose any financial condition that is likely to impair our ability to meet our contractual obligations. Davidson Investment Advisors, Inc. has no additional financial circumstances to report.

Davidson Investment Advisors, Inc. has not been the subject of a bankruptcy petition at any time during the past ten years.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.