

Item 1 – Cover Page

**Firm Brochure  
(Part 2A of Form ADV)**

**Lee, Danner & Bass, Inc.**

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Nashville, TN 37203-1370  
(615) 244-7775**

**[www.leedannerbass.com](http://www.leedannerbass.com)**

**March 30, 2023**

This Brochure provides information about the qualifications and business practices of Lee, Danner & Bass, Inc. (“LDB”). If you have any questions about the contents of this Brochure, please contact us at (615) 244-7775. 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.

LDB is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about LDB also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This is an annual update of ADV (Part 2A) for Lee, Danner & Bass, Inc. Our last offering was an amendment filed with the SEC on June 28, 2022.

1. We are updating our assets under management \$1,393,841,062.43.

Currently, our Brochure may be requested free of charge by contacting Mark Smith, Chief Compliance Officer at (615) 244-7775 or mark@leedannerbass.com. Additional information about LDB is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with LDB who are registered, or are required to be registered, as investment adviser representatives of LDB.

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#### **Item 4 – Advisory Business**

- A. Lee, Danner & Bass, Inc. was founded in 1988 as an independent investment counseling firm dedicated to providing its Clients with an investment management service of superior quality. We are registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Our firm is owned in its entirety by its principals and officers and is not affiliated in any way with any other company. The owners are:
1. Frank Bass II
  2. Ernest Williams III
  3. Lawson C. Allen
  4. Mark B. Smith
  5. Frank M. Bass III
  6. Fred T. Lowrance, Jr.
- B. We provide investment management services of financial assets, to include stocks, bonds, mutual funds, ETFs, options, and cash equivalent money market instruments.
- C. The Client is the focal point around which the entire investment management process evolves. The process begins with a clear definition of the Client's individual needs, objectives and constraints, if any. Factors will include income and liquidity requirements, expectations of capital enhancement, time horizon and tolerance for risk. A program is then designed to achieve these objectives. As time passes, conditions change and a Client's needs and objectives may change. By maintaining a close working relationship with each Client, we are able to reflect such change in the Client's investment portfolio in a timely and responsive manner. Clients may impose investment restrictions. This may affect account performance.
- D. From time-to-time LDB participates in wrap fee programs by providing portfolio management services. The Client's agreement with the wrap program sponsor generally requires transactions to be executed through the program sponsor's broker/qualified custodian and best execution policies of the broker/qualified custodian are utilized. Of the wrap fee charged to Client accounts, LDB receives a portion of this fee consistent with our regular fee schedule.
- E. LDB manages approximately \$1,393,841,062.43 in discretionary investment assets on December 31, 2022 and \$0 in non-discretionary investment assets.
- F. Retirement Plan Rollover Recommendations - When LDB provides investment advice about your retirement plan account or individual retirement account ("IRA") including whether to maintain investments and/or proceeds in the retirement plan account, roll over such investment/proceeds from the retirement plan account to an IRA or make a distribution from the retirement plan account, we acknowledge that LDB is a "fiduciary" within the meaning of Title I of the Employee Retirement Income Security Act ("ERISA") and/or the Internal Revenue Code ("IRC") as applicable, which are laws governing retirement accounts. The

way LDB makes money creates conflicts with your interests, so LDB operates under a special rule that requires LDB to act in your best interest and not put our interest ahead of you.

Under this special rule's provisions, LDB must as a fiduciary to a retirement plan account or IRA under ERISA/IRC:

- Meet a professional standard of care when making investment recommendations (e.g., give prudent advice);
- Never put the financial interests of LDB ahead of you when making recommendations (e.g., give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that LDB gives advice that is in your best interest;
- Charge no more than is reasonable for the services of LDB; and
- Give Client basic information about conflicts of interest.

To the extent We recommend you roll over your account from a current retirement plan account to an individual retirement account managed by LDB, please know that LDB and our investment adviser representatives have a conflict of interest.

We can earn increased investment advisory fees by recommending that you roll over your account at the retirement plan to an IRA managed by LDB. We will earn fewer investment advisory fees if you do not roll over the funds in the retirement plan to an IRA managed by LDB.

Thus, our investment adviser representatives have an economic incentive to recommend a rollover of funds from a retirement plan to an IRA which is a conflict of interest because our recommendation that you open an IRA account to be managed by our firm can be based on our economic incentive and not based exclusively on whether or not moving the IRA to our management program is in your overall best interest.

We have taken steps to manage this conflict of interest. We have adopted an impartial conduct standard whereby our investment adviser representatives will (i) provide investment advice to a retirement plan participant regarding a rollover of funds from the retirement plan in accordance with the fiduciary status described below, (ii) not recommend investments which result in LDB receiving unreasonable compensation related to the rollover of funds from the retirement plan to an IRA, and (iii) fully disclose compensation received by LDB and our supervised persons and any material conflicts of interest related to recommending the rollover of funds from the retirement plan to an IRA and refrain from making any materially misleading statements regarding such rollover.

When providing advice to you regarding a retirement plan account or IRA, our investment advisor representatives will act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims,

based on the investment objectives, risk, tolerance, financial circumstances, and a client's needs, without regard to the financial or other interests of LDB or our affiliated personnel.

#### **Item 5 – Fees and Compensation**

- A. LDB will manage Clients' portfolios on a discretionary basis. For this service an annual fee will be charged that is determined by applying a percentage to the market value of assets under management in accordance with the schedule of fees below.

##### **Schedule of Fees**

	<u>Annual</u>	<u>Quarterly</u>
On first \$2,000,000	.75%*	.1875%*
On next \$3,000,000	.60%	.15%
On excess over \$5,000,000	.50%	.125%

\*The minimum annual fee shall be \$7,500 and the minimum quarterly fee shall be \$1,875

- B. The fee will be billed quarterly in arrears (with the minimum quarterly fee being \$1,875) and will be based upon market value of the portfolio as of the end of the Client's most recent calendar quarter. Fees are prorated based on inception date if investment management services begin during the quarter. Clients may elect to have fees deducted from their assets or be billed directly to their address of record. Fees are negotiable for accounts which are fixed income only and firm minimums apply. There will be a proration of the fee if the Client or LDB cancels the advisory contract during a quarter. The investment management contract may be terminated by either party on ten days written notice. The contract does not provide for any termination fees or penalties upon cancellation.
- C. Clients may pay other types of fees or expenses in connection with LDB investment management, such as custodial fees or mutual fund expenses. (See Item 12 – Brokerage Practices)

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

LDB does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation) of the assets of a Client.

## **Item 7 – Types of Clients**

LDB provides portfolio management services to high net worth individuals, banks or thrift institutions, corporate pension and profit-sharing plans, trusts, estates, charitable institutions, foundations, endowments and corporations. While there are no account relationship minimums of account size, the annual fee minimum applies.

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

### **A. Investment Strategies**

Our goal as an investment manager is to preserve and enhance our Clients' capital. We seek to achieve the highest possible investment return for our Clients, consistent with their individual objectives and constraints.

Preservation of capital and purchasing power is an integral part of capital enhancement. Investing in securities involves risk of loss that Clients should be prepared to bear. LDB invests in stocks, bonds, mutual funds, ETFs, options, and cash equivalent money market instruments. The diminution or loss of capital, albeit only temporary, can impair long-term investment results. We are long-term investors, not short-term traders. LDB does not generally seek short term trading gains, sell short, or purchase securities on margin which involves frequent trading and can affect investment performance. Option strategies are limited generally to the sale of call options or the purchase of put options against underlying equity positions in an effort to limit risk and stabilize returns. Although LDB does not employ margin (borrowed funds) as an investment strategy, some accounts may be on margin for short periods of time when purchases are made prior to corresponding sales and/or to allow for Client withdrawals and check writing. LDB will normally sell securities to remove any debt balance that it becomes aware of unless it expects the Client to make a cash contribution in the immediate future or the Client has given explicit direction to leave the account in a debit position. In recent years there has been an increased emphasis placed by some on short-term performance. We believe this has caused managers to pursue a more trading-oriented approach that, in the final analysis, impedes long-term objectives that may be best achieved by long-term investment strategies.

We employ a highly disciplined methodology in the management of our Clients' assets. It consists of a series of integrated activities, carried out on a continuous and systematic basis, that are designed to achieve the investment objectives of each Client:

1. The Client's objectives are defined, and an applicable program is developed.
2. The investment environment is analyzed, and the combination of financial assets is determined.
3. Individual securities are selected.
4. Individual holdings, market conditions and Client objectives are continuously monitored and portfolio adjustments are made on a timely basis.

## **Asset Allocation**

The ultimate objective of the investment process is to earn the highest possible rate of return through the assumption of an acceptable level of risk. Investment return is identifiable and quantifiable. Risk is much more elusive. Certain types of risk, such as the risk inherent in a particular security or group of securities, can be completely avoided. One type of risk, the risk associated with the overall market, cannot be avoided, and must be managed. We believe the primary objective of investment management is the management of market risk.

Market risk can be substantially enhanced or reduced by the way capital is deployed into three basic classes of financial assets -- stocks, bonds and cash equivalents. For this reason, the asset allocation decision has a very significant impact on overall investment performance.

Our asset allocation decisions are based upon capital market and individual asset expectations. For each of the three major asset classifications, we develop an expected rate of return for the coming twelve and twenty-four month periods. Based on these expectations and attendant to the inherent market risks, we develop the optimal asset mix.

Our capital market expectations are based upon a thorough analysis of the fundamental forces that exert the strongest influence on the financial markets. Of principal importance in this regard is the economy. Utilizing both internal and external research, we develop an economic forecast for the coming twelve and twenty-four month periods. In the development of this forecast, we pay particular attention to fiscal and monetary policies pursued in this country. Further, because our economy is so increasingly dependent upon foreign economic conditions, our research takes on a global perspective. We are vitally interested in the economic outlook for the major industrial countries abroad, their inflationary expectations and interest rates. In addition, we also analyze political and social conditions, both in this country and abroad, to ascertain what impact, if any, they might have on the overall level of economic activity.

In recognition of the fact that there is a margin of error in any economic forecast, we develop alternative projections and assign probabilities to each. These projections are based on our Investment Committee's knowledge and experience along with external research. Utilizing these forecasts as a foundation, we then generate projections for growth in earnings, dividends and interest rates. These projections are the basis upon which we compute the estimated rates of return for each of the three major asset classifications. Our conclusions with respect to the economy, as well as our expectations for interest rates, earnings and dividends, are under continuous review and are appropriately changed on a timely basis as warranted.

## **B. Methods of Analysis**

### **Equity Investments**

Our equity investment process incorporates a complementary blend of the top-down and bottom-up approaches to investment management. It begins with a thorough analysis of the overall investment environment and the forces that will most likely shape the future. It culminates in the



selection of those individual equity securities that we believe will best serve to achieve Clients' goals.

Earnings, dividends, cash flows and interest rates, the primary determinants of equity values and prices, are the direct result of the level of economic activity and the political and social environment in which it is conducted. For this reason, our equity investment process begins with a thorough analysis of the economy. At the outset, our primary interest lies in discerning the basic underlying trends of the economy, the strength of these trends and their expected duration. We then analyze the various sectors of the economy with the objective of ascertaining the relative performance of each component of the economy during the period ahead. This exercise enables us to identify those asset classes, industries and companies that we believe are most likely to achieve superior earnings growth in the future.

In our opinion, the top-down approach described above provides a very efficient methodology for screening industries and companies. However, it is not perfect, nor is it all-inclusive. For example, there are many innovative companies creating new markets for their goods and services whose future success is not dependent on the overall economy. For this reason, we supplement our top-down analysis with bottom-up analysis. In this process, we identify individual companies that, because of their unique characteristics and strong management teams may achieve superior earnings growth regardless of economic conditions. We then analyze them in the context of their respective industries to ascertain what external influences, if any, might alter their future prospects. In utilizing both the top-down and bottom-up approaches, we are able to conduct a comprehensive stock selection process.

In selecting individual equity issues for investment, we emphasize a proper balance between growth and value. Quite simply, we search for companies whose earnings per share are most likely to grow at an above average rate and that can be purchased at a price that represents an attractive investment value. Such companies must possess certain qualitative characteristics. First and foremost, they must be engaged in good businesses; that is, in the context of the economic, political and social forces at work, the business must afford the opportunity for above average growth. They are usually the low-cost producer and are increasing market share in their respective industries. We favor companies that possess marketing and/or technological superiority over their competition. Ideally, we look for companies that, for one reason or another, occupy somewhat of a franchise position. Such companies will usually command a leadership position in their respective industries or business.

In addition to the qualitative considerations described above, selected companies must also meet certain quantitative tests. They must have an excellent balance sheet, with debt making up a manageable percentage of total capital. They must have a demonstrated ability to achieve and maintain high industry profit margins and above average returns on equity and total capital. The companies must have a relatively high reinvestment rate and be able to finance future growth largely from internally generated capital, and cash flows.

In the selection process, we utilize smaller capitalization companies as well as those with large capitalizations. We will use cyclical as well as non-cyclical issues. We also utilize Exchange Traded Funds (ETFs) or mutual funds for some Clients as a tax efficient and cost efficient means of gaining direct exposure to international investments, industry sectors, or general market

exposure. In all cases, the common thread of their utilization is the expectation of future earnings, growth and appreciation. These securities charge management fees to the funds which are reflected in the net asset value of the fund.

Valuation is extremely important in our decision making process, as we want to ensure that the purchase price represents excellent investment value. We utilize several methods for appraising valuation, as no single methodology is perfect all the time. In most instances, valuation is a relative matter. For example, we compare a company's prospective earnings growth rate and price/earnings ratio to that of other companies in the same industry and to the overall market. We further examine a company's relative price/earnings ratio to its five year average relative price/earnings ratio. We make similar comparisons with respect to price-to-book value and price-to-cash flow. In addition, we also use dividend discount models.

Our buy/sell decisions are driven primarily by fundamental considerations and general market conditions. However, we also employ technical analysis as an additional tool. Oftentimes, the behavioral pattern of a single stock or group of stocks will foretell a change in fundamentals. When a technical change occurs, we immediately launch an extensive review of the fundamentals so that we are able to react on a timely basis.

All equity portfolios are managed in a consistent, highly disciplined manner and correlate very closely with our current investment strategy. Of course, Client objectives, constraints and levels of risk tolerance are always of paramount importance, and each portfolio will reflect these individual considerations.

### **Fixed Income and Cash Equivalent Investments**

Consistent with Client objectives and constraints, we actively manage fixed income securities to enhance investment return and preserve principal values. The fixed income securities market has undergone some rather dramatic changes through the years. The Federal Open Market Committee has become more proactive and transparent in dictating monetary policy. Inflationary expectations and market psychology also change rapidly, resulting in increased volatility. Changes in actual or perceived credit quality, resulting from economic conditions, increased financial leverage or corporate takeover activity, have a marked impact on the value of fixed income securities. Because of these and other factors, we believe prudence dictates the active management of fixed income investments.

We believe that proper positioning along the yield curve, as a result of interest rate forecasting and yield curve analysis, is one of the most important principles in fixed income investment management. Thorough credit analysis is a close second. History has well documented the interrelationship between the business cycle and the cyclical movement in interest rates. For this reason, our fixed income investment process begins with a comprehensive analysis of the economy. In this regard, we analyze domestic fiscal and monetary policy, as well as economic and political conditions abroad. Our objective is to discern, as accurately as possible, the current position and underlying trend of the business cycle, the strength of that trend and its expected duration. This enables us to form an opinion of the current position of the interest rate cycle and

the future course of rates. We also examine the projected demand for funds in the public and private sectors to determine the influence it will have on the future course of rates.

Inflationary expectations have a significant influence on interest rates. As a corollary to our economic analysis, we continually monitor consumer and producer prices in this country as well as the prices of sensitive materials. Further, because our markets are global in nature, we analyze inflationary trends abroad and the currency markets. Thorough analysis of all these conditions, to include the economic and interest rate cycle, the demand for funds, inflationary expectations and the currency markets, aids in the selection of the appropriate maturity structure and duration so as to properly position the portfolio along the yield curve.

In selecting individual fixed income securities for investment, primary emphasis is placed on quality. The timely payment of principal and interest when due is accorded the very highest priority. Further, because any deterioration in credit quality will have an adverse impact on market value, we avoid issues when such risk exists and seek out those where there is an opportunity for credit quality enhancement. In addition to credit quality, other characteristics emphasized are liquidity, yield, diversification, and call protection.

We utilize bonds whose interest is fully taxable to meet the needs of our tax-exempt Clients such as endowment funds, foundations and employee benefit funds. United States Treasuries, debentures backed by a government agency, corporate bonds and preferred stocks are examples of fixed income instruments most commonly used for our Clients. In the case of corporate bonds, we analyze each issue paying particular attention to capital structure, tangible assets, stability of earnings and cash flow, return on total assets and debt service coverage. "Event risk" is a major consideration in today's environment, and we avoid those issues that are believed to be vulnerable to such an occurrence.

For corporate and individual Clients subject to relatively high income taxes, we use tax-exempt bonds issued by states and their political subdivisions. We favor general obligation bonds that are backed by the full faith and credit (and taxing power) of the issuer, but we use selected revenue bonds of a very high quality. We thoroughly analyze each issue with respect to its credit quality and particular characteristics. In the case of general obligation bonds, we pay particular attention to the economy of the issuer, its per capita net debt, its tax structure and its record of tax collections. With respect to revenue bonds, we analyze the purpose for which the bonds were issued, the source and stability of the revenue stream and the debt service coverage. Bond insurance and other credit enhancements are also evaluated when applicable. We also can customize tax-exempt securities in an account to specific state issuers, as such actions can further shield municipal income from state taxes that can apply to issuers from states outside of an individual's or corporation's domicile.

Cash management is an integral part of our overall investment management process. Client funds that are not invested in bonds or stocks are temporarily invested in high quality short-term debt instruments. For this purpose, we will use instruments that provide a competitive current income, as well as safety and liquidity to ensure that cash is available when needed. Depending upon their relative attractiveness, from time to time we may use short duration floating-rate debt,

United States Treasury bills, certificates of deposit, high grade corporate commercial paper and master notes, and money market mutual funds.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of LDB or the integrity of LDB's management. LDB has no information applicable to this Item.

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

LDB has no information applicable to this Item.

### **Item 11 – Code of Ethics**

To comply with the Investment Advisor Act Rule 204a-1 LDB adopted a Code of Ethics to be adhered to by all personnel. The Principals and Board of Directors of LDB support the ideals and standards set-forth on ethical conduct. A copy of LDB's Code of Ethics will be provided to any client or prospective client upon request.

Failure to comply with the firm's Code of Ethics may result in disciplinary action including, but not limited to a warning, fines, suspension, demotion or termination of employment.

LDB takes seriously its duty to conduct business in a manner that places high value on ethics. The fiduciary obligation with which our Clients have entrusted us mandates it. Honesty, integrity, professionalism and trust are principles that we strongly uphold and upon which our reputation is based. The interests of our Clients at all times are placed first. Therefore, all supervised and access persons<sup>1</sup> must avoid violations of the Code of Ethics and any perceivable action that has the appearance of misconduct.

Supervised persons are required to comply with all federal security laws and regulations. In complying with this requirement, supervised persons are not permitted to defraud Clients,

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<sup>1</sup> **Access Person-** A supervised person, who has access to nonpublic information regarding Clients' purchase or sale of securities, is involved in making securities recommendations to Clients or who has access to such recommendations that are nonpublic. A supervised person who has access to non-public information regarding the portfolio holdings of affiliated mutual funds.

**Access Persons include: portfolio management personnel, directors, officers and partners**

mislead Clients, or partake in any manipulative practices and operations regarding any Client or Client's securities.

All supervised and access persons have a duty of care to protect material non-public information. Client securities holdings, as well as advisors securities recommendations should be safeguarded. In the event that a supervised person obtains material non-public information, all personal trading or trading on behalf of others is prohibited. The firm's Inside Information Policy & Procedures details guidelines on insider trading as well as penalties and sanctions that can be assessed for violations.

Personal securities trading and holdings must be reported to the firm's chief compliance officer. Once a person becomes an access person, a complete report of all securities holdings must be given to the chief compliance officer. All access persons are required annually to furnish the chief compliance officer a list of all reportable securities holdings of which the access person has, or acquires any direct or indirect beneficial ownership<sup>2</sup>. The exceptions of reportable securities that need not be disclosed are as follows:

- Transactions and holdings in direct obligations of the Government of the United States
- Money market instruments including bankers' acceptances, bank certificate of deposits, commercial paper, repurchase agreements and other high quality short term debt instruments
- Shares of money market funds
- Transactions and holdings in shares of other types of mutual funds, unless the adviser or a control affiliate acts as the investment adviser or principal underwriter for the fund
- Transactions in units of investment trust if the unit investment trust is invested exclusively in unaffiliated mutual funds.

In addition to reporting annual holdings, all access persons are required to provide the chief compliance officer with quarterly reports of all personal securities transactions. This should be provided no later than thirty days after the close of the calendar quarter. All access persons must submit a personal trading form to the chief compliance officer for pre-approval before buying or selling securities. Duplicate copies of trade confirmations must be provided to the chief compliance officer within ten days. Also, all access persons must refrain from violating the blackout period which is considered the day approval is signed by the chief compliance officer, as it relates to Clients' securities transactions of the particular securities. Exceptions to the reporting requirement are transactions that are affected pursuant to an automatic investment plan which include dividend reinvestment plans, and securities held in accounts over which the access person has no direct or indirect influence or control. Access persons must also obtain approval

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<sup>2</sup> **Beneficial Ownership**- Access person is presumed to be a beneficial owner of securities that are held by his or her immediate family members sharing the access person's household.

from the chief compliance officer before investing in an initial public offering (IPO) or private placement. The chief compliance officer will review reports for compliance. All reports submitted are kept confidential and maintained for a period of five years.

All supervised personnel should avoid conflicts of interest. Anything of material value that could influence the supervised person's decision-making or make them feel in any way obligated to a person or firm would be considered a conflict of interest. Gifts, including cash, exceeding \$100 in value may not be received from or given to a Client, prospective Client or entity doing business on our behalf without pre-approval from the chief compliance officer. Supervised persons should not accept entertainment considered extravagant. A business entertainment event, such as a dinner or sporting event of reasonable value is considered acceptable if the Client or entity we do business with is present. In keeping with avoiding conflicts of interests, it is important that investment advisor personnel remain independent and avoid misusing their position. Trades should be fairly made among Clients to avoid favoritism of one Client over another.

Each supervised person has a fiduciary duty to act in the Clients' best interest. It is our responsibility to assure that our Clients' interests always come first and that we operate in strict compliance with all federal securities laws. All violations are to be promptly reported to the chief compliance officer.

## **Item 12 –Brokerage Practice**

### **The Custodians and Brokers We Use**

LDB is independently owned and operated and is not affiliated with any custodian. LDB does not maintain custody of Clients' assets under management; although LDB may be deemed to have custody of a Client's assets if a Client gives LDB authority to withdraw assets from the Client's accounts (See Item 15 – Custody). A Client's assets must be maintained in an account at a "qualified custodian," generally a broker dealer or bank. While LDB may recommend multiple custodians, the Client will decide which custodian to use and will open the account with the custodian entering into an account agreement directly with them. LDB does not open accounts for Clients, although LDB may assist in doing so. Even though a Client's account is maintained at a custodian, LDB can still use other brokers to execute trades for the account (See "Custodian Costs").

### **Custodian Recommendation**

The Client will select, but LDB will make recommendations for custody of the Client's assets and execution of transactions. LDB considers a wide range of factors in the selection of recommended firms, including:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)

- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other Clients

### **Custodian Costs**

The selected custodian will charge a fee as a “prime broker” or “trade away” for each trade that is executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the Client’s custodial account. These fees are in addition to the commissions or other compensation the Client pays the executing broker-dealer for the transaction. Clients selecting a bank custodian to hold the Client’s assets will be charged a separate custodial fee, which the Client agrees to in a separate custodial agreement.

### **Custodians Services**

The following services may not directly benefit each LDB Client, but may benefit all LDB’s Clients collectively.

- Provide access to Client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple Client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our Clients’ accounts
- Assist with back-office functions, recordkeeping, and Client reporting

The following services may benefit Clients of LDB only by enhancing the quality of LDB’s management of assets, up-to-date technology and business acumen:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

### **Brokerage Practices**

LDB does not consider it necessary, or advisable, to seek out the absolute lowest commissions in the markets, but it does attempt to negotiate a “fair” commission for its Clients on security trades that it initiates. It is LDB’s belief that there are factors other than simply the lowest commission rate which should be considered when placing a securities order, such as execution ability, ability of the broker to settle promptly, and the financial integrity and responsiveness of the broker. In

addition, although LDB itself does most of the primary research into various securities using corporate supplied information, regulatory information, and independent data sources, it also depends on ideas and opinions from brokers and dealers concerning companies, industries, and the economy. In recognition of the assistance provided by such brokers or dealers for their research services, LDB may direct or allocate a certain number of commissions to them. Therefore, LDB may not pay the lowest possible commission rates on securities trades. Furthermore, commissions paid by one account may be in recognition of research services that benefit all of LDB's Clients rather than just the one for whom the order is executed. LDB will, however, always attempt to obtain on behalf of its Clients the most reasonable commission rates consistent with the research value added, execution ability, and other relevant characteristics of the brokers or dealers with whom it does business. It is the opinion of LDB that the above policy best will serve the mutual welfare of LDB and all of its Clients.

Because LDB's Clients use several different brokers and banks as custodians, care is taken in entering orders so that each Client is treated as fairly and equitably as possible. As a general rule, LDB will begin an initial program of accumulation or distribution of a security by entering an order, likely aggregated to include broker and bank accounts. We alternate placing the orders between broker/custodian that holds the largest part of LDB's managed Client assets and work down to the smallest custodian. Orders will not be entered with more than one broker at the same time for the same security to assure that LDB is not placing its Clients into competition with each other and to avoid creating the appearance of activity in the security. Because of different Client objectives and needs, LDB may, within a short time frame, sell a security for one Client and purchase the same security for another. Because LDB tends to take a long term and contrarian investment approach, buying on weakness and selling on strength, any investment program of accumulation or distribution may be expected to take a considerable amount of time, possibly years, and may be accomplished at significantly varying prices.

In the event a security is deemed suitable both for purchase or disposition by Client accounts and for the account of any person associated with LDB, LDB will observe a policy of effecting any appropriate purchase or disposition of such security for Client accounts prior to affecting such purchase or disposition on behalf of any person associated with the LDB. Employee trades are not aggregated with client trades.

Brokers will be selected based on execution capability and the quality of their research as well as on the basis of commission rate. LDB utilizes research on brokerage firm websites with whom securities transactions are initiated for individual equities, industrial sectors, and fixed income securities. In appropriate circumstances, the applicant might pay a broker a commission in excess of that which another broker might have charged because of superior execution or research service. LDB's Clients will be informed that the benefit of research services may be generally applied in servicing all of LDB's accounts and not just those upon which commissions were paid for those services.

#### Soft Dollar Benefits

Soft dollar benefits are given by brokers to money management firms in return for the money manager's client transaction business. Client transaction business generates commissions for brokers. The brokers agree to use a portion of the client commissions to pay for certain products



and services that the money manager designates, such as research reports and other products that assist with investment decision making.

LDB's use of soft dollars is intended to comply with the requirements of Section 28(e) of the Securities Exchange Act of 1934. Section 28(e) provides a “safe harbor” for investment managers who use commissions or transaction fees paid by their advised accounts to obtain investment research services that provide lawful and appropriate assistance to the manager in performing investment decision-making responsibilities. Under Section 28(e), LDB may execute portfolio transactions with brokers that provide research that are more than the number of commissions charged by other broker-dealers. To cause a client to pay such higher commissions, LDB must determine in good faith that such commissions are reasonable in relation to the value of the brokerage and research services provided by the executing broker-dealers, viewed in terms of a part of the transaction or LDB's overall responsibilities to that client or other clients. LDB receives third-party fixed income research through a soft dollar arrangement.

When LDB uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, LDB receives a benefit because the firm does not have to produce or pay for the research, products or services with cash. Consequently, LDB may have an incentive to select or recommend a broker based receiving certain research or other products or services, rather than on our clients' interest in receiving most favorable execution. In addition, LDB could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal to generate brokerage compensation with which to acquire products and services.

Soft dollar benefits are not limited to clients whose transactions have generated the benefit although certain soft dollar allocations are connected to particular clients or groups of clients. As well, soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of the soft dollar benefits.

### **Directed Brokerage**

A Directed Client Account is required to transact purchases and sales of investment securities with a particular broker at a predetermined commission rate. LDB does not negotiate commissions for accounts with directed brokerage and these accounts might pay higher transaction costs.

### **Brokerage for Client Referrals**

LDB participates in the Schwab Advisor Network® (the “Service”), offered by Charles Schwab & Co., Inc. (“Schwab”), member FINRA/SIPC, an unaffiliated SEC-registered broker-dealer. Schwab offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. LDB receives some benefits from Schwab through its participation in the Program. (Please see the disclosure under Item 14. below.)

### **Item 13 – Review of Accounts**

All accounts will be under periodic review of the principals of the firm. Additional review of accounts would occur when funds or securities are added or removed from the account(s) as well as material events that occur for the securities held within the accounts.

A complete written report will be furnished quarterly, or monthly if so requested. This report will reflect in detail all securities owned as of the report date, their cost, their market value and the estimated annual dividend or interest income each is projected to produce. LDB believes that it is important to keep its Clients informed about its methodology, and telephone contact is supplemented by occasional written commentary on individual investments, economic and financial matters, or other items of interest, although there presently is no formal or regular schedule for such reports.

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

Also, as disclosed under Item 12 above, LDB receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through LDB's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with LDB. Schwab does not supervise Advisor and has no responsibility for LDB's management of clients' portfolios or Advisor's other advice or services. LDB pays Schwab fees to receive client referrals through the Service. LDB's participation in the Service may raise potential conflicts of interest described below.

LDB pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by is a percentage of the fees the client owes to LDB or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. LDB pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to LDB quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by LDB and not by the client. LDB has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs LDB charges clients with similar portfolios who were not referred through the Service.

LDB generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, LDB will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of LDB's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, LDB will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit LDB's fees directly from the accounts.

For accounts of LDB's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from LDB's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, LDB may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. LDB nevertheless acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for LDB's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

## **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains Client's investment assets. The statements will be sent to the email or postal mailing address that the Client provided to the custodian. LDB urges the Client to carefully review such statements and compare such official custodial records to the account statements that LDB provides. LDB statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

The SEC No-Action Letter 2017-01, released on February 21, 2017 in summary states that an adviser with the authority to disburse money to a third-party on the client's behalf pursuant to a Standing Letter of Authorization (SLOA) constitutes custody. However, so long as seven specific conditions are satisfied, an adviser with third-party SLOA authority will not be subject to the custody rules annual surprise exam requirement. The seven conditions are as follows:

1. The client provides an instruction to the qualified custodian, in writing, that includes the client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
2. The client authorizes the investment adviser, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
3. The client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client's authorization, and provides a transfer of funds notice to the client promptly after each transfer.

4. The client has the ability to terminate or change the instruction to the client's qualified custodian.
5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client's instruction.
6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.
7. The client's qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

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

In all of its Client relationships LDB seeks discretionary authority relating to which securities are bought or sold, the total amount of securities bought or sold, brokers or dealers through whom securities are bought or sold, and the commission rates at which securities transactions are effected. LDB and the Client jointly sign an Investment Management Agreement which details the discretionary authority from the outset of the advisory relationship. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Client account. When selecting securities and determining amounts, LDB observes the investment policies, limitations and restrictions of the Client for which it advises. Investment

guidelines and restrictions must be provided to LDB in writing. Additionally, the Client selects a qualified custodian to establish accounts to hold their assets. This custodial agreement establishes a Limited Power of Attorney to authorize LDB to direct:

- Buy/sell transactions
- Payment of LDB management fees
- Disbursement of cash to the Client
- Corporate actions

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

LDB does not vote proxies.

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

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about LDB's financial condition. LDB has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients and has not been the subject of a bankruptcy proceeding.