

**Part 2A of Form ADV: *Firm Brochure***

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This brochure provides information about the qualifications and business practices of McDonald Capital Management (hereinafter “MCM” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (806) 744-8617 or at [emcdonald@mcdcap.com](mailto:emcdonald@mcdcap.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. Additional information about MCM is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for MCM is 114531.

## **Item 2. Summary of Material Changes**

There have been no material changes since our last amendment on March 7, 2022.

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#### **Item 4. Advisory Business**

MCM is a SEC-registered investment adviser (SEC File Number 801-61327) with its principal place of business located in Lubbock, Texas. Our firm has been in business since 1990, with Eric Craig McDonald as majority owner and Chief Compliance Officer.

Discretionary assets under our firm's management were \$ 238,444,353 as of December 31, 2022.

##### Portfolio Management Services and Financial Planning

MCM provides individually tailored investment portfolios and financial planning services, and manages a private fund that invests primarily in a private equity fund. Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy or investment plan and create and manage a portfolio based on that policy or plan. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. We may also review and discuss a client's prior investment history, as well as family composition and background.

We provide advisory services for accounts on a discretionary basis. For these discretionary accounts, we will implement transactions without seeking prior client consent. On occasion, we will provide review and trading services for non-discretionary accounts for existing clients if requested.

Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker dealer or insurance company and will primarily include advice regarding the following instruments:

- “No-load” or “load-waived” mutual funds, exchange traded funds and notes
- Equity securities
- Fixed income securities
- Preferred securities
- Closed-end mutual funds

Occasionally, we may also recommend the following instruments:

- Warrants
- Commercial paper
- Certificates of Deposit
- Municipal securities
- US government securities
- Option contracts on securities

### Environmental, Social and Governance Investment Services (“ESG” investing)

McDonald provides ESG investing to institutional clients upon their request. MCM runs exception report screening for certain revenue streams to exclude for investment. These guidelines are client directed.

### Consulting Services

Clients can also receive investment advice on a more limited basis. This may include advice on only an isolated area(s) of concern such as retirement planning, reviewing a client's existing portfolio, or any other specific topic. Additionally, we provide advice on non-securities matters. Generally, this is in connection with the rendering of estate planning, insurance, and/or annuity advice. We also provide administrative services if requested by a client.

### Financial Planning Services

We provide financial planning services based on a client's goals and objectives. We work with clients to develop and implement a strategy for managing their finances including financial goals, investment analysis, retirement planning, cash flow and debt management, college savings and estate planning.

### Services in General

We tailor all of our portfolio management and consulting recommendations to the individual needs of each client. All such recommendations are based on information gathered through client questionnaires, electronic communications, telephone and in-person discussions.

## **Item 5. Fees and Compensation**

### Portfolio Management Services

We charge an annual fee based on a percentage of assets under our management, in accordance with the following tiered billing schedule:

<u>Assets Under Management (\$)</u>	<u>Annual Fee (%)</u>
Up to \$1,000,000	1.00%
\$1,000,001 to \$5,000,000	0.75%
\$5,000,001 & up	0.50%

### Pooled Investment Vehicle

The private fund does not charge a management fee. An annual 10% performance fee is charged after initial capital has been returned.

When determining the breakpoints for fee billing, we will combine the value of household accounts.

Institutional and charitable accounts range from 0.50% to 0.60% based on assets and complexity of

investment policy statement. Some legacy clients have negotiated fees that differ from the above fee schedule.

We will generally directly debit client custodial accounts for portfolio management fees.

Portfolio management fees are billed quarterly in arrears at the end of each calendar quarter, based upon the portfolio value on the last day of that calendar quarter, pro-rated for additions and withdrawals.

#### Consulting Services

Clients receiving consulting services are billed at an hourly rate of \$250. Consulting services fees are due and payable once we deliver the contracted-for work product to the client.

#### Financial Planning Fees

We offer financial planning services starting at \$1,000 per year, billed bi-annually in arrears. Fees vary based on time and complexity.

Financial planning annual fees may be waived for clients with over \$150,000 in assets under management. Fees are billed at the client's direction either Annually, Quarterly or Monthly.

#### Fees in General

Fees and account minimums for all services are negotiable based upon certain criteria and are at McDonald's discretion (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, competitive considerations, etc.). Discounts, not generally available to our advisory clients, may be offered to family members and friends.

We may group certain related client accounts for the purposes of determining the account size and/or annualized fee.

Certain legacy client agreements may be governed by fee schedules different from those listed above.

Any legacy holdings that are deemed to be unsupervised by our firm may be included in the client reporting package and client will not pay a management fee on those assets.

#### Account Termination

Clients will have a period of five (5) business days from the date of signing the agreement to unconditionally rescind the agreement and receive a full refund of all fees. Thereafter, the client may terminate the agreement by providing us with a 30-day written notice at our principal place of business. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Mutual Fund and ETF Fees and Expenses: All fees paid to our firm for investment advisory services

are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund or and ETF directly, without the services of our firm. In that case, the client would not receive the services provided by us which are designed, among other things, to assist the client in determining which mutual fund or funds or ETFs are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and ETFs and the fees charged by us to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

#### Brokerage and Custodial Fees

In addition to advisory fees paid to our firm, clients will also be responsible for all transaction, brokerage, trade-away and custodial fees incurred as part of their account management. Please see Item 12 of this Brochure for important disclosures regarding our brokerage practices.

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

We charge a performance-based fee to accredited investors invested in the pooled investment vehicle we manage.

### **Item 7. Types of Clients**

Our firm generally provides advisory services to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, other business entities and a pooled investment vehicle.

We generally impose a minimum relationship size under the respective client service segments.

- *Separately Managed Accounts.* The minimum relationship size is \$250,000 and/or a minimum annual fee of \$2,500 as of March 1, 2009. However, no client's fee will exceed 3% of assets under management per annum.
- *Retirement Plan Services.* There is no current minimum relationship size for this client group. Under no circumstance will a client's fee exceed 2% per annum or exceed a fee amount governed by retirement plan provision.
- *Consulting Clients* There is currently no minimum relationship size or minimum annual fee for these clients.

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

Our firm employs the following types of analysis to formulate client recommendations.

Fundamental Analysis: Fundamental analysis of a business involves analyzing its income statement, financial statements and health, its management and competitive advantages, and its competitors and markets. Fundamental analysis school of thought maintains that markets may mis-price a security in the short run but that the "correct" price will eventually be reached. Profits can be made by trading the mis-

priced security and then waiting for the market to recognize its "mistake" and re-price the security. Traditional measures of value such as dividend yield, market price to sales, book, cash flow and earnings are examined in our investment process. However, 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 stock. Therefore, unforeseen market conditions and/or company developments may result in significant price fluctuations that can lead to investor losses.

Mutual fund and/or ETF analysis: We evaluate the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in other funds in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the fund or ETF less suitable of the client's portfolio.

Technical analysis. We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and to potentially predict future price movement.

Charting: In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict when how long the trend may last and when that trend might reverse. Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly managed or financially unsound company may underperform regardless of market movement.

Risks for all forms of analysis: Our securities analysis method relies 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 may be compromised by inaccurate or misleading information.

MCM uses publicly available information from a variety of sources including but not limited to: company reports and SEC filings, financial press, trade journals and other third-party research in the investment process.

Our firm employs the following investment strategies to implement investment advice given to clients:

Global Tactical Asset Allocation ETF Model: MCM uses a global asset allocation model which seeks to reallocate equity, fixed-income and cash assets quarterly with the goal of increasing risk-adjusted returns

by taking advantage of intermediate-term trends within the asset classes. The model rotates allocations between asset classes including, Broad US Equity, US Dividend Equity, US Technology, US Small Cap Equity, International EAFE, Emerging Market Equity, Long-Term US Treasuries, Short-Term US Treasuries, Investment Grade Corporate Bonds, High Yield Bonds, Emerging Market Debt, International Sovereign Bonds and Cash.

A risk to the Global Tactical Asset Allocation model is the possibility of being over/under invested in market segments that are underperforming/outperforming a static (or fixed) portfolio mix of similar asset classes.

EVA Spread Equity Screen: MCM uses this quantitative equity model as an equity allocation. The model screens from the Russell 3000 Index and provides a list of firms that pass our screening criteria of value, earnings momentum, and quality (based on Economic Value Added and low debt). The model is run every 3 months and portfolios are adjusted accordingly.

A risk to the EVA Spread Model is concentration risk. Due to the criteria of the filter, few stocks may be included in the sleeve and any one sector or may be over-represented in the equity sleeve. Also, at different levels of overall market valuation, company size may be represented differently in this screened portfolio. We do not expect this equity sleeve to represent the broad indices and performance can be significantly different than major indexes.

ROIC Equity Screen: MCM uses this quantitative equity model as an equity allocation. This model screens through and rank orders securities within the Russell 3000 Index based on multiple balance sheet metrics, the most important being a high Return on Capital Employed. Due to the nature of the balance sheet screening, Financials and Utilities are excluded. The top 50 stocks screened through the model are added to the equity sleeve on a quarterly basis and are equally weighted.

Risks to this model include: possible sector concentration risk where any one sector may be over-represented in the model during any quarter; and due to the equal weighting of securities, this model may not provide returns similar to traditional capitalization weighted market indexes.

Long-term purchases: We mostly purchase securities with the idea of holding them in the clients account for a year or longer. We may do this because we believe the securities to be currently undervalued or because we want exposure to a particular asset class over time, regardless of the short-term projection for this class.

A risk in a long-term purchase strategy is that, by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases: At times, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase. A risk in a short-term purchase is the potential for sudden losses if the anticipated price swing does not materialize. Moreover, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Trading: We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

Short sales: We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. We then sell the shares we have borrowed. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If the stock has gone down since we purchased the shares from the original owner, we keep the difference.

One risk in selling short is that losses are theoretically unlimited; we are obligated to repurchase the stock no matter how much the price has climbed. In addition, even if we are correct in determining that the price of a stock will decline, we run the risk of incorrectly determining when the decline will take place. Short selling may not be appropriate in times of inflation, as prices may adjust upwards regardless of the value of the stock.

Margin transactions: We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

A risk in margin trading is that, in volatile markets, securities prices can fall very quickly. If the value of the securities in your account minus what you owe the broker falls below a certain level, the broker will issue a “margin call”, and you will be required to sell your position in the security purchased on margin or add more cash to the account. In some circumstances, you may lose more money than you originally invested.

Option trading: We use options as an investment tool. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.

A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to “hedge” a purchase of the underlying security; in other words, we will use an option purchase to limit

the potential upside and downside of a security we have purchased for your portfolio.

We use “covered calls”, in which we sell an option on a security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

A risk of covered calls is that the option buyer does not have to exercise the option, so that if we want to sell the stock prior to the end of the option agreement, we have to buy the option back from the option buyer, for a possible loss.

We use a “protective put” strategy in which we purchase puts on an underlying security (or a similar security) to protect or hedge the possibility of the client position falling in value. This is useful when clients own a large, concentrated position in a given security.

The risk of a protective put strategy is only the initial cost of the put at purchase which can be lost if the put expires.

We use a “spreading strategy”, in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

A risk of spreading strategies is that the ability to fully profit from a price swing is limited.

***Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal that a client should be prepared to bear.***

#### **Item 9. Disciplinary Information**

Our firm has no reportable disciplinary events to disclose.

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

Eric McDonald and Tyler Sturdivant are members of the General Partner that advises the pooled investment vehicle, MCM CCP/Baypine LP.

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

##### Code of Ethics Disclosure

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm’s access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering (“IPO”). Our code provides for oversight, enforcement and recordkeeping provisions. A copy of our Code of Ethics is available to our

advisory clients and prospective clients upon request to the Client Services Manager, at the firm's principal office address.

Our firm, or individuals associated with our firm, may buy or sell securities identical to those recommended to or purchased for customers for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security which may also be recommended to a client. This practice results in a potential conflict of interest, as we may have an incentive to manipulate the timing of such purchases to obtain a better price or more favorable allocation in rare cases of limited availability.

To mitigate these potential conflicts of interest and ensure the fulfillment of our fiduciary responsibilities, we have established the following restrictions:

- 1) All supervised persons, wherever appropriate, must either aggregate their trades with client trades OR conduct their personal trading after clients if the employee trades on the same trading day
- 2) No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No principal or employee of our firm may prefer his or her own interest to that of the advisory client;
- 3) It is the expressed policy of our firm that no person employed by us may purchase or sell any reportable security immediately prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts;
- 4) In cases of partial order fills, clients receive first allocation priority;
- 5) We maintain a list of all securities holdings for our firm and anyone associated with this advisory practice with access to advisory recommendations;
- 6) We emphasize the unrestricted right of the client to decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
- 7) All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- 8) Any individual not in observance of the above may be subject to disciplinary action or termination.

## **Item 12. Brokerage Practices**

We do not have any formal soft-dollar arrangements and do not contract with any broker dealer to receive soft-dollar benefits. This means that we do not receive research or gain access to industry analysts or conferences in return for paying higher commissions for client trades to a particular broker dealer.

We do not request or accept the discretionary authority to determine the broker dealer to be used for client accounts. Clients must direct us as to a broker dealer to be used for all client securities transactions. In directing the use of a particular broker or dealer, it should be understood that we will not have authority to negotiate commissions among various brokers, and best execution may not be achieved, resulting in higher transaction costs for clients. For clients in need of brokerage or custodial services and depending on client circumstances and needs, we may recommend the use of one of several broker dealers (including, but not limited to Charles Schwab & Co., Inc. (hereinafter “Schwab”) and Fidelity Brokerage Services, LLC (hereinafter, “Fidelity”)), provided that such recommendation is consistent with our fiduciary duty to the client. *Not all advisers require their clients to direct brokerage.*

Our firm participates in the Fidelity Institutional Wealth Services Program (hereinafter, “FIWS”) sponsored by Fidelity. Clients in need of brokerage and custodial services will have Fidelity recommended to them. While there is no direct linkage between the investment advice given to clients and our firm’s participation in the FIWS program, we receive economic benefits which would not be received if we did not give investment advice to clients. These benefits include: A dedicated trading desk that services FIWS participants exclusively, a dedicated service group and an account services manager dedicated to our firm’s accounts, access to a real-time order matching system, ability to 'block' client trades, electronic download of trades, balances and positions, access, for a fee, to an electronic interface with FIWS' software, duplicate and batched client statements, confirmations and year-end summaries, the ability to have advisory fees directly debited from client accounts (in accordance with federal and state requirements), availability of third-party research and technology, a quarterly newsletter, access to Fidelity mutual funds, access to “WealthCentral” (internet access to statements, confirmations and transfer of asset status), access to Account View (through which clients may access their account information over the internet via our website), access to over 350 mutual fund families and 4,500 mutual funds NOT affiliated with Fidelity, of which over 2,000 have no transaction fee, ability to have loads waived for our clients who invest in certain Fidelity loaded funds, when certain conditions are met and maintained and the ability to have custody fees waived (when negotiated by the adviser and allowed under certain circumstances).

The benefits we receive through participation in the FIWS program may depend upon the amount of transactions directed to, or amount of assets custodied by, Fidelity.

Our firm also participates in the Schwab Institutional (SI) services program offered to independent investment advisers by Schwab. Clients in need of brokerage and custodial services will have Schwab recommended to them. As part of the SI program, our firm receives benefits that it would not receive if it did not offer investment. These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk serving SI participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client account; access, for a fee, to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors.

The benefits received through participation in the SI program may or may not depend upon the amount of transactions directed to, or amount of assets custodied by, Schwab.

Participation in the FIWS and SI programs results a potential conflict of interest for our firm, as the

receipt of the above benefits creates an incentive for us to recommend Fidelity and Schwab.

Nonetheless, we have reviewed the services of Fidelity and Schwab and recommend their services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients. While, based on our business model, we will not seek to exercise discretion to negotiate trades among various brokers on behalf of clients, we will, however, periodically attempt to negotiate lower commission rates for our clients with Fidelity and Schwab.

### Directed Brokerage

Clients may choose from either Schwab or Fidelity as their broker. McDonald does not currently have the ability to work with clients who utilize other broker-dealers.

We reserve the right to decline acceptance of any client account for which the client directs the use of a broker if we believe that this choice would hinder its fiduciary duty to the client and/or our ability to service the account.

### Prime Brokerage with Schwab and Fidelity

Clients are set-up with prime-brokerage relationships at Schwab and Fidelity. When clients have prime brokerage arrangements, it allows us to place block trades at other brokerage firms for settlement at the client's custodial account. Clients benefit from trade aggregation which helps the firm with its best execution obligations because clients receive the same price. Clients will pay a fee of \$20 to \$25 per trade when we use other brokerage firms under this agreement. See fixed-income trades below for more information.

### Trade Aggregation

We may aggregate client trades when doing so is advantageous to our clients. Mostly, we will batch client transactions to receive volume discounts and to obtain better and more uniform pricing across client accounts. If we determine that aggregation of trades in a certain situation will be beneficial to our clients, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed from each client account on any given day. Any exceptions from the pro-rata allocation procedure will be carefully explained and documented. Such exceptions may occur due to varying cash availability across accounts, divergent investment objectives and existing concentrations, and desire to avoid "odd lots," (an amount of a security that is less than the normal unit of trading for that particular security).

Trades are executed based on client objectives and model assignment, if any. For model-based accounts trades are pre-allocated through our Tamarac Rebalancing Software and traded through the OMS FIX connection at Schwab or sent directly to Fidelity's unsent order page. Trades are blocked for each security at the designated broker and allocated after execution.

For non-model or multi-strategy accounts, client objectives, risk tolerances and cash balances are examined when a potential security is identified for purchase or sale. Often purchases or sales are block traded at the custodian-level and allocated according to the client's asset allocation. For partial fills, shares are allocated pro-rata based on the pre-trade allocation worksheet, when applicable. Individual non-block trades are usually associated with minor strategy adjustments or client requests.

### Fixed Income Trades

McDonald utilizes two broker-dealers for fixed income trades; D.A. Davidson and Piper Sandler & Co. This is often referred to as “trading away” and clients will incur additional trading costs when we use Piper Sandler or D.A Davidson. The cost of trading away is \$20 to \$25 per trade. McDonald believes that trading away fixed income trades helps achieve best execution because, among other things, it helps to: minimize the risk of market movement in pricing, achieve competitive pricing, access additional liquidity and investment sources and ensure that participating clients receive the same execution price. McDonald performs a review of our fixed income trades bi-annually to review and document best execution.

### **Item 13. Review of Accounts**

Securities are continuously reviewed by the firm's Investment Team. This team is comprised of Principal Portfolio Manager, Eric McDonald and Tyler Sturdivant, Securities Analyst and Associate Portfolio Manager. Smaller mutual fund accounts are reviewed on a weekly basis for valuation purposes and on a monthly basis for rebalancing and asset allocation changes. Larger accounts are reviewed on a weekly basis for valuation purposes and cash reconciliation and monthly for asset allocation changes. Underlying securities that make up the accounts are reviewed on a daily basis for changes in fundamental and technical status.

Triggering factors for changes in account profiles include but are not limited to changes in: monetary conditions, inflation expectations, government policy, company fundamentals, and investment company management. In addition, many of our client accounts are managed on a tactical asset allocation model that relies on several quantitative and fundamental factors (including those mentioned above). Modeled accounts are rebalanced quarterly at a minimum or more frequently if our factors change substantially inter-period. The Investment Team personally reviews each account for possible adjustments based on established client objectives as stated in the client's investment policy statement or investment plan.

Clients are able to determine the depth of reporting they wish to receive. Clients are sent quarterly portfolio appraisals by our firm that include historical cost, current market value, quantity of position and name of security owned. Clients have the ability to request additional reports that include but are not limited to: income and expense, realized gains/losses, performance percentages and changes in market values. Clients may receive more frequent statements if so desired. Client reports are sent to clients as soon as possible after each period.

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

MCM currently does not have any referral arrangements in place.

Currently, MCM has one client relationship that utilizes the services of a third-party asset manager that executes trades on the client’s behalf. Asset management fees are billed by the third party semi-annually and are split 50/50 with MCM in arrears. The asset management fee is one (1) percent per annum.

### **Item 15. Custody**

MCM does not have custody of client assets. However, under the current SEC rules, our firm is deemed to have constructive custody of client assets because we directly debit client fees from their custodial accounts. Therefore, we urge all of our management clients to carefully review and compare their quarterly reviews of account holdings and/or performance results received from us to those they receive from their custodian. Should you notice any discrepancies, please notify us and/or your custodian as soon as possible.

In addition, because certain employees of the firm also act as the General Partner to the private fund, the firm is deemed to have custody of the fund. The fund undergoes an annual surprise custody exam by a PCAOB firm.

#### **Item 16. Investment Discretion**

For clients granting us discretionary authority to determine which securities and the amounts of securities that are to be bought or sold for their account(s), we request that such authority be granted in writing, typically in the executed advisory agreement. Should the client wish to impose reasonable limitations on this discretionary authority, such limitations shall be included in this written authority statement. Clients may change/amend these limitations as desired. Such amendments must be submitted to us by the client in writing.

#### **Item 17. Voting Client Securities**

Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive proxies related to their own accounts, in which case we may consult with clients as requested. (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 the Client Services Manager, by telephone, electronic mail, or in writing.

When we have discretion to vote proxies for our clients, we will vote those proxies with management, unless there are compelling reasons not to do so, because confidence in management is one of the factors we consider in making an investment. We believe this is in the best interests of its clients and in accordance with our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies. If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures by contacting the Client Services Manager directly. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client.

We 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**

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.

**Part 2B of Form ADV: *Brochure Supplement***

Eric Craig McDonald  
8001 Quaker Avenue  
Suite J  
Lubbock, TX 79424

Telephone: (806)744-8617

Islay Capital Management, LLC  
dba McDonald Capital Management  
8001 Quaker Avenue  
Suite J  
Lubbock, TX 79424

Telephone: (806)744-8617

03/07/2022

**This brochure supplement provides information about Eric McDonald that supplements the McDonald Capital Management brochure. You should have received a copy of that brochure. Please contact Eric McDonald, Managing Member, and Chief Compliance Officer if you did not receive our brochure or if you have any questions about the contents of this supplement.**

## **Item 2. Educational Background and Business Experience**

Eric Craig McDonald, CFA

Year of Birth: 1963

### Education:

Mr. McDonald graduated from the University of Texas at Austin, Texas with a B.B.A. degree in Finance in 1985 and from Texas Tech University at Lubbock, Texas with an M.B.A. in Finance in 1987.

### Business Background:

Managing Member, Chief Investment Officer Chief Compliance Officer, Islay Capital Management dba McDonald Capital Management from 1990 to present. Mr. McDonald served on the Board of Trustees of the Texas Teachers Retirement Fund (TRS) from April 2009 to September 2013. TRS is the largest public retirement system in Texas in both membership and assets. Mr. McDonald completed his appointment in September 2013 and is no longer obligated to oversight duties for the TRS system.

### Professional Designations:

Mr. McDonald earned the Chartered Financial Analyst (CFA) designation in 1993. The CFA designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA charterholder candidates must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.

## **Item 3. Disciplinary Information**

Mr. McDonald does not have any history of reportable disciplinary events.

## **Item 4. Other Business Activities**

Mr. McDonald serves as a board member of the Lubbock Firefighters Pension Board. This is an unpaid position.

## **Item 5. Additional Compensation**

Mr. McDonald does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

## **Item 6. Supervision**

As the Managing Member and Chief Compliance Officer of MCM, Eric McDonald is responsible for all employee supervision and general business strategy of the firm. He can be reached at (806) 744-8617. Mr. McDonald is also responsible for formulation and monitoring of investment advice offered to client,

documenting investment meeting deliberations, overseeing all material investment policy changes, conducting periodic testing to ensure that client objectives and mandates are being met and the implementation and monitoring of our compliance program, including the collection and review of all employee personal securities transactions on a quarterly basis.

**Part 2B of Form ADV: *Brochure Supplement***

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Suite J  
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Suite J  
Lubbock, TX 79424

Telephone: (806)744-8617

02/14/2020

**This brochure supplement provides information about Jeffrey Mercer that supplements the McDonald Capital Management brochure. You should have received a copy of that brochure. Please contact Eric McDonald, Managing Member and Chief Compliance Officer if you did not receive our brochure or if you have any questions about the contents of this supplement.**

## **Item 2. Educational Background and Business Experience**

Jeffrey Michael Mercer, Ph.D.

Year of Birth: 1962

### Education:

Mr. Mercer graduated from the University of Wyoming with a B.S. degree in 1986 and from Texas Tech University with a Master of Science (MS) degree Finance in 1987 and a Ph.D. in Finance in 1992; Supporting fields: Economics and Statistics.

### Business Background:

Member & Investment Adviser Representative, Islay Capital Management, LLC dba McDonald Capital Management, 03/2005-present

I. Wylie and Elizabeth Briscoe Chair in Finance, Texas Tech University, 2010-present

Professor, Texas Tech University, 2009-present

Lubbock Bankers Association Professor, Texas Tech University, 2005-present

Director, Institute for Banking and Financial Studies, Texas Tech University, 2003-present

Associate Professor, Texas Tech University, 2002-2009

Acting Associate Dean, College of Business, Northern Illinois University, 2000-2001

Consultant, Ibbotson Associates, Chicago, 2000-2002

Vice President and Director of Research, Ibbotson Associates, Chicago, 2000

Interim Department Chair, Dept. of Finance, Northern Illinois University, 1998-2000

Founding Director and Instructor, The Northern Illinois Chartered Financial Analyst® Review Course, 1997-2003

Associate Professor, Northern Illinois University, 1998-2002

Assistant Professor, Northern Illinois University, 1992-1998

## **Item 3. Disciplinary Information**

Mr. Mercer does not have any history of reportable disciplinary events.

## **Item 4. Other Business Activities**

Mr. Mercer is currently employed as an Associate Professor of Finance at Texas Tech University. He dedicates up to 90% of his time to this non-advisory activity.

**Item 5. Additional Compensation**

Mr. Mercer does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

**Item 6. Supervision**

As the Managing Member of MCM, Eric McDonald is responsible for all employee supervision and general business strategy of the firm. He can be reached at (806) 744-8617. Mr. McDonald is also responsible for formulation and monitoring of investment advice offered to client, documenting investment meeting deliberations, overseeing all material investment policy changes, conducting periodic testing to ensure that client objectives and mandates are being met and the implementation and monitoring of our compliance program, including the collection and review of all employee personal securities transactions on a quarterly basis.

## **Part 2B of Form ADV: *Brochure Supplement***

Tyler Sturdivant, CFA  
8001 Quaker Avenue Suite J  
Lubbock, TX 79424

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Islay Capital Management, LLC  
dba McDonald Capital Management  
8001 Quaker Avenue  
Suite J  
Lubbock, TX 79424

Telephone: (806)744-8617

03/13/2023

**This brochure supplement provides information about Tyler Sturdivant that supplements the McDonald Capital Management brochure. You should have received a copy of that brochure. Please contact Eric McDonald, Managing Member and Chief Compliance Officer if you did not receive our brochure or if you have any questions about the contents of this supplement.**

## **Item 2. Educational Background and Business Experience**

Tyler Sturdivant

Year of Birth: 1994

### Education:

Mr. Sturdivant graduated with a B.B.A. in Finance from Texas Tech University in August 2017.

### Business Background:

Associate Portfolio Manager and Trader at McDonald Capital Management 2017-Present

### Professional Designations:

Mr. Sturdivant earned the Chartered Financial Analyst (CFA) designation in 2020. The CFA designation is an international professional certification offered by the CFA Institute (formerly AIMR) to financial analysts who complete a series of three examinations. To become a CFA charterholder candidates must pass each of three six-hour exams, possess a bachelor's degree (or equivalent, as assessed by CFA institute) and have 48 months of qualified, professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.

## **Item 3. Disciplinary Information**

Mr. Sturdivant does not have any history of reportable disciplinary events.

## **Item 4. Other Business Activities**

Mr. Sturdivant teaches as an adjunct professor once per week for the Texas Tech Student Managed Investment Fund class. He may spend up to <5% of his time on this non-advisory activity.

## **Item 5. Additional Compensation**

Mr. Sturdivant does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

## **Item 6. Supervision**

As the Managing Member and Chief Compliance Officer of MCM, Eric McDonald is responsible for all employee supervision and general business strategy of the firm. He can be reached at (806) 744-8617. Mr. McDonald is also responsible for formulation and monitoring of investment advice offered to client, documenting investment meeting deliberations, overseeing all material investment policy changes, conducting periodic testing to ensure that client objectives and mandates are being met and the implementation and monitoring of our compliance program, including the collection and review of all employee personal securities transactions on a quarterly basis.