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## DIVIDEND ASSETS CAPITAL, LLC

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### INVESTMENT ADVISORS

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# Form ADV Part 2A

## Investment Adviser Brochure

September 29, 2017

This brochure provides information about the qualifications and business practices of Dividend Assets Capital, LLC (“DAC” or the “Firm”). If you have any questions about the contents of this brochure, please contact DAC’s Chief Compliance Officer, at 843.645.9700 or toll free at 866.348.4769 and/or [complianceteam@dacapitalsc.com](mailto:complianceteam@dacapitalsc.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.

DAC is an investment adviser registered with the SEC under the Investment Advisers Act of 1940. Registration does not imply any certain skill or training.

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

## Item 2: Material Changes

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*With this filing as of September 29, 2017, DAC revised the language in Item 4 to include the non-discretionary accounts the firm manages.*

*With the filing made on September 26, 2017, DAC notes the following material change:*

- Jennifer Ottosen was promoted to Chief Compliance Officer in August 2017. Prior to her promotion, Ms. Ottosen held the position of Director of Compliance. Anthony Ghoston, who previously held the position of Chief Compliance Officer, will continue to serve as DAC's President and Chief Operating Officer.

*In addition with this filing DAC has revised the following information in Section 4: Advisory Business:*

- Revised the Assets Under Management as of August 31, 2017.
- DAC now participates in a Unified Management Account program.

Listed below are the material changes made with DAC's March 27, 2017 filing reflecting updates made since the Firm's annual update of March 2016:

*DAC has the following personnel changes:*

- Alan Johnson, CFP joined DAC in February 2017 and James Haley, CFP joined DAC in March 2017, as Senior Portfolio Managers in the Private Client Group.
- Jere E. Estes, CFA, Portfolio Manager, retired from DAC in January 2017.
- Anthony Ghoston was appointed to be DAC's Chief Compliance Officer on April 29, 2016, replacing the Firm's former CCO and Risk Officer

*With this filing, DAC has made the following revisions:*

### *Item 5 – Fees and Compensation*

- Revised the Termination of the Advisory Relationship section to clarify when DAC will cease managing a client's account upon termination of the agreement.

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

- DAC implemented changes to its Code of Ethics effective February 1, 2017. Item 11 was revised to reflect the changes.

### *Item 12 – Brokerage Practices*

- Clarified the Broker Selection Section and further expanded the language in the Directed Broker section of Item 12.

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## **Item 4: Advisory Business**

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Dividend Assets Capital, LLC (“DAC” or the “Firm”), a limited liability company incorporated under the laws of the State of South Carolina, has been a registered investment adviser with the U.S. Security Exchange Commission since January 2004. Registration does not imply any certain skill or training. DAC was founded in 2003 and was formerly named Dividend Growth Advisors, LLC. The name change was made effective February 27, 2012.

DAC is 100% employee owned through an Employee Stock Ownership Plan (ESOP). Lubbock National Bank serves as the Firm’s ESOP trustee and owner of the Firm’s equity on behalf of DAC’s employees. Over time, the ESOP will allocate the shares of DAC that it owns to the employees of DAC. DAC believes the ESOP is the most effective and efficient strategy for achieving the succession planning objectives with respect to ownership of the Firm.

As of August 31, 2017, DAC managed \$2,655,959,795 in regulatory assets under management, of which \$2,650,891,349 is managed on a discretionary basis and \$5,068,446 on a non-discretionary basis. Regulatory assets under management are calculated consistent with the methodologies applied in DAC’s Form ADV Part 1. DAC does not have discretion for certain securities held by some of our clients. The value of those assets on August 31, 2017 was \$10,694,995 and is excluded from the calculation of assets under management stated above. In addition, DAC is the sub-adviser to a mutual fund and also has advisory clients’ accounts holding shares in the same fund in the client accounts. The value of the regulatory assets under management above includes the assets of the mutual fund as well as the shares of mutual funds owned by clients. The result of this is an overlap of assets under management of \$20,237,465.

### **Types of Advisory Services and Investments**

DAC is an investment advisory firm and the primary business of which is providing discretionary advisory services to investors through private client services, sub-advisory services, dual contract private client services and sub-adviser services to registered investment companies.

DAC generally invests assets in client accounts in dividend-paying stocks that have shown consistent dividend increases in prior years. Where appropriate to meet specific client needs and/or risk preferences, DAC may also invest in Treasuries, Corporate and/or Municipal bonds, as well as mutual funds, ETFs and Master Limited Partnerships. Clients may direct specific investments that may not be in the DAC strategy and therefore are not followed by DAC’s team of portfolio managers and researchanalysts.

Clients who wish to impose restrictions on certain securities, types of securities, or industries, etc., must do so in writing. Once agreed upon, it is the client’s responsibility to inform DAC in writing when a change is desired or made and/or the restriction(s) is (are) no longer valid.

DAC clients include those with whom DAC has a direct contractual relationship through DAC’s Client Advisory Agreement, those who have enrolled in asset-based wrap fee programs sponsored by an unaffiliated dual-registrant broker-dealers/investment advisers, and clients where DAC acts as a sub-adviser.

### **Separate Accounts**

DAC’s adviser services to separately managed accounts are customized based on each separate account client’s return expectations, tolerance for risk, tax situation, volatility, and the need for liquidity. During

initial and on-going discussions with each client, DAC develops the personal investment profile that includes specific client information and a general profile of the client's risk tolerance, recommended investment strategy, income requirements, distribution requirements and any account restrictions.

### **Sub-Advisory Services**

A Sub-Advisory relationship occurs when DAC contracts with another, unaffiliated Registered Investment Adviser (excluding Goldman Sachs Asset Management sub-adviser arrangements), Broker Dealer, or Custodian to provide discretionary portfolio management services on a continuous basis to their advisory clients. For such accounts, DAC will place, per the written agreement, orders for the execution of all investment transactions for clients with the specified broker-dealer or the sub-adviser's platform(s). In sub-adviser arrangements with smaller custodian banks, DAC will trade these accounts with its trading brokers. The sponsor of these programs generally provides the clients with all servicing including, but not limited to, reporting.

DAC provides sub-adviser services to client portfolios consistent with the client's stated goals, objectives and risk tolerances provided by the client or the client's financial representative.

### **Sub-Adviser to a Registered Investment Company (Mutual Fund)**

DAC is the investment sub-adviser to the Goldman Sachs Rising Dividend Growth Fund, a registered investment company (i.e., a mutual fund). As a sub-adviser to the mutual fund, DAC is obligated to follow the investment objectives of the mutual fund as mandated in the Fund Prospectus and as described in the sub-adviser agreement that DAC has executed with Goldman Sachs Asset Management. The mutual fund may hold the same or substantially similar investments as clients in DAC's separately managed accounts and may trade in aggregated blocks with DAC's separate accounts, sub-advised (including Wrap Programs) and dual contract clients. However, the Fund may also trade at different times than separately managed accounts depending on cash flows, weightings, and other financial reasons. The timing of these trades and price execution may differ from separate account clients.

Goldman Sachs Asset Management is not affiliated with DAC and the management of this account and trading activity is solely at the discretion of DAC and subject to the investment sub-adviser agreement between DAC and Goldman Sachs Asset Management.

### **Wrap Fee Programs**

DAC acts as a portfolio manager for several wrap fee programs in which the client pays one fee to the wrap program sponsor for all services associated with the management and execution of their account. DAC does not sponsor any wrap fee program. There are several differences between how DAC manages wrap fee accounts and other accounts. One of the primary differences is that the trading of a wrap fee account is typically directed to the sponsor (or an affiliate of the sponsor) of the wrap program. DAC may not have, depending on the structure of the wrap program, primary responsibility for maintaining on-going relations with the clients within the wrap program. DAC receives a portion of the total wrap fee paid to the wrap program sponsor for its portfolio management services. DAC does not solicit these clients or provide client statements or reporting.

## **Unified Management Account Program**

DAC has a contractual relationship with an investment advisor where DAC provides a model of its Equity, Equity Income and MLP strategies to advisors (known as a Unified Management Account program or UMA). In these relationships, DAC does not have investment discretion over the investment adviser's client accounts nor does DAC communicate directly with the investment adviser's clients. DAC receives an investment management fee directly from the adviser.

## **Dual Contract Arrangements**

DAC acts as a portfolio manager for several dual contract programs in which the client hires both DAC and a financial advisor to manage their assets. Generally, the client's investment objective is provided by the financial advisor to DAC. These clients sign DAC's Client Advisory Agreement, have the same obligations under the DAC agreement as would a direct client of the Firm, and pay fees similar to those in a sub-advisory arrangement. All trades for these accounts are directed to the financial advisor's trading platform and may be aggregated alongside DAC's other clients. Under the dual contract arrangement, DAC will meet with the client's financial advisor, rather than the client, on a regular basis.

In the course of managing the separate accounts, the mutual funds, sub-advised, dual contract and wrap accounts, DAC may take different positions in the same or related securities for different clients. It is possible that DAC could sell certain securities in one client account, while another client account will continue to hold the same security.

Real, potential, or apparent conflicts of interest may arise when a portfolio manager has day-to-day investment responsibilities with respect to more than one of its types of clients (e.g., separate accounts, the mutual funds, sub-adviser accounts, dual contract or wrap). For example, a portfolio manager may have conflicts of interest in allocating management time and resources among the different clients s/he advises.

In addition, clients may have investment objectives, strategies, time horizons, tax considerations, and risks that differ from one another. The portfolio managers may make investment decisions for each client based on factors such as investment objective, cash flow, tax implications, and other relevant investment considerations applicable to that particular client. Consequently, the portfolio managers may purchase or sell securities for one client, but not all clients, and the performance of securities purchased for one client may vary from the performance of securities purchased for other clients.

## **Item 5: Fees and Compensation**

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### **Separate Accounts**

DAC's standard fee schedules for its Separate Accounts are shown below and are based on a percentage of assets under management. For the purpose of determining fees, the value of the shares of the Goldman Sachs Rising Dividend Growth Fund, as well as unsupervised assets held in the client accounts, will be

excluded from the fee calculation. The annual fee for portfolio management services will generally be charged monthly or quarterly using the market value of the securities and cash in the client's account at the end of the billing period according to the following schedule:

A. Equity Assets

<u>Assets Under Management</u>	<u>Annual Fee (%)</u>
First \$2 million	0.80%
Next \$3 million	0.70%
Next \$5 million	0.60%
Over \$10 million	0.50%

B. Fixed Income Assets

<u>Assets Under Management</u>	<u>Annual Fee (%)</u>
First \$500,000	0.40%
Next \$1.5 million	0.30%
Next \$2.5 million	0.20%
Over \$4.5 million	Negotiable; \$1,500 minimum annual fee

A minimum of \$250,000 of assets under management is required for these services. DAC reserves the right to increase or decrease the minimum account size and to negotiate the fees. DAC may group certain related client accounts for the purposes of achieving the minimum account size and determining the annualized fee.

The specific manner in which fees are charged by DAC is established in the Client Advisory Agreement with DAC. Clients will be invoiced in arrears, unless otherwise agreed to and noted on the Client Advisory Agreement, at the end of each calendar month or quarter based upon the value (market value or fair market value in the absence of market value) of the client's account at the end of the previous month or quarter. Clients may elect to be invoiced directly for fees or may authorize DAC to directly debit fees from the client's account(s).

Due to the timing of billing, accounts opened or closed during a calendar month or quarter may be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be refunded, and any earned, unpaid fees will be due and payable. These fees may be billed separately and may not be debited from a client's account.

### **Sub-Advisory Relationships – Mutual Funds**

DAC has a sub-advisory agreement with Goldman Sachs Asset Management and receives investment management fees to manage the Goldman Sachs Rising Dividend Growth Fund ("the Fund"). The fee arrangement for the Fund is described in the Fund's prospectus and Statement of Information ("SAI").

DAC may, when deemed suitable, invest some or all of the client's assets in the sub-advised Fund. DAC clients whose accounts are invested in the Fund will pay only those investment management fees charged to investors by the Fund. The value of the Fund shares held in the client's account is excluded for purposes of determining the fee DAC charges in separately managed accounts.

All fees paid to DAC for investment advisory services are separate and distinct charges from those fees and expenses charged by mutual funds (other than the Goldman Sachs Rising Dividend Growth Fund) to their shareholders. These fees and expenses are described in the fund's prospectus. These fees will

generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without the services of DAC. In that case, the client would not receive the services provided by DAC, which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the mutual funds and the fees charged by DAC to understand fully the total amount of fees to be paid by the client and to evaluate thereby the advisory services being provided.

### **Sub-Advisor to Institutional Separately Managed Accounts**

DAC has also entered into various other sub-advisory agreements with investment advisers and other financial managers to assist with the overall management of client portfolios. Typically, DAC will negotiate fees with the sponsors or wrap providers, and not directly with the individual participants. DAC's investment management fee is separate and distinct from all other trading, custodial, administrative and client related fees.

### **Additional Fee Information**

At its discretion, DAC reserves the right to waive fees for a portion or all of its services, including whether to include certain securities and/or cash in a client's billable assets and to increase or decrease the minimum account size it will accept. On a case-by-case basis, DAC may negotiate fees, account minimums and payment terms depending on a client's particular circumstances. Such negotiated terms may take into consideration factors such as, but not limited to, (i) the size of the aggregated related party portfolio size, (ii) family holdings, (iii) low cost basis securities, (iv) certain passively advised investments, and/or (v) pre-existing relationships with clients. Certain clients may pay more or less than others depending on the amount of assets, type of portfolio, management needs, the degree of responsibility assumed, complexity of the engagement, special skills needed to solve problems, the application of experience and knowledge of the client's situation. Lower fees for comparable services may be available from othersources.

In addition to DAC's advisory fees, clients are also responsible for the fees and expenses charged by custodians and broker-dealers. Please refer to Item 12 of this Brochure for additional information. DAC is not directly compensated through these charges.

Pre-existing advisory clients are subject to DAC's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship, amended Client Advisory Agreement with DAC or as otherwise agreed to between DAC and the client. Therefore, DAC's minimum account requirements and fees will differ among clients.

DAC will either invoice its clients or directly debit fees from the client's account with the custodian.

Where available, DAC uses readily available market prices and/or independent pricing sources to value clients' assets. Where market prices are not readily available, DAC provides fair valuations as determined by its Valuation Committee. Because this presents a conflict of interest, DAC has developed policies and internal pricing controls to verify that valuations represent fair market prices or fair valuations based on what it reasonably expects to realize upon a current sale.



## **Termination of the Advisory Relationship**

Client Advisory Agreements may be terminated by either party, without cause, upon written notification as set forth in the Client Advisory Agreement, unless otherwise agreed to by both parties. Upon DAC's receipt of a client's written notice to terminate the Agreement, DAC will cease the management of the client's assets unless otherwise notified by the client. For example, in some cases, clients may notify DAC of their intent to terminate the relationship at a future date but request that DAC continue managing the account until further notice. Clients pay investment management fees prorated through the date that DAC ceases management of those assets. All custodial termination and transfer fees, if any, assessed by the client's custodian are the responsibility of the client and are generally imposed by the custodian prior to transfer of assets from the account managed by DAC.

Those clients who prepay their fees will receive a prorated refund in the event they close their investment account prior to quarter end. Fees are prorated upon the establishment of any account and upon termination of such account.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

DAC does not participate in performance-based fee arrangements (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7: Types of Clients**

DAC's clients include individuals, high net worth individuals, investment companies, pension and profit sharing plans, trusts, estates, banking and thrift institutions, bank trust funds, charitable organizations, and other business entities.

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

DAC generally applies a fundamental approach to create its investable universe of securities.

### **Fundamental Analysis**

DAC attempts to measure the intrinsic value of a security by looking at economic and fundamental factors (including review of company balance sheets, cash flow, debt and the management of the company itself) to determine the company's long term investment potential.

DAC's analysis does not attempt to anticipate market movements. Market risk is always present and the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the security.

### **Investment Strategies**

DAC's Investment Committee is responsible for approving the applicable investment universes for all marketed strategies. The Investment Committee integrates a number of factors and criteria in its security evaluations and decisions. DAC offers its clients the opportunity to invest in one or more of DAC's

strategies, and customizes portfolios to meet individualized client needs.

Research: DAC's research employs a blend of quantitative and qualitative analysis. This analysis applies multiple variables that may affect a security's valuation. DAC's approach has been in place for more than 10 years and DAC's analysts continue to refine these proven techniques to ensure that DAC continues to offer the most efficient and effective analysis possible.

Once the universe is provided, the Investment Committee oversees the implementation of a properly diversified model portfolio that is maintained by the respective strategy manager and then customized by DAC's portfolio managers for individual clients.

The investment strategy for a specific client is based upon the objectives and risk tolerances identified by the client during portfolio consultations. Each portfolio is constructed to help meet clients' objectives, which may include greater income, tax considerations, and risk tolerances. Portfolio managers encourage frequent client communications and assist clients with objective and risk tolerance revisions as lifestyle and economic changes warrant.

### **Dividend Growth Equities**

DAC's approach attempts to select stocks that produce consistent dividend income and appreciation year over year. DAC believes that consistent earnings growth drives consistent dividend growth. Earnings provide the ability to pay and grow dividends. Over the long run, consistent earnings generally have had a positive influence on the price performance of a stock. DAC begins with companies that have well-established records of consistent earnings and dividend growth.

DAC invests in high-quality U.S. and foreign companies with a history of significant, consistent dividend increases, which provide opportunities for capital appreciation and attractive, rising income. Investments for DAC's equity portfolios are selected from many industries and sectors. While the majority of holdings are in large companies, DAC also offers diversification among small and mid-size companies. Each portfolio is constructed to help meet clients' objectives, which may include greater income, tax considerations, and risk tolerances. Currently, DAC will only purchase foreign securities when traded on a U.S. exchange or are available in ADR form. Foreign investing provides some diversification to the equity portfolio but also carries additional risk including, but not limited to, currency, political, economic and other country specific risks.

### **Enhanced Yield Equities**

DAC seeks to identify and invest in high-quality U.S. and foreign companies that offer a combination of lower price volatility, stable cash flow and consistent dividend yields. These stocks tend to be large, well-established companies with strong competitive market advantages. While this investment style does not have the high dividend growth characteristics of DAC's Dividend Growth strategy, it is designed for investors seeking higher income with overall moderate growth of principal and income over time.

### **Master Limited Partnerships (MLPs)**

DAC invests in high-quality Master Limited Partnerships (MLPs), which offer investors the potential for higher income than traditional sources during challenging yield environments, plus distribution growth and capital appreciation. Investments for DAC's MLP portfolios are generally mid-stream energy MLPs; these MLPs generally offer the potential for distribution, growth, and capital appreciation diversification in a blended investment strategy. In selecting MLPs, DAC assesses the growth of the distributions,

geographic footprint, credit quality, the fundamentals of the business, and the attractiveness of the value of the security.

### **Equity Income**

DAC invests in high-quality U.S. and foreign companies combined with Master Limited Partnerships (MLPs), which provide opportunities for capital appreciation with attractive rising income. Investments for DAC's equity income portfolios are selected across many industries and sectors. While the majority of holdings are in large companies, DAC also offers diversification among small, mid-size and international companies. Each portfolio is constructed to help meet clients' objectives, which may include asset growth, greater income, tax considerations, and risk tolerances. Currently, DAC will only purchase foreign securities traded on a U.S. Exchange or are available in ADR form. Foreign investing provides some diversification to the equity portfolio but also carries additional risk including, but not limited to, currency, political, economic and other country specific risks.

### **Fixed Income**

DAC does not currently maintain a specific fixed income strategy, but will add positions for individual clients based on assessment and goal directions. DAC invests in debt instruments that must be rated as investment grade or higher for clients seeking a more conservative and/or diversified portfolio approach. Fixed Income securities provide predetermined cash flow (coupon or interest rate) and a specified date for return of principal (maturity). Although there are many types of debt, DAC will trade generally, based on the client's goals and objectives, in:

- U.S. Treasury Securities
  - Bills – maturities of less than 1 year
  - Notes – maturities of 1 to 10 years
  - Bonds – maturities of greater than 10 years
- Municipal Bonds – a debt security issued by a state, city, or county to help finance its capital expenditures, such as schools, infrastructures and hospitals. Returns are free from federal tax and occasionally state tax. For this reason, these bonds carry a lower yield (return) than taxable bonds.
- Corporate Bonds – a debt security issued by a corporation for ongoing operations or expansion of the business. These bonds carry the highest risk of default but also provide the potential for higher yield (return) than government instruments. Corporate Bonds are taxable at the federal, state and local levels.

Bonds usually trade in \$1,000 lots or greater and may trade at a premium to original face value. Some bonds may trade through the NYSE Bonds order system, but many are still traded directly through a Designated Market Maker (DMM). To better diversify bond risks, DAC may suggest investments across bond type, issuers, and maturity duration. Although DAC will always seek to obtain the best execution price for all transactions, clients may incur higher net costs than with other types of investments, especially when trading in small incremental lots.

## **Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. All investment programs have certain risks that are borne by the investor. DAC's investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Dividend Cuts Risk:** the risk that a company may cut its dividend, causing investors to sell the stock and the price to fall.
- **Interest-Rate Risk:** the risk that interest rates will rise to a higher level than the security holder is currently paid. Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds typically become less attractive causing their market values to decline.
- **Market Risk:** the risk that the price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic, and social conditions may trigger market events.
- **Security Selection Risk:** the risk that individual securities may decline in value due to negative news or fundamental developments specific to the issuer. The rationale for selecting the security either may not be correct or the market may not recognize the value.
- **Style Risk:** the risk that the particular style of investing may be out of favor relative to other styles, such as Value vs. Growth investing or Small vs. Large Capitalization investing, resulting in relative price declines and potential investment losses.
- **Custodial Risk:** the risk that the custodian of an account's assets were to go out of business, the account's assets may only be protected up to certain regulatory limits.
- **Political Risk:** the risk that political events such as war, terrorism, or change in government policy may cause the value of stocks to erode.
- **Inflation Risk:** the risk that the value of a dollar will not be worth as much as anticipated. That is, inflation will be higher than expected. This is also referred to as Purchasing Power Risk.
- **Currency Risk:** the risk that foreign investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as Exchange Rate Risk.
- **Reinvestment Risk:** the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.
- **Business Risk:** this risk is associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.

- **Liquidity Risk:** the risk that an investor will be unable to buy or sell a security at a reasonable price at a certain point in time. This may occur if there is a limited quantity available or only a few market makers willing to trade. For example, U.S. Treasuries are quite liquid, while a micro-cap company with only a few hundred thousand shares outstanding, is not.
- **Financial Risk:** the risk that excessive borrowing to finance a business' operations increases the risk of profitability because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a decline in market value.
- **Credit Risk:** the risk that a bond will default or be significantly downgraded by one of the recognized credit agencies. Although Treasury instruments are backed by the U.S. government, there have been occasions in the past when a specific U.S. bond has been downgraded. Although DAC typically invests in investment grade debt, there is no guarantee that a bond will not be downgraded or default on the loan. Credit risk is generally a higher risk for corporate debt than government or municipal bonds.
- **Call Risk:** the risk that an issuer will repay (call) a bond prior to maturity. The issuer will return the investor's principal early. The investor will generally accept a lower interest payment when reinvesting that principal.
- **Prepayment Risk:** the risk that mortgage-backed bonds are usually subject to prepayment risk and the issuer will pay back the principal prior to maturity. This generally occurs when mortgage rates decline and property owners refinance the debt at lower rates.
- **Commodity Price Risk:** the risk that the price of MLP units may be negatively impacted by fluctuations in commodity prices. A significant decrease in the production or supply or sustained reduced demand for natural gas, oil, or other energy commodities would limit revenue and cash flows of MLPs and, therefore, the ability of MLPs to make distributions to unitholders.

### **Master Limited Partnerships – Risk of Loss**

Investors in Master Limited Partnerships (MLPs) should consult with their tax advisor regarding the tax consequences of investing in MLPs. Investors in MLPs should be aware that any changes in the current tax law could potentially result in future and retroactive tax consequences and should consult their tax advisors regarding any tax law changes.

Investors in MLPs may be required to file tax returns and pay tax in each state in which the MLP operates. Individual retirement arrangements and retirement plans investing in MLPs may be required to report unrelated business taxable income (UBTI) and pay unrelated business income tax (UBIT). Tax reporting information for MLPs is provided to investors on an annual Schedule K-1 issued by an MLP.

The MLP's Schedule K-1 issue date may be after April 15. While most MLP's issue Schedule K-1s by March 31, some investors may need to file tax extensions for income tax returns, when an MLP has not issued its Schedule K-1 by April 15. MLPs are generally held in an investor's account to generate income.

- **Concentration Risk:** the risk that a portfolio of MLP investments is concentrated in the energy infrastructure sector. This narrow focus of MLPs may present considerably more risk than a

diversified investment across numerous sectors of the economy. Some client portfolios may be very concentrated in MLPs over time.

- **Tax Risk:** the risk that reduction of basis may make liquidations cost-prohibitive from a tax perspective, increasing the percentage weighting in client portfolios.
- **Market Risk:** the risk that MLPs may exhibit high volatility, particularly during periods of economic stress, or due to other events affecting the particular sector or industry in which an MLP operates.
- **Commodity Risk:** the risk that while fundamentals are often delinked from the oil price, MLP unit prices tend to correlate to the price of oil and other commodities over time. This correlation may expose MLP unit prices to relatively high levels of price volatility relative to other equity instruments.
- **Liquidity Risk:** the risk that investments in MLPs may be relatively illiquid due to their unique investment strategy, asset concentration, or other factors despite the fact that MLPs are publicly traded. Lack of liquidity can negatively affect the ability to sell MLP units at a given time or price. MLPs have material risks related to high debt to equity ratios and certain significant or unusual risks, including ownership controls associated with the limited partnership structure.

### **Other Investments**

DAC may provide advice on investments held in a client's portfolio at the inception of the advisory relationship or on any investment for which the client requests advice. These investments may or may not be reviewed or recommended by DAC research analysts.

### **Item 9: Disciplinary Information**

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Neither Dividend Assets Capital, LLC nor its management personnel have been involved in any material legal or disciplinary events.

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

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DAC and its management persons are not engaged in other financial industry activities and have no other industry affiliations.

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

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DAC adopted a Code of Ethics that applies to the Firm's employees and officers ("supervised persons"). The Code of Ethics describes DAC's high standard of business conduct and fiduciary duty to our clients. The general principles adopted by DAC for the Firm and its personnel include, but are not limited to: (1) putting the clients' interest first at all times; (2) conducting all personal securities transactions in such a

manner to be consistent with the Code of Ethics and to avoid any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility; (3) not taking inappropriate advantage of their position; (4) treating all client information as confidential; and (5) maintaining independence in the investment decision-making process.

DAC employees are permitted to purchase and sell, for their own accounts, the same securities DAC recommends to its clients, subject to the requirements of the Code of Ethics. The Code of Ethics sets forth procedures, limitations and prohibitions that govern employees' personal securities transactions in accounts held in their name as well as accounts in which they have indirect ownership.

Employees are required to pre-clear all personal securities transactions in securities not otherwise exempt under the Code of Ethics. Requests will be denied when the proposed personal transaction would be contrary to the Code of Ethics, including where DAC has purchased or sold the security (or has a pending trade for the security) for a client account that day, or the security has been purchased or sold in a client account within a blackout period. The above limitations do not apply to de minimis personal securities transactions of relatively larger market capitalization companies, as defined by the Code of Ethics, as these transactions should not impact market movement.

The Code of Ethics includes other restrictions and prohibitions on personal trading such as a limit on short-term trading and a ban on short sales of any security. In addition, there are limitations on the purchase of securities in an IPO or private placement.

DAC's Code of Ethics also contains policies on insider trading that include procedures designed to prevent trading or communications by employees that might constitute the misuse of material, non-public information.

The Code of Ethics includes provisions that govern gifts and entertainment given and received, as well as controls and requirements governing employee participation in other business activities such as involvement in non-profit entities, directorships, participation on boards, etc.

DAC believes that our Code of Ethics is reasonably designed to prevent certain personal securities transactions and other potential conflicts of interests between DAC, the Firm's supervised persons and its clients. However, clients should be aware that no set of rules can possibly eliminate all actual or potential conflicts of interests.

DAC's employees must acknowledge the terms of DAC's Code of Ethics when hired and quarterly thereafter. Any individual not in compliance with the Code of Ethics may be subject to warnings, censure, and other disciplinary actions including termination.

DAC's Code of Ethics is available by contacting the Chief Compliance Officer at 843.645.9700 or toll free at 866.348.4769 or by email to [complianceteam@dacapitalsc.com](mailto:complianceteam@dacapitalsc.com).

## **Item 12: Brokerage Practices**

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### **Broker Selection**

Where it has full discretion, DAC's objective in the selection of broker-dealers and effecting portfolio transactions is to seek to obtain the best combination of price and execution. The best net price, giving

consideration to brokerage commissions, spreads and other costs is an important factor in the decision, but a number of other factors are also considered. Among the factors considered are: (1) DAC's knowledge of negotiated commission rates and spreads currently available; (2) the nature of the security to be traded; (3) the size and type of the transaction; (4) the nature and character of the markets for the security to be purchased and sold; (5) the desired timing of the trade; (6) the activity existing and expected in the market for a particular security; (7) confidentiality and anonymity; (8) execution, clearance and settlement capabilities as well as the broker-dealer's reputation and perceived soundness; (9) DAC's knowledge of broker-dealer's operational problems; (10) the broker-dealer's execution services rendered on a continuing basis and in other transactions; and (11) the reasonableness of spreads or commissions.

In seeking best execution for fixed income securities, DAC generally will not seek to obtain competitive bids. DAC believes the broker-dealers used for its fixed income transactions provide efficient and effective execution services and transaction costs in alignment with best execution. DAC strives to be aware of the current level of charges of the broker-dealers and to reduce the expense incurred for effecting the transactions. Although DAC generally seeks competitive dealer spreads and commissions, it will not inevitably pay the lowest commission or commission equivalent, as this may prohibit DAC from obtaining an overall net cost more favorable under the circumstances.

DAC conducts ongoing due diligence on its trading partners and creates an internal list of "approved" trade execution services. DAC believes these trading partners provide efficient and effective execution services and transaction costs in alignment with best execution. While DAC has a reasonable belief that the trading partners provide best execution and competitive prices, DAC uses an independent firm to assist with analyzing best execution to evaluate trade costs within a peer universe.

In seeking best execution, the determining factor is not the lowest possible cost, but rather whether the transaction reasonably represents the best overall qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, transaction costs, and responsiveness.

#### **Research and Other Soft Dollar Benefits**

DAC does not have any formal or informal soft dollar arrangements with the brokers the Firm uses to execute trades. As such, DAC does not direct trades or have clients pay-up in commissions in exchange for research or non-research benefits. However, brokers may provide unsolicited research and non-research benefits which DAC may use in its investment decision and trading processes. Any such benefit utilized by DAC falls within the provisions of Section 28(e) of the Securities Exchange Act of 1934. See disclosure below in "Directed Brokerage – Other Economic Benefits".

#### **Brokerage for Client Referrals**

It is common for sub-advisers, dual contract, or wrap broker-dealers to refer clients to DAC. This has no impact on how DAC executes transactions. DAC will not make commitments to any broker-dealer to compensate that entity through brokerage or other forms of direct or indirect compensation other than as directed under wrap fee arrangements.



### **Directed Brokerage**

Clients may direct DAC to use a particular broker-dealer to execute some or all transactions for the client's account. This brokerage direction must be requested in writing by the client. In such cases, the client will negotiate terms and arrangements for the account with that broker-dealer.

A client who directs DAC to use a particular broker-dealer should consider whether this will result in costs or disadvantages to the client as further described below. As such, a client should satisfy itself that the broker-dealer provides adequate prices and execution of transactions.

If a client directs DAC to place securities transaction through a broker, the client should consider the following factors: (1) the client may compromise DAC's ability to seek best execution; (2) DAC will not attempt to negotiate commissions on the client's behalf which can result in higher commissions, greater spreads or less favorable net prices than would be the case if DAC retained sole discretion to select the brokers; (3) the client's trades may not be aggregated (blocked) with similar trades of other clients' accounts resulting in the client not receiving the volume discounts received by our other clients; (4) the broker selected may not have appropriate capabilities or operational expertise; (5) the client directed broker may not satisfy DAC's broker selection criteria (as described above); and (6) the client account may not generate returns equal to those of the Firm's client who do not have directed brokerage. As a result, clients with directed brokerage may pay higher commissions and/or receive less favorable net prices that might be attained if the Firm were able to maintain broker-dealer discretion.

### **Wrap Fee Programs**

As disclosed in Item 4, DAC participates as an investment manager to wrap fee programs. DAC does not sponsor any wrap fee program. In evaluating a wrap fee program, a client should recognize that brokerage transaction costs are generally wrapped in the total fee the client pays to the broker. These are not negotiated through DAC. Trades are executed only with the broker dealer with which the client has entered into the wrap fee arrangement. DAC, therefore, is not obligated to seek best execution in wrap fee programs. Certain broker-dealers under clients' wrap fee agreements may obtain best overall execution, but DAC makes no assurance that this is accurate. The client should consider that wrap-fees charged by broker-dealers may exceed the aggregate cost of services were they to be provided separately.

### **Brokerage – Other Economic Benefits**

DAC may receive from the trading partners, at no cost to DAC, professional services, computer software, and related systems' support, enabling DAC to monitor more closely client accounts maintained with the broker-dealers. DAC may receive this support at no additional cost because of the portfolio management services rendered to clients who maintain assets with the broker-dealers, not a transaction based fee. While such access may directly benefit DAC and not the client, DAC endeavors at all times to put the interests of its clients first. DAC's choice of trading partner may be influenced due to these services.

### **Schwab Adviser Services**

DAC's primary, preferred custodian for separately managed accounts is Charles Schwab & Co., Inc. ("Schwab"). DAC may recommend that clients establish brokerage accounts with the Schwab Advisor Services division of Schwab to maintain custody of clients' assets and to effect trades for their accounts. DAC and Schwab are separate, unaffiliated entities. Schwab's commission rates applicable to DAC client

accounts were negotiated based on our commitment to maintain DAC clients' account assets custodied by Schwab. This commitment benefits our clients because the overall commission rates clients pay are lower than they would be if we had not made the commitment. Clients with assets that are held in custody at Schwab generally will pay a lower custody fee or no fee on trades. Schwab charges accounts a fee as "prime broker" or "trade away" fee for each trade that DAC executes with a different broker-dealer. These fees are in addition the commissions clients pay the executing broker-dealer. Because of this, in order to minimize clients' trading costs, DAC is more likely to place trades for these clients through Schwab rather than other broker-dealers.

Schwab also provides DAC with access to its institutional trading and operations services typically not available to Schwab's retail customers. Schwab services include brokerage, custody, research, access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment. Schwab may also make available other services and products such as conferences, consulting and publications at no additional cost to DAC.

### **Trade Aggregation**

While not obligated to do so, DAC will block trades where possible and when advantageous to clients. The blocking of trades permits the aggregation of securities for multiple client accounts as long as transaction costs are shared equally on a pro-rated basis. Block trading may allow DAC to execute trades more efficiently. When multiple block trades are placed with multiple brokers, the sequence in which brokers are provided their portion of the block trade is through a rotation where the broker selected to be first will then rotate to the bottom for the next aggregated trade.

Illiquid positions may take multiple days to execute.

Multiple client orders submitted for the same security at different times during the same day with the same broker and side of the trade will receive the average daily price.

### **Participation or Interest in Client Transactions – Principal Trades**

Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advised client. A principal transaction may also be deemed to have occurred when a security is crossed between an affiliated mutual fund and another client account. DAC does not initiate or conduct any principal transactions.

### **Participation or Interest in Client Transactions –Cross Trades**

Cross trading is defined as arranging for one client account to purchase a security directly from another account. Due to potential conflicts of interest and other regulatory requirements, DAC does not engage in cross trading activities on behalf of any client. This applies to all asset classes.

## **Item 13: Review of Accounts**

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### **Reviews**

DAC's Investment Committee continually monitors and reviews the universe of securities. Individual portfolio managers incorporate the investable universe into client portfolios based on each client's

investment objective and risk tolerances. The Committee meets regularly to discuss market trends, research, and other investment and economic conditions.

Individually managed portfolios are reviewed by portfolio managers with consideration for each client's investment objectives and risk tolerances. Clients are encouraged to meet with their portfolio managers regularly to review their account(s). Conditions that may necessitate additional reviews include changes in market, political or economic conditions, tax laws, new investment information, and/or changes in a client's financial or life situation.

### **Reporting**

In addition to statements of transactions that clients receive from the broker-dealer and/or custodian, DAC may provide quarterly reports summarizing account performance, balances and holdings at no added cost to the client.

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

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DAC does not have any arrangements where it receives cash or economic benefits from a non-client in connection with giving advice to clients, nor does the Firm compensate any non-employee for the referral of new business, other than what has been previously described in Item 12 – Brokerage - Other Economic Benefits.

## **Item 15: Custody**

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### **Custody – Fee Debiting**

Clients may authorize DAC in the Client Advisory Agreement, or in writing at any time, to debit investment management fees directly from the client's account held at an unaffiliated qualified custodian. Having the ability to deduct advisory fees constitutes custody.

As part of the advisory fee billing process, the client's custodian is advised of the amount of the fee to be deducted from the client's account. DAC has reasonable belief that each client receives a custodial statement at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to DAC.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact DAC directly if they believe that there is an error in their statement.

In addition to the periodic statements that clients receive directly from their custodian, DAC also sends account statements directly to its clients on a quarterly basis. DAC urges its clients to carefully compare the information provided on these statements to verify that all holdings and values are correct. Clients may notice a difference in the total value of their account as reported by DAC when compared to the custodian statement values. Custodian statements generally reflect values based on settlement date, while DAC's statements reflect values based on trade date.

## Item 16: Investment Discretion

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Through the Client Advisory Agreement, DAC receives discretionary authority from each client to select the identity and amount of securities to be bought or sold without obtaining client consent before each trade. DAC may accept any reasonable limitation or restriction to such authority on the account placed by the client. All limitations and restrictions placed on accounts must be presented to DAC in writing.

In all cases, such discretion is to be exercised in a manner consistent with the investment objectives for the particular client account. When selecting securities and determining amounts, DAC observes the investment policies, limitation and restrictions of the applicable client.

## Item 17: Voting Client Securities

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One of the benefits of being a shareholder is the right to vote on certain corporate matters. Since most shareholders cannot or do not want to attend the meetings where the voting occurs, corporations provide shareholders with the option to cast a proxy vote whereby someone else votes on behalf of the shareholder. Upon execution of the Client Advisory Agreement, the client elects to:

- assign the responsibility for voting all proxies solicited by issuers of securities held in the Portfolio to DAC, or
- retain the responsibility for voting all proxies solicited by issuers of securities held in the Portfolio. See disclosures above regarding proxies voted by clients. For clients who retain the responsibility for voting their proxies, DAC will send all relevant proxies to be voted by such client.

When the responsibility to vote proxies is assigned to DAC, its utmost concern is that all decisions be made solely in the best interest of the client (and for ERISA accounts, plan beneficiaries and participants, in accordance with the letter and spirit of ERISA). DAC will act in a prudent and diligent manner intended to enhance the economic value of the assets of the client's portfolio.

DAC's Chief Compliance Officer is ultimately responsible for ensuring that all proxies received by DAC are voted in a manner consistent with DAC's determination of the client's best interests. Although many proxy proposals can be voted in accordance with DAC's established guidelines, DAC recognizes that some proposals require special consideration, which may dictate that DAC use its judgment as to what is in the client's best interest.

When situations arise where the interest of a client may be in conflict with DAC's interests with respect to any shareholder proposal for which proxies are being solicited, DAC will request the client's instructions with respect to the vote.

DAC engaged Broadridge Financial Solutions, Inc. ("Broadridge"), investor communications provider, and Glass Lewis & Co., LLC ("Glass Lewis"), a proxy voting service, to establish an independent source to make proxy-voting recommendations on behalf of clients.

Except for circumstances involving conflicts of interest, and except as noted otherwise in DAC's proxy voting guidelines, the Glass Lewis Proxy Paper™ Guidelines for the 2017 Proxy Season and Investment Manager Policy, an addendum to the Proxy Paper Guidelines (the "Guidelines"), have been incorporated

into the DAC proxy guidelines. The Guidelines include voting both U.S. and International proxies.

The Guidelines:

- are designed to maximize returns for investment managers by voting in a manner consistent with such managers' active investment decision-making;
- are designed to increase investors' potential financial gain using the shareholder vote while also allowing management and the board discretion to direct the operations, including governance and compensation, of the firm;
- ensure that all issues brought to shareholders are analyzed in light of the fiduciary responsibilities unique to investment advisors and investment companies on behalf of individual investor clients including mutual fund shareholders;
- encourage the maximization of return for such clients through identifying and avoiding financial, audit and corporate governance risks;
- set forth the proxy voting policy and guidelines of Glass Lewis.

The Guidelines were developed based on Glass Lewis' experience with proxy voting and corporate governance issues, and were not tailored to any specific person or entity. Moreover, the Guidelines are not intended to be exhaustive and do not include all potential voting issues.

For more information about DAC's proxy policies, please contact DAC's compliance team at 843-645-9700 or toll free at 866-348-4769. Clients may also request information regarding how DAC voted any proxy on the client's behalf.

Broadridge's Global Securities Class Action Services division provides the necessary infrastructure and technology to process cases and settlements. When it is deemed financially beneficial, DAC will take the appropriate actions to file class action lawsuits on behalf of its clients. When there has been money awarded to the client, Broadridge is entitled to keep 20% of the recovery amount it claims for the client.

## **Item 18: Financial Information**

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DAC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.

DAC is not required to provide a balance sheet; DAC does not require prepayment of fees of more than \$1,200 per client, **and** six months or more in advance.