

## Item 1: Cover Page

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# CAPITAL ADVISORS

## Form ADV Part 2A Investment Adviser Brochure

January 2018

This brochure provides information about the qualifications and business practices of Capital Advisors, Inc. If you have any questions about the contents of this brochure, please contact Debra L. Konieczny, Chief Compliance Officer, at 918.599.0045 and/or [debrak@capitaladv.com](mailto:debrak@capitaladv.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration as an investment advisor does not imply any level of skill or training.

Additional information about Capital Advisors, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You may search this site using a unique identifying number, known as a CRD number, Capital Advisors, Inc.'s CRD Number is 104643.

2222 South Utica Place, Suite 300  
Tulsa, OK 74114  
918.599.0045  
[debrak@capitaladv.com](mailto:debrak@capitaladv.com)  
[www.capitaladv.com](http://www.capitaladv.com)

## Item 2: Summary of Material Changes

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### Annual Update

In this Item of Capital Advisors, Inc.'s (Capital or the Firm) Form ADV 2, the Firm is required to discuss any material changes that have been made to Form ADV since the last Annual Amendment, dated March 1, 2017.

### Material Changes since the Last Update

Since the last Annual Amendment filing, the Firm has the following material change to report.

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- The Firm's main office has moved to 2222 South Utica Place, Suite 300, Tulsa OK 74114.
- Item 4 was amended to more clearly describe the Firm's investment decision making process.
- Item 12 was amended to describe the potential conflicts of interest and mitigating factors when the Firm receives client referrals from broker/dealers to whom it pays a referral fee.
- We no longer have an affiliated broker/dealer, Minshall & Company, Inc.

### Full Brochure Available

Capital's Form ADV may be requested at any time, without charge by contacting Debra L. Konieczny, Chief Compliance Officer, at 918.599.0045 [debrak@capitaladv.com](mailto:debrak@capitaladv.com).

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## Item 4: Advisory Business

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### Firm Description

Capital is primarily engaged as an investment advisory firm which gives general and specific investment advice to high net worth individuals, institutions, pension and profit sharing plans, charitable organizations, investment companies and corporations and other business entities. Capital was founded in 1978.

### Principal Owners

Capital's owners include Keith Goddard, G. (Andy) Brown, Lorine A. (Lori) Smith, Keith C. Goddard Revocable Trust, and Elizabeth L. Goddard Revocable Trust.

### Types of Advisory Services

Capital offers the following types of advisory services: Portfolio management for individuals and/or small business, portfolio management for investment companies, and portfolio management for businesses or institutional clients.

### Investment Advisory Services

Capital's Investment Advisory Services are provided in a comprehensive approach. The Firm's Investment and Research Committee (The Committee) is responsible for the development and daily management of portfolio strategies. The Committee is responsible for the research and selection of each security within each strategy. The Committee meets on a weekly basis, at minimum, to review portfolio strategies.

Capital's Investment Advisory Services are further provided by Portfolio Management teams comprised of an Investment Advisor Representative, an internal portfolio manager and a client services associate. The Portfolio Management team has ongoing responsibility for maintaining the relationship with the client. The Portfolio Management team ensures that each client is provided with an appropriate portfolio strategy based upon their specific investment objectives and stated risk tolerance. The client services associate serves as a liaison between Capital and the client's custodian to facilitate the processing of administrative documents and other administrative duties. This generally includes the following:

- A consultation with the client to ascertain investment objectives, risk tolerance, time horizon and life goals.
- Developing an asset allocation plan or model portfolio to align the client's investment objectives with the most efficient and effective investment vehicles to attain those objectives.
- Selection and presentation of an investment strategy to the client.
- Implementing the investment strategy by establishing investment accounts, selecting custodians if necessary, transferring client assets, and establishing trading and data procedures.

- Monitoring investment selections, including adjustments or rebalancing of investments as necessary to meet the client's changing needs.
- Providing information regarding investment philosophies, specific investment vehicles, and other areas to enhance the client's knowledge.
- Reporting portfolio information, including holdings and investment performance to the client.

## **Financial Planning Services**

Capital provides comprehensive financial planning services on an hourly and/or fixed fee basis. Our advice is tailored to meet the individual needs of each client, depending on the specific needs and circumstances as requested by each client. Our comprehensive financial planning services are not specific to one particular type of advice. Instead we advise on a wide variety of financial issues which may include college funding, estate planning, tax planning, insurance, asset allocation, retirement planning, 401ks, and investment selection.

We use one or more licensed software programs to facilitate our financial planning services and do not include any tax or legal advice with our financial plans. Where a discussion would include insurance products, only appropriately licensed individuals may participate in the advice offered.

## **Investment Companies (Mutual Funds)**

Capital serves as investment adviser to the Capital Advisors Growth Fund (CIAOX), (the Fund). The Fund is a diversified open-end investment company registered under the Investment Company Act of 1940. The Fund is a series of Advisors Series Trust. U.S. Bancorp Fund Services, LLC provides administration accounting and transfer agency services to the Fund. U.S. Bank, N.A. is the custodian of the assets of the Fund.

Capital does not actively market the Fund. It is offered as an alternative in the event a client's investment objective matches our Managed Equity Growth strategy but does not meet the minimum criteria for the strategy. Capital does not charge a separate investment advisory fee for the shares held within a portfolio. The Firm receives a management fee from the Fund, fees are disclosed in the Fund prospectus.

The Fund is treated as a client and managed in the same manner as any such client that might participate in the strategy. The holdings of the Fund are block traded with clients holding the strategy.

All fund shareholders receive annual audited financial statements as well as delivery of the prospectus by the Fund.

## **Tailored Relationships**

Capital tailors investment advisory services to the individual needs of the client. The goals and objectives for each client are documented in our client relationship management system. Capital's clients are allowed to impose restrictions on the investments in their account. Capital may accept any reasonable limitation or restriction

to discretionary authority on the account placed by the client. All limitations and restrictions placed on accounts must be presented to Capital in writing.

Agreements may not be assigned without client consent.

### **Fiduciary Statement**

Capital and our employees are fiduciaries who must take into consideration the best interests of our clients. Capital will act with competence, dignity, integrity, and in an ethical manner, when dealing with clients. Capital will use reasonable care and exercise independent professional judgement when conducting investment analysis, making investment recommendations, trading, promoting our services, and engaging in other professional activities.

As a fiduciary, Capital has the obligation to deal fairly with our clients. Capital has the following responsibilities when working with a client:

- To render impartial advice;
- To make appropriate recommendations based on the client's needs, financial circumstances and investment objectives;
- To exercise a high degree of care and diligence to ensure that information is presented in an accurate manner and not in a way to mislead;
- To have reasonable basis, information, and understanding of the facts in order to provide appropriate recommendations and representations;
- Disclose any material conflict of interest in writing; and
- Treat clients fairly and equitably.

### **Wrap Fee Programs**

Capital participates in wrap fee programs. A "wrap-fee" program is one that provides the client with advisory and brokerage execution services for an all-inclusive fee. The client is not charged separate fees for the respective components of the total service.

In evaluating wrap fee programs, clients should consider that, depending upon the level of the wrap fee charged, the amount of portfolio activity in the client's account, the broker dealer's usual commission rates and other factors, the wrap fee may be more or less than the aggregate cost of such services if they were to be provided separately and if Capital were to negotiate commissions and seek best price and execution of transactions for the client's account. The advisory fee is negotiable between the client and Capital and is set out in the advisory agreement. The advisory fee is a percentage based on the value of all assets in the account, including cash holdings. The advisory fee may be higher than the fee charged by other investment advisors for similar services.

Further, clients should be aware that the person recommending the program to the client may receive compensation as a result of the client's participation in the program, that the amount of this compensation may be more than what the person would receive if the client participated in other programs of the sponsor or paid separately for investment advice, brokerage, and other services, and that the person may therefore have a financial incentive to recommend the wrap fee program over other programs or services.

The investment products available to be purchased in the program can be purchased by clients outside of a program account, through broker-dealers or other investment firms not affiliated with Capital.

Clients should refer to each program's Form ADV Part 2A Appendix 1 for more information regarding the wrap fee program and related fees. There are no material differences between the Capital managed wrap accounts and other accounts. The wrap relationship exists primarily because of the preference of some clients to not be subject to separate transaction charges.

### **Client Assets**

As of December 31, 2016, Capital managed approximately \$1.84 billion in assets. Approximately \$1.56 billion is managed on a discretionary basis, and \$274 million is managed on a non-discretionary basis.

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

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### **Compensation**

Capital bases its fees on a percentage of assets under management, hourly and fixed fees, which are described below.

#### **Compensation – Investment Advisory Services**

Fees for Investment Advisory Services associated with internally managed investment strategies are 1.00% (100 basis points) annually on the average daily market value of the assets held in the portfolio, payable quarterly, in arrears.

#### **Compensation – Financial Planning Services**

Capital provides financial planning services to clients based on an hourly fee with a set minimum.

Through the use of a Financial Planning Agreement we provide the client with an estimate of the fee amount indicating fixed minimum base rate of \$2,500 plus an additional \$200 per hour for a plan requiring more than ten hours of completion. The estimate will provide client with anticipated completion guidelines according to the nature and complexity of plan and financial planning services that can be expected. Typically, a flat rate of \$1,200 is charged at the beginning of the engagement. The balance is due and payable at the completion of the financial plan.

The fees for financial planning services may be reduced and or waived determined by individual circumstances.

#### **Compensation – Investment Companies (Mutual Funds)**

Capital may recommend the use of CIAOX (the Fund), as suitable, to its investment advisory clients. Capital receives 0.75% (75 basis points) of the market value of CIAOX

on an annual basis, payable monthly in arrears. Capital does not charge an additional investment advisory fee on the portion of a client's assets that are invested in the funds.

### **Calculation and Payment**

The specific manner in which fees are charged by Capital is established in a client's written agreement with Capital. Capital will generally calculate fees on a quarterly basis. Clients may also elect to be invoiced directly for fees or to authorize Capital to directly debit fees from client accounts.

Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

### **Termination of Agreement**

Capital may terminate any agreement at any time by notifying the client in writing. If the client made an advance payment, Capital will refund any unearned portion of the advance payment.

### **General Information on Compensation**

In certain circumstances, fees, account minimums and payment terms are negotiable depending on client's unique situation – such as the size of the aggregate related party portfolio size, family holdings, low cost basis securities, or certain passively advised investments and pre-existing relationships with clients. Certain clients may pay more or less than others depending on the amount of assets, type of portfolio, or the time involved, 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 other sources.

The fee charged is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client

All fees paid to Capital for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and variable annuity sub-accounts to their shareholders with the exception of investment in the Funds, as described above. These fees and expenses are described in each fund's or sub account's prospectus. These fees will generally include a management fee, other 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 or sub-account directly, without the services of Capital. In that case, the client would not receive the services provided by Capital which are designed, among other things, to assist the client in determining which mutual funds or sub-accounts are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds/sub-accounts and the fees charged by Capital to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.



Clients should note that similar advisory services may (or may not) be available from other registered investment advisers for similar or lower fees.

In addition to Capital investment advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, brokerage commissions, transaction fees, and other related costs and expenses. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus.

Such charges, fees and commissions are exclusive of and in addition to Capital's fee, and Capital shall not receive any portion of these commissions, fees, and costs.

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

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Neither Capital nor any of its supervised persons (employees) accepts performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Capital does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

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

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### **Types of Clients**

As described in Item 4, Capital's clients include high net worth individuals, institutions, pension and profit sharing plans, charitable organizations, investment companies, and corporations and other business entities.

### **Account Minimums**

Capital requires a minimum account of \$500,000 for investment advisory clients. The minimum annual fee is \$2,500. The minimum account size and annual fees are negotiable. The minimum account size may be waived for clients referred to Capital under various Wrap Fee Programs. In addition, Capital may group certain related client accounts for the purposes of achieving the minimum account. Clients with similar assets may have differing fee schedules.

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

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### Methods of Analysis

Capital's Investment and Research Committee (The Committee) combines fundamental analysis with quantitative disciplines to manage risk. Capital continuously tracks objective markers for valuation, trend and risk in markets to guide tactical adjustments in the risk profile of client portfolios. The Committee screens a universe of approximately 1,000 stocks weekly to search for markers for low valuation and near term positive change. Stocks that score well in both of these measures may be subjected to fundamental analysis, including a study of public filings, analyst reports, industry publications, quantitative detail, and conversations with management.

### Investment Strategies

Capital generally offers seven core portfolio strategies that incorporate a broad spectrum of asset classes, as well as both active and passive investment philosophies. Capital encourages portfolio managers to mix and match among these seven portfolios "building blocks" to produce highly customized portfolio solutions for clients' unique investment objectives and risk constraints.

**Managed Equity:** Capital built its reputation with its actively managed stock strategy more than 30-years ago. Capital combines rigorous fundamental analysis with quantitative disciplines to create strategically focused portfolios of 30-40 large-cap and mid-cap growth stocks for investors.

**Fixed Income:** Capital's approach to managing bond portfolios is distinguished by the degree of portfolio customization that is enabled for Capital's clients. Within an overall philosophy that emphasizes preservation of capital, Capital constructs clients' bond portfolios around one of three core designs: a "Liquidity" strategy for clients seeking low volatility and ready access to capital; an "Income" structure intended to maximize monthly cash flows; and an "Aggregate" approach that strikes a balance between liquidity and income objectives.

**Equity Dividend Strategy:** The Equity Dividend Strategy seeks a high level of income from the equity asset class by investing in a concentrated portfolio of 15-20 stocks that aim to pay above average dividends. The strategy is diversified among multiple industry sectors, seeking companies with stable business models, strong competitive positions and financial strength to support each company's dividend policy.

**Tactical Global Growth Strategy:** The Tactical Global Growth Strategy maintains exposure to 10 equity asset sectors at all times - large-cap growth, large-cap value, mid-cap, small-cap, international, emerging markets, Japan, natural resources, real estate and high-yield debt. The strategy invests in exchange traded funds, or "ETFs" that track passive indexes for each of these 10 asset sectors.

**Tactical Global Income Strategy:** The Tactical Global Income Strategy maintains exposure to eight equity asset sectors at all times - large-cap, mid-cap, small-cap,

international, and Japan, natural resources, real estate and high-yield debt. The strategy invests in exchange traded funds, or "ETFs" that track passive indexes for each of these eight asset sectors.

A key differentiating factor for the Tactical Global Income Strategy is its use of dividend-weighted indexes to track each market sector. The ETFs included in the strategy emphasize stocks with higher dividend payments to produce an income stream for the portfolio in addition to its objective of long-term appreciation.

**Tactical Dynamic Allocation Strategy:** The Tactical Dynamic Allocation Strategy adjusts its risk profile dynamically among five equity market sectors - U.S. stocks, international stocks, emerging markets, real estate and commodities- and one fixed income sector- U.S. Investment-grade bonds. The strategy invests in exchange traded funds, or "ETFs" that track passive indexes for each of these six sectors.

The strategy utilizes a quantitative marker called a "moving average" to measure the trend in each of the five equity sectors on a monthly basis. When the trend for a given equity sector is positive the portfolio retains a position in an ETF that tracks that sector. When the trend is negative the ETF for that sector is sold, and the proceeds are reinvested into an ETF that tracks domestic investment-grade bonds.

Changes to the portfolio occur monthly based upon a monthly assessment of moving average markers for each sector in the portfolio. Total equity exposure can range from a minimum weighting of 10% when all five equity sectors indicate a negative trend, up to a maximum weighting of 98% when all five sectors are trending higher.

**International Focus Strategy:** The International Focus strategy invests in the international equity asset class with specific factor tilts toward value, momentum and market capitalization. The portfolio is comprised of five exchange traded funds (ETFs) that offer exposure to both developed and emerging markets. Two of the five ETFs filter international stocks for low valuation; two ETFs filter international stocks for price momentum; and one ETF emphasizes small and mid-cap stocks outside the United States.

## **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. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** 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.

- **Inflation Risk:** When any type of inflation is present, a dollar next year will not buy as much as a dollar today, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas 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:** This is 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:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of 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:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** 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 declining market value.

Capital may recommend investment vehicles such as individual equity or fixed income securities, mutual funds, and international investments. Capital may recommend certain private equity limited partnerships, non-publicly traded stocks and hedge funds for clients meeting certain investor criteria.

Capital reserves the right to advise clients on any other type of investment that it deems appropriate based on the client's stated goals and objectives. Capital may also provide advice on any type of investment held in a client's portfolio at the inception of the advisory relationship or on any investment on which the client requests advice.

## **Item 9: Disciplinary Information**

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

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

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### **Commodities and Futures**

Neither Capital nor any of its management persons is registered as (or associated with) a futures commissions merchant, commodity pool operator, or a commodity trading advisor.

### **Broker-Dealer / Registered Representatives**

Capital is not registered as a broker-dealer.

Shares of CIAOX, the investment company (mutual fund) managed by Capital, are distributed by Quasar Distributors, LLC. CIAOX shares are custodied with U.S. Bancorp Fund Services.

Jonathan Althage, David Bannon, Eric Cannon, Catherine Glock, Joseph Hawes, Debra Konieczny, Mark Symm and Brigette Zuhdi are registered representatives of Quasar Distributors, LLC.

While employees of Capital may be registered representatives of a broker-dealer, Capital is solely responsible for investment advice rendered. Advisory services are provided separately and independently of the broker/dealers. Investment adviser representatives of Capital spend less than 10% of their time on registered representative activities.

### **Banks**

Monty L. Butts, Managing Director of Fixed Income, is a Director of First National Bank of Broken Arrow (FNBBA) in Broken Arrow, OK, an unaffiliated bank. Mr. Butts receives nominal compensation for his role as a Board Member. This position may result in unpaid referrals between Capital and FNBBA. Capital and FNBBA have common clients. He spends less than 15% of his time on this activity.

### **Investment Companies (Mutual Funds)**

Capital serves as investment advisor to the Capital Advisors Growth Fund (CIAOX), (the Fund), an investment company registered under the Investment Company Act. The Fund is distributed by Quasar Distributors, LLC. This advisory relationship could create material conflict of interest with clients, as Capital may recommend the Fund over regular investment advisory services or vice versa.

### **Other Affiliations**

David A. Cole, an investment adviser representative of Capital, is also an investment advisor representative of Financial Advisory Services, Inc., an unaffiliated investment advisory firm. He spends 15% of his time servicing existing clients who may include those who have an advisory relationship with Capital.

David is a CPA, and his accounting firm, David A Cole, CPA, LLC and the dba, ExitPlanningCPA are unaffiliated with Capital, David receives compensation for his accounting and exit planning services provided to clients of these entities. The compensation received for these services are not affiliated to any business of Capital. He spends 75% of his time on this outside business activity.

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

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### **Code of Ethics**

Capital employees must comply with a Code of Ethics and Statement for Insider Trading and a similar Investment Company Code for CIAOX. Capital's Code describes the Firms' high standard of business conduct, and fiduciary duty to its clients. The Code's key provisions include:

- Statement of General Principles
- Policy on and reporting of Personal Securities Transactions
- A prohibition on Insider Trading
- Restrictions on the acceptance of significant gifts
- Procedures to detect and deter misconduct and violations
- Requirement to maintain confidentiality of client information

Debra L. Konieczny, Chief Compliance Officer, reviews all employee trades each quarter. Her trades are reviewed by the Keith C. Goddard, Chief Executive Officer and Chief Investment Officer. These reviews ensure that personal trading does not affect the markets, and that clients of Capital receive preferential treatment.

Capital's employees must acknowledge the terms of the Code of Ethics at least annually. Any individual not in compliance with the Code of Ethics may be subject to termination.

Clients and prospective clients can obtain a copy of Capital's Code of Ethics by contacting Debra L. Konieczny, Chief Compliance Officer at 918.599.0045.

### **Participation or Interest in Client Transactions – Personal Securities Transactions**

Capital and its employees may buy or sell securities identical to those recommended to clients for their personal accounts. These trades may not occur ahead of client trades. The Code of Ethics, described above, is designed to assure that the personal securities transactions, activities and interests of the employees of Capital will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Capital's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in

the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Capital and its clients.

### **Participation or Interest in Client Transactions – Financial Interest and Principal/Agency Cross**

Capital and its employees may recommend to clients, or buy or sell for client accounts, securities in which they have a material financial interest.

It is Capital's policy that the Firm will not affect any principal or agency cross securities transactions for client accounts. Capital will also not cross trades between client accounts.

### **Participation or Interest in Client Transactions – (None other than as Adviser to Investment Company (Mutual Fund))**

If Capital recommends a purchase or sale in a security in which a related person has some financial interest, full disclosure is given to the client. As disclosed in Item 4, Capital serves as the investment adviser to the Funds. Full disclosure on Capital's participation in client transactions is provided via each prospectus for the Funds.

### **Participation or Interest in Client Transactions – Aggregation**

Capital and its employees may trade in the same securities with client accounts on an aggregated basis when consistent with Capital's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Capital will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

## **Item 12: Brokerage Practices**

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

Capital does not receive formal soft dollar benefits other than execution from broker/dealers in connection with client securities transactions. See disclosure below in "Directed Brokerage – Other Economic Benefits".

### **Brokerage for Client Referrals**

Capital receives client referrals from broker/dealers (Program broker/dealers), through various broker/dealer referral programs which are designed to help investors find an independent investment advisor. The Program broker/dealers are independent of and unaffiliated with Capital. The Program broker/dealers do not supervise participating independent investment advisors and have no responsibility for Capital's management of

client portfolios, advisors, other advice and/or services. Capital pays fees to Program broker/dealers to receive client referrals through these programs.

Capital pays the Program broker/dealers a fee for so long as the referred client's account remains in custody at the Program broker/dealer. Program fees are billed to Capital and may be increased, decreased or waived by the Program broker/dealers from time to time. Program fees are paid by Capital and not by the client. Clients are not charged investment advisory fees greater than the fees Capital charges clients not referred through the Programs.

The Program broker/dealers generally do not charge the client separately for custody but receives compensation from the client in the form of commissions or other transaction-related compensation on trades executed for client accounts. Clients may also pay the Program broker/dealers a fee for clearance and settlement of trades. Brokerage commissions and/or transaction fees charged by Program broker/dealers are exclusive of and in addition to Capital's investment advisory fees.

Capital may have an incentive to execute trades through a Program broker/dealer rather than another broker/dealer because of the referral arrangement. Capital pays the Program broker/dealer for the client referrals and in turn receives investment advisory fees from those clients. Trades for accounts custodied at the Program broker/dealer may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers. Capital acknowledges its duty to seek best execution of trades for client accounts. Capital mitigates this incentive through a rigorous best execution review of Program broker/dealers (see Directed Brokerage- Best Execution), in addition Capital does not charge clients investment advisory fees greater than the fees Capital charges clients not referred through the Programs.

As a fiduciary, Capital always endeavors to act in its clients' best interests.

### **Client Directed Brokerage**

Capital shall generally recommend that investment advisory clients establish brokerage accounts with various broker/dealers, all of which are FINRA-registered, SIPC members, to maintain custody of clients' assets and to effect trades for their accounts. Capital is independently owned and operated and not affiliated with any broker/dealers.

Clients may come to Capital with an existing brokerage relationship and direct Capital to execute their trades through that broker/dealer. This brokerage direction must be requested by the client in writing. The client will negotiate terms and arrangements for the account with that broker/dealer, and Capital will not seek better execution services or prices from other broker/dealers or be able to "batch" client transactions for execution through other broker/dealers with orders for other accounts managed by Capital. By directing brokerage, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Not all advisers require or allow their clients to direct brokerage. Subject to its duty of best execution, Capital may decline a client's request to



direct brokerage if, in Capital's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

### **Directed Brokerage and Other Economic Benefits**

Certain Program broker/dealers provide Capital with access to institutional trading which are typically not available to retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them.

Capital may receive from Program broker/dealers, at no cost, products and services enabling Capital to better monitor client accounts maintained at the Program broker/dealer and intended to help Capital manage and further develop its business enterprise. Many of these services generally may be used to service all or a substantial number of Capital's accounts, including accounts not maintained at Program broker/dealers. Capital may receive this support without cost because of the portfolio management services rendered to clients that maintain assets at the Program broker/dealer. The support provided may benefit Capital, but not its clients directly.

Program broker/dealers provide Capital with includes brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. It also includes software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Capital's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. These services may also include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Program broker/dealers may make available, arrange and/or pay for these types of services rendered to Capital by independent third parties.

In fulfilling its duties to its clients, Capital endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Capital's receipt of economic benefits from a broker-dealer may create a conflict of interest since these benefits may influence Capital's choice of a Program broker/dealer over another broker-dealer that does not furnish similar services, software and systems support.

Generally speaking, all of Capital's clients benefit from research services which may be provided to Capital by the brokers and dealers who effect transactions for Capital's client accounts. Not all such research services, however, may be used by Capital in connection with the client accounts that paid commissions to the brokers or dealers providing such research services. In addition, instances may arise where (a) research services obtained in connection with transactions affected for a particular client's account benefit other clients of Capital, or (b) not all research services may be used by Capital after payment of commissions by clients. Capital's receipt of research services from brokers and dealers who effect transactions for Capital's client accounts does not reduce Capital's customary research activities.

## **Administrative Services**

Capital has entered into an Investment Advisor Custodial Support Services Agreement with one Program broker/dealer where Capital has agreed to provide to this particular broker/dealer certain back office, administrative, custodial support and clerical services. In consideration for these services, the broker/dealer has agreed to pay Capital a fee on specified assets – namely NTF mutual fund assets (other than the broker/dealer’s internal mutual funds).

The services that Capital has agreed to provide include the following: clerical and ministerial assistance in opening client accounts, clerical and ministerial assistance in maintaining client accounts and facilitating asset transfers and money movement directed by a client, clerical and ministerial assistance in reconciling and assisting in updating of client account information, clerical and ministerial assistance in connection with customer inquiries and account information research, clerical and ministerial assistance to clients in connection with the use of brokerage services such as periodic investment plans, periodic withdrawal plans, and check writing privileges, promptly notifying the broker/dealers in writing of any written customer complaint relating to the broker/dealer’s services and other shareholder services as the parties may agree in writing from time to time.

## **Directed Brokerage – Best Execution**

The commissions paid by Capital’s clients shall comply with Capital’s duty to obtain “best execution.” However, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where Capital determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer’s services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Consistent with the foregoing, while Capital will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client transactions.

As described above, if a client does not have an existing relationship with a Broker, Capital may suggest the use of and request the client to authorize discretion on an account established through a variety of brokerage firms.

In the case where a client has not directed their account to a specific Broker and Capital has discretion to direct the account, Capital negotiates brokerage fees on a case-by-case basis. Any negotiated discount is dependent upon the value of the services provided by the Broker and transaction execution. Capital does not adhere to any fixed guideline or formula in this regard. Capital does not transact brokerage business based solely upon negotiated discount but also any discount negotiated is relative to the value of services provided. The clients of Capital may pay commissions higher than those obtainable from other Brokers as a result of this analysis.

Capital's fundamental policy is to seek for its clients what, in its judgment, will be the best overall execution of purchase or sale orders and most favorable net prices in securities transactions consistent with its judgment as to the business qualifications of the various broker or dealer firms with which Capital may do business. Decisions with respect to the market in which the transaction is to be completed, the form of transaction, and the allocation of orders among brokers or dealers are made in accordance with this policy.

With respect to any brokerage commissions charged by executing broker dealers, for investment management accounts, Capital will continually review the commission charges to ensure they are reasonable within the current market place. As permitted by law, and specifically by the provisions of Section 28(e) of the Securities Exchange Act of 1934, the amount of commission paid for by each client for a transaction placed by Capital may be higher than the cost if executed by an alternative broker/dealer. In such cases, Capital will use its best efforts to determine that the higher commissions are reasonable in relation to the value of the brokerage and research services provided by the executing broker-dealer viewed in terms of either a particular transaction or Capital's overall responsibilities to its other clients.

As described above, broker/dealers may make referrals to Capital. In the event a specific Broker directs a client to Capital, the client generally elects to remain with that Broker. However, it is the client's election and typically the client has already negotiated their commission rate with that Broker. However, if requested, Capital will negotiate the commission.

Because Capital may receive the benefit of referrals from such Brokers, clients may wish to satisfy themselves that the Broker executing the trades is offering adequate price and execution of transactions. Also, as a result of the client's direction to execute trades through a specific Broker, the client may pay commissions higher than obtainable from other Brokers.

### **Fixed Income – Best Execution**

Capital seeks best execution and best allocation for clients who participate in customized bond portfolios. Capital constructs managed bond strategies of individual corporate bonds or individual municipal bonds within one of three disciplines: Liquidity, Aggregate, or Income. Specific bonds are purchased from inventory available, as a best fit, determined by the discipline of each strategy. Capital seeks best execution from available market inventories, as a best fit, through multiple bond trading platforms. The intent of the allocation within each individual portfolio is to seek as similar as possible, alignment to one of three predetermined strategies.

### **Directed Brokerage – Wrap Fee Programs**

As disclosed in Item 4, clients may participate in wrap fee programs. In evaluating a wrap-fee program, a client should recognize that brokerage commissions for the execution of transactions in their account are not negotiated. Transactions are effected net, i.e., without commission and a portion of the wrap fee is generally considered to be in lieu of

commissions. Trades are generally expected to be executed only with the broker dealer with which the client has entered into the wrap fee arrangement.

Capital may not, therefore, be free to seek best price and execution by placing transactions with other broker dealers. Capital's experience indicates that certain broker dealers under clients' wrap fee agreements generally offer best price for transactions in listed equity securities, but no assurance can be given that such will continue to be the case with those or other broker dealers which may offer wrap fee arrangements, nor with respect to transactions in other types of securities. The client may wish to ensure that the broker dealer offering the wrap-fee arrangement can provide adequate price and execution of most or all transactions. The client should also consider that depending on the wrap-fee charged by the broker dealer, the amount of portfolio activity in the client's account, the value of custodial and other services which are provided under the arrangement, and other factors, the wrap-fee may or may not exceed the aggregate cost of such services were they to be provided separately and if the firm were free to negotiate commissions and seek best price and execution of transactions for the client's account.

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

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### **Reviews**

Capital's Investment and Research Committee is comprised of Keith C. Goddard, Chief Executive Officer and Chief Investment Officer; Monty L. Butts, Managing Director, Mitch Kaczmarek, Senior Vice President/Fixed Income and Steven Soranno, Director of Equity Research. The Committee meets regularly to discuss overall firm investment philosophy, securities research and selection. The President, Chief Operating Officer, Chief Compliance Officer, Senior Vice President/Fixed Income and Vice Presidents provide the Committee with input and commentary.

Client account information, including quantities and values of securities held, costs and the amounts of cash and cash equivalents for each client, is maintained in Capital's portfolio accounting system. The information is screened for unusual trends, including but not limited to: changes in weighting of holdings, cash positions and/or style shifts. Accounts which vary from normal ranges are reviewed in more detail for possible rebalancing. Typically, client portfolios with similar investment objectives are reviewed as a group on an on-going basis and will be reviewed as a matter of practice rather than pursuant to a triggering factor.

The Committee and/or Portfolio Managers also consider, when reviewing an individual account, such things as goals, tax concerns, and needed yield. In addition, each client account is reviewed periodically for compliance with the investment policies, suitability of investments and client investment objectives. Other factors that would trigger a more frequent review are material market events or changes in a client's personal situation. Clients are obligated to promptly notify Capital of any changes in the client's financial status to ensure that investment strategies continue to meet the client's changing needs.

## Review Triggers

Other conditions that may trigger a review are changes in market, political or economic conditions, tax laws, new investment information, and changes in a client's own situation.

## Reporting

Clients also receive quarterly account statements from qualified brokers / custodians, and may also receive trade confirmations and monthly statements. Statements may include individual holdings, cost basis information, deposits and withdrawals, accrued income, dividends, and performance.

Clients receive annual statements from Capital.

## Item 14: Client Referrals and Other Compensation

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### Other Compensation

Capital does not receive any formal economic benefits (other than normal compensation) from any firm or individual for providing investment advice.

### Other Compensation – Brokerage Arrangements

See disclosure in Item 12 regarding compensation, including economic benefits received in connection with giving advice to clients.

### Compensation – Client Referrals – Solicitation Arrangements

Capital may enter into written arrangements to pay cash referral fees to individuals or companies (solicitors) who refer prospective clients to the Firm. There will be a written agreement between Capital and the solicitor, which will clearly define the duties and responsibilities of the solicitor under this arrangement. In addition, either the solicitor or Capital will provide a written disclosure document, which explains to the prospective client the terms and compensation structure under which the solicitor is working with Capital. Capital will ensure that a copy of Capital's Form ADV Part 2 be delivered to the prospective client and will obtain a written acknowledgement from the client that both the solicitor's disclosure document and Capital's Form ADV Part 2 have been received.

### Compensation – Client Referrals – Solicitation Arrangements - Fidelity

***Participation in Fidelity Wealth Advisor Solutions®.*** Capital participates in the Fidelity Wealth Advisor Solutions Program (the WAS Program), through which Capital receives referrals from Strategic Advisers, Inc. (SAI), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. Capital is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control

Capital, and SAI has no responsibility or oversight for Capital's provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for Capital, and Capital pays referral fees to SAI for each referral received based on Capital's assets under management attributable to each client referred by SAI or members of each client's household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to Capital does not constitute a recommendation or endorsement by SAI of Capital's particular investment management services or strategies. Capital pays SAI for each client referral, as specified in the Fidelity Wealth Advisor Solutions Program Advisor Disclosure. These referral fees are paid by Capital and not the client.

To receive referrals from the WAS Program, Capital must meet certain minimum participation criteria, but Capital may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC (FBS). As a result of its participation in the WAS Program, Capital may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and Capital may have a potential incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to Capital as part of the WAS Program. Under an agreement with SAI, Capital has agreed that Capital will not charge clients more than the standard range of advisory fees disclosed in its Form ADV 2A Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, Capital has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when Capital's fiduciary duties would so require; therefore, Capital may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However, participation in the WAS Program does not limit Capital's duty to select brokers on the basis of best execution.

### **Compensation – Client Referrals – Solicitation Arrangements - Charles Schwab & Co. Inc.**

Capital receives client referrals from Charles Schwab & Co. Inc. (Schwab) through Capital's participation in Schwab Advisor Network (the Service) which is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with Capital. Schwab does not supervise advisor and has no responsibility for Capital's management of client's portfolios or advisors other advice or services. Capital pays Schwab fees to receive client referrals through the Service. Capital's participation in the Service may raise potential conflicts of interest described below.

Capital pays Schwab Participation Fees on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab custody fee on all accounts that are maintained at, or transferred to another custodian. Participation Fees are a percentage of the assets in the client's account. Capital pays Schwab the participation fee for so long

as the referred client's account remains in custody at Schwab. Participation fees are billed to Capital quarterly and may be increased, decreased or waived by Schwab from time to time. Participation Fees are paid by Capital and not by the client. Capital does not charge clients referred through the Service fees or costs greater than the fees or costs Capital charges clients with similar portfolios who were not referred through the Service.

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

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

For accounts of Capital's clients maintained in custody at Schwab, Schwab generally does not charge the client separately for custody but receives compensation from the client in the form of commissions or other transaction-related compensation on securities trades Schwab executes for the client's account. Clients also pay Schwab a fee for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other Broker-Dealers are in addition to the other broker-dealer's fees. Thus, Capital may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. Nevertheless, Capital acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for Capital's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

### **Compensation – Client Referrals – Solicitation Arrangements – Scottrade, Inc.**

Capital participates in Scottrade's Investment Management, Program (SIM). SIM offers the Advisor Access Program (Advisor Access) a referral service that is designed to provide retail brokerage clients or prospective brokerage clients of Scottrade, Inc. with access to independent registered investment advisors.) Capital is compensated for its service to clients of Scottrade, Inc. in connection with the participation in the SIM Program. Payment for the services provided by Capital are calculated on a fee basis (asset-based as opposed to commissions. Potential conflicts of interest may arise from Capital's participation in the Program. Capital does not charge Clients of Scottrade, Inc. more than its standard investment advisory fee for services to cover the fee paid to SIM to participate in the Program. Capital's participation in the Program does not reduce or eliminate our fiduciary duty to obtain best execution when selecting brokers to execute securities

transactions on the behalf of clients. Capital is independent and not affiliated with Scottrade, Inc. or any of its affiliates.

Advisor participated in the Scottrade Investment Management Advisor Access referral program and referral fees previously paid under such program are now paid to TD Ameritrade, Inc. and are subject to the terms and conditions and fee schedule as disclosed in the Advisor Direct Referral program Disclosure Brochure.

## **Item 15: Custody**

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### **Custody – Fee Debiting**

Clients may authorize Capital (in the client agreement) to debit fees directly from the client's account at the broker dealer, bank or other qualified custodian (custodian). With the exception of the ability to debit client account for advisory fees, Capital does not and will not have custody of clients' funds or securities. Client investment assets will be held with a custodian agreed upon by the client and Capital. The custodian is advised in writing of the limitation of Capital's access to the account. The custodian sends a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to Capital.

### **Custody – Account Statements**

As described above and in Item 13, clients receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Clients are urged to carefully review such statements and compare such official custodial records to the account statements or other reports that Capital provides. Capital's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Custody – Mutual Funds**

As described in Item 4, Capital serves as the investment advisor to the mutual fund, Capital Advisors Growth Fund. All of the fund assets are custodied at U.S. Bank, N.A.

U.S. Bank, N.A. is the only custodian approved by the board of Advisor Series Trust, of which the fund is a series. The principal shareholders of the fund are identified as Charles Schwab & Co. and National Financial Services.

## **Item 16: Investment Discretion**

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Through the investment advisory agreement, Capital may accept limited power of attorney to act on a discretionary basis on behalf of clients. A limited power of attorney allows Capital to execute trades on behalf of clients.



When such limited powers exist between Capital and the client, Capital has the authority to determine, without obtaining specific client consent, both the amount and type of securities to be bought to satisfy client account objectives. Additionally, Capital 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 Capital in writing.

If Capital has not been given discretionary authority, Capital consults with the client prior to each trade.

## **Item 17: Voting Client Securities**

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Capital votes proxies for securities over which it maintains discretionary authority consistent with its proxy voting policy.

Capital acts as a discretionary investment adviser for various clients, including clients governed by the Employee Retirement Income Security Act of 1974 (ERISA) and registered open-end investment companies (mutual funds).

Capital's authority to vote proxies or act with respect to other shareholder actions is established through the delegation of discretionary authority under our investment advisory agreements. Therefore, unless a client (including a named fiduciary under ERISA) specifically reserves the right, in writing, to vote its own proxies or to take shareholder action with respect to other corporate actions requiring shareholder actions, Capital will vote all proxies and act on all other actions in a timely manner as part of its full discretionary authority over client assets. All proxies received by Capital are voted in a timely manner and in a manner consistent with Capital's policies and procedures, acting in the client's best interests. Clients can obtain a copy of Capital's proxy voting policies and procedures and information about proxy voting decisions by contacting Debra L. Konieczny, Chief Compliance Officer at 918.599.0045.

## **Item 18: Financial Information**

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Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

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