

## **FORM ADV PART 2A DISCLOSURE BROCHURE**

**Colrain Capital LLC**

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

*A registered investment adviser*

**PART 2A OF FORM ADV  
FIRM BROCHURE SUPPLEMENT  
March 2023**

### **ITEM 1: TITLE PAGE**

This brochure provides information about the qualifications and business practices of Colrain Capital LLC (hereinafter “Colrain”). If you have any questions about the contents of this brochure, please contact us at: 617-897-5800. 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. The fact that Colrain Capital LLC is a “registered investment adviser” does not imply a certain level of skill or training. Additional information about Colrain Capital LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

## **ITEM 2: MATERIAL CHANGES**

This item discusses only material changes that have occurred since Colrain's last annual update in March 2022.

- Item 9 has been updated to disclose the Consent Order entered into between Colrain and the Massachusetts Securities Division in November 2022 regarding Colrain's failure to maintain its notice filing as an investment adviser in Massachusetts.

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## **ITEM 4: ADVISORY BUSINESS**

Colrain Capital LLC (“Colrain”) has been registered with the SEC as an investment adviser since December 2001. Colrain began providing investment advisory services in January 2002. Colrain furnishes discretionary investment advisory services to institutional and individual separate account investors.

Investments for clients generally follow the same investment guidelines. In rare circumstances, a client may make a specific investment request that differs from our general guidelines. Clients may impose restrictions on investing in certain securities, industries, or types of securities. These restrictions are based upon written instructions provided to us by our clients. Colrain does not participate in wrap fee programs. As of March 2023, Colrain had assets under management of \$96,089,839. These client assets are all managed on a discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

Clients are charged a management fee based upon a percentage of the assets under management within the client’s account. These fees are generally calculated and billed to separate account clients quarterly in arrears based upon the average of the account’s value as of the end of each month in the prior quarter. The management fees paid to Colrain by separate account clients are separately negotiated and detailed in each client’s investment management agreement with Colrain.

Clients are billed quarterly in arrears. The fees are, for the majority of the separate account clients, paid by either the client or the custodian based upon the instructions provided by the client. Upon written request from a client, we may agree to debit fees from client accounts.

Clients are responsible for the payment of third-party fees and expenses (i.e., custodian fees, mutual fund fees, commissions, transaction fees, etc.). These fees are separate and distinct from the management fees charged by Colrain. Please see Item 12 of this brochure for further information regarding our brokerage practice.

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

Not applicable.

## **ITEM 7: TYPES OF CLIENTS**

Colrain provides investment advisory services to a variety of client types. Colrain’s existing and future clients include endowments, pension and profit-sharing plans, trusts, high net worth individuals, charitable organizations, and private investment funds. Colrain has clients that reside in many different geographical locations. Generally, the minimum initial investment for opening a separate account is \$1,000,000.

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

### **Methods of Analysis and Investment Strategies**

Colrain is a value manager whose objective is to provide clients with above market returns with below market risk. We are a team of fundamental stock pickers, who incorporate discipline and rigorous risk management into the decision-making and execution process. We constantly evaluate the investing environment when considering or implementing an investment, including fundamental, economic, and market risks.

We use various screens to help identify areas to look for undervalued stocks and to help discover companies with underappreciated or misunderstood return characteristics or earnings power. Fundamental research sources include business observation, screening tools, and industry, management, and analyst relationships developed over a long period of time. We visit companies, talk to management, and talk to competitors to add insight and further our analytical/research effort. We believe that the market is inefficient, and that for certain stocks, prices do not reflect intrinsic value; and that through rigorous research, a focused team of disciplined analysts can build a portfolio of undervalued stocks that will, as profitability and/or market perception improves, outperform broad market averages with below market risk. Valuation is the critical determinant in our stock evaluation process. Cash reserves may be maintained in client accounts, both for new transactions but also to react opportunistically to existing investments. Cash holdings within client accounts may increase when market risk is perceived to be great, or if few attractive investment opportunities present themselves.

Portfolios are generally comprised of common stocks, but may hold positions in bonds, cash, and preferred stocks. Investment ideas are constantly generated and vetted as we seek to identify companies with compelling valuation and fundamental characteristics. We conduct in-depth assessments of the fundamentals in business models, management, competitive landscape, etc. – and then “bring it to the table” for peer review. As we commit capital to an investment, conviction and confidence determine the position size. Portfolios are built bottom-up, stock by stock, a diversified collection of undervalued securities, in order to maximize return and minimize risk.

We typically accumulate positions over time, building positions as our conviction increases and price opportunities present themselves. Positions are sold when stocks meet or exceed fair value, or if fundamentals deteriorate and our expectations around return characteristics change. Positions may be sold to realize profits and to minimize risk. We attempt to add value and reduce risk by trading around core positions, utilizing liquidity as an asset. Given our absolute return orientation, we may make significant sector bets relative to applicable benchmarks when compelling opportunities exist.

Colrain offers a concentrated separate account strategy in which client portfolios hold approximately twenty equity securities representing our best ideas. We will generally limit maximum exposure to an industry to 20-25%; and will generally limit holdings of an individual security to 9-10%.

## **Risks of Specific Securities Utilized**

Investments in securities involve a risk of loss that separate account clients should be prepared to bear. There can be no assurance that a client's investment objective can be achieved. While we define risk as a permanent loss of client capital, secondary risks inherent in the investment strategies employed by Colrain for separate account clients are as follows:

*Market Risk* – The value of an investment will fluctuate as a result of changes in market price, which may be adversely affected by general economic or market conditions and by specific events or developments relating to, among other things, a company, industry or region. Specifically, a downturn or contraction in the economy, in the capital markets, in the banking sector or in certain industries or geographic regions thereof, may restrict the availability of suitable investment opportunities for a client's portfolio and/or the opportunity to liquidate any such investments, each of which could prevent a client's portfolio from meeting its investment objectives. Any economic downturn or contraction could also result in the diminution or loss of the investments made in a client's portfolio.

*Liquidity Risk* – At times equity markets may be subject to liquidity events that would preclude the timely liquidation of securities to meet cash needs.

*Frequent Trading* – Frequent trading of securities can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

*Non-diversification* – A client's portfolio may, from time to time, be invested in the securities of a limited number of issuers, some of which may be within the same industry sector, in which case the portfolio may be more susceptible to any single economic, political or regulatory occurrence than the portfolio securities of a diversified investment company.

*Investments in Non-U.S. Issuers* – Investments in the securities of issuers located outside the U.S., and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies, withholding or other taxes; trading, settlement, custodial and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make non-U.S. investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments.

The foregoing is only a brief summary of some of the important risks associated with the investment strategies employed by Colrain of which clients should be aware of. As a result of these factors and other risks inherent in any investment, there can be no assurance that a client's investment objectives will be achieved, or that a client will receive any return of or on its invested capital.

## **ITEM 9: DISCIPLINARY ACTION**

In November 2022, Colrain and the Massachusetts Securities Division entered into a Consent Order regarding Colrain's failure to maintain its notice filing as an investment adviser in Massachusetts. In connection with the Consent Order, Colrain will implement written supervisory policies and procedures, maintain its notice filing in Massachusetts prior to providing investment advisory services, and pay an administrative fine of \$40,000 to the Commonwealth of Massachusetts.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS**

Neither Colrain nor any of its personnel are registered as a broker/dealer, representative of a broker dealer, FCM, CPO, or CTA. Neither Colrain nor its personnel have any relationships or arrangements material to our business that we believe create a material conflict of interest with respect to our clients. Colrain does not utilize or select other advisers or third-party managers.

## **ITEM 11: CODE OF ETHICS, CLIENT TRANSACTIONS AND PERSONAL TRADING**

Our Code of Ethics (the “Code”) is based on the principle that we have a fiduciary duty to our clients to act solely for their benefit and to place their interests ahead of our own. This Code, which includes the Insider Trading Policy, applies to all Colrain personnel and focuses principally on pre-clearance and reporting of personal transactions in securities. All personnel must avoid activities, interests and relationships that might interfere with making decisions in the best interest of any of our clients. Personnel must scrupulously avoid placing their own personal interests ahead of the interests of our clients in any decision relating to their personal investments. Personnel may not induce or cause a client’s account to take action, or not to take action, for personal benefit, rather than for the benefit of our clients. Nor may any personnel otherwise exploit the client relationship for personal gain.

Personnel must not only seek to achieve technical compliance with the Code but should strive to abide by its spirit and the principles articulated herein. In all situations we strive to resolve in a manner that favors of our clients.

Colrain’s employees and members and their affiliates (including certain family members) may acquire, hold, or dispose of the same investments for their own accounts as are held or to be purchased or sold for a client’s account subject at all times to Colrain’s Code of Ethics. It is Colrain’s policy that, in general, all of Colrain’s employees and members and their affiliates must receive advanced approval from the Compliance Committee before purchasing or selling a security. Pre-clearance approval will not generally be granted for the following proposed security transactions: (i) initial public offerings; (ii) private placements; (iii) any security purchased or sold by Colrain within three business days prior to the submission after the pre-clearance request or any security being considered for purchase or sale by Colrain within fifteen business days after submission of the pre-clearance request; (iv) short selling any security that is held in, or being considered for purchase or sale by any client account; (v) securities on a “restricted list” maintained by the Compliance Committee. Our Code of Ethics will be provided to any current or prospective client upon request.

## **ITEM 12: BROKERAGE PRACTICES**

### **a) Factors Used to Select Custodians and/or Broker/Dealers**

Colrain does not have any commitments or understandings to trade with specific broker-dealers or to



generate a specified level of brokerage commission in order to receive brokerage or research services. These commitments or understandings are generally known as “soft dollar arrangements.” From time to time, on an unsolicited basis, Colrain may receive research, access to research analysts and company management, and brokerage services from broker-dealers (including prime brokers) as an incident of doing business with these broker-dealers, but only where (1) there is no formalized arrangement with an explicit target or ratio linked to Colrain’s commission business with such broker-dealers; and (2) Colrain does not “pay up” for these items in the form of higher commissions on similarly situated client trades.

Colrain executes client transactions with broker-dealers only in a manner that complies with Section 28(e) of the Securities Exchange Act of 1934, as amended. Colrain will execute client transactions through broker-dealers only if it believes such brokers provide best execution. In evaluating best execution, we may consider the full range and quality of a broker’s services in placing brokerage, including, among other things, execution capability, commission rate, access to market information, access to IPO’s and responsiveness to Colrain. Best execution for portfolio transactions seeks to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances. Wherever possible, we use our clients’ commission dollars to ensure consistent value-adding services from executing brokers. Accordingly, we normally seek to use a reasonably concentrated list of brokers in order not to dilute the impact of commission dollars. In addition, we normally work orders in individual stocks with a single broker (while constantly monitoring its performance) to encourage its best service and to lower total transaction costs throughout the entire process of acquiring or selling the stock.

## **b) Aggregating (Block) Trading for Multiple Client Accounts**

Colrain may choose, but is not required, to aggregate client orders consistent with its policy of seeking best price and execution. Clients participating in an aggregated order participate at the average daily share price. If an aggregated order is filled in its entirety, it is generally allocated to client accounts according to the Colrain trade allocation policy. If an order is partially filled, it is allocated on a pro rata basis. The lack of available cash in an account will preclude its inclusion in an investment otherwise suitable for the client. Also, to the extent that the limited availability of a security would result in a *de minimis* allocation, Colrain may exclude one or more accounts from participating in the order. When aggregating orders, Colrain seeks to be equitable and avoid favoring any client account over any other client account. Colrain may cause clients to participate in cross transactions (i.e., from one client to another) if it is determined to be in the best interests of the participating clients and is not prohibited by law or contract.

In the case of opportunistic trades initiated in response to market conditions or individual price movements, without specific clients in mind, Colrain will generally allocate buys to the clients with the smallest position, then to the clients with the most cash. When initiating a position, Colrain generally allocates to the clients with the most cash. For sells, Colrain will generally allocate first from the clients with the largest position in a stock then allocate from the client with the least cash.

When an account is designated after the order is executed, Colrain may allocate according to the effective pre-allocation policy. This allocation method shall be used in relation to new accounts,



cash additions into an account, increasing equity ratio or changing the risk profile for buys, as well as for sells, cash withdrawals or liquidations, decreasing equity ratio, changing risk profile or tax considerations.

Initial public offerings (IPOs), “hot issues” and/or oversubscribed offerings will be allocated in accordance with the Colrain IPO and “Hot Issue” Allocation Procedures, using a dollar-weighted lottery subject to an account size-based cap.

## **ITEM 13: REVIEW OF ACCOUNTS**

All accounts are reviewed at least quarterly by the senior investment personnel. Accounts are also reviewed at any time a client requests a review. Reviews include a summary of relevant market conditions that have affected the account since the last reporting period and that may affect an account in the future.

We may review our clients’ accounts more frequently than described above. Among the factors which may trigger an ad hoc review are major market conditions or economic events,

requests by the client, etc. Monthly reports are furnished to clients and reflect transactions during the period, portfolio holdings at the end of the period, market values, and investment performance including, if applicable, performance relative to a benchmark.

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

Colrain does not receive any economic benefit, directly or indirectly, from any third party for advice rendered to Colrain clients.

## **ITEM 15: CUSTODY**

All separate accounts are held in custody by unaffiliated broker/dealers or banks selected by each client. Colrain is not a party to contracts between clients and their custodian(s). Colrain does not have custody of client assets as a result of these arrangements. From time to time, a client of Colrain may request that Colrain directly debit management fees from the client’s account. Colrain is deemed to have custody of client accounts when clients have requested that Colrain directly debit management fees from the client’s account based on Colrain’s calculations. Colrain has confirmed that the custodians of the separate accounts generally distribute their statements monthly. In addition, Colrain provides its own monthly statements to each separate account client. Clients should carefully review their custodial statements and compare such statement against any account statements provided by Colrain.

## **ITEM 16: INVESTMENT DISCRETION**

Colrain manages client portfolios on a discretionary basis. Clients grant Colrain discretion over their account by providing authorization in the investment management agreement. This discretionary authority authorizes Colrain to determine the securities to be bought or sold, the quantity of securities

to be bought or sold, the broker/dealer used to execute trades and the commission rate paid by clients. Investment discretion is limited only by specific instructions, guidelines and/or mandates provided by clients in writing and to which Colrain agrees.

## **ITEM 17: VOTING CLIENT SECURITIES**

Colrain votes the proxies of all of its clients. Colrain as a matter of policy and as a fiduciary to our clients has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. As part of our policy, we have entered into a service agreement with an independent third party to vote client proxies. Institutional Shareholder Services (ISS) is our independent third-party proxy voting service provider. Colrain subscribes to the ISS policy for proxy voting. Colrain retains the right to override any ISS recommendation that we believe is not in the best interest of our clients.

## **ITEM 18: FINANCIAL INFORMATION**

In light of the COVID-19 coronavirus and historic decline in market values, Colrain elected to participate in the CARES Act's Paycheck Protection Program ("PPP") to strengthen its balance sheet. Colrain utilized this loan predominantly to continue payroll for the firm and ultimately obtained loan forgiveness per the terms of the PPP. Due to this and other measures taken internally, Colrain was able to operate and continue serving its clients.

At any time, clients may obtain a free copy of our current Disclosure Brochure online at the SEC's Investment Adviser Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), by searching with the Advisor's firm name, or contacting us at [clientservice@colraincapital.com](mailto:clientservice@colraincapital.com). We welcome your questions about any aspect of our business.