



**Part 2A of Form ADV:**

***Firm Brochure***

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March 30, 2023

**This firm brochure provides information about the qualifications and business practices of Caprin Asset Management, a division of Davidson Investment Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 804-648-3333 or [CaprinCompliance@dadco.com](mailto:CaprinCompliance@dadco.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 adviser with the Securities and Exchange Commission does not imply any specific level of skill or training.**

**Additional information about Davidson Investment Advisors, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by our firm's CRD number, which is 110552.**

## Item 2 Material Changes

The Securities and Exchange Commission ("SEC") adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure ("Brochure") is our disclosure document prepared according to the SEC's requirements and rules.

This Brochure dated March 30, 2023 contains the following material changes from the last annual update, the March 31, 2022 Brochure:

- On November 8, 2022, Caprin entered into an agreement with Davidson Investment Advisors, Inc. ("Davidson") pursuant to which Davidson acquired all of the equity interests of Caprin and subsequently merged Caprin's business into Davidson. The decision to become a part of Davidson was driven by many factors, among them a strong cultural fit, the benefit of expanded resources, and the opportunity to grow the ways in which we serve our clients. Davidson's acquisition of Caprin was completed effective March 1, 2023, and Caprin now operates as "Caprin Asset Management, a division of Davidson Investment Advisors."
- **Assets Under Management.** Stating that as of February 28, 2023, Caprin managed approximately \$1.26 billion in assets, all on a discretionary basis.

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## Item 4 Advisory Business

This Brochure describes the investment advisory services offered by Caprin Asset Management (“Caprin”), a division of Davidson Investment Advisors, Inc. (“Davidson Investment Advisors” or “Davidson”). The purpose of this Firm Brochure (“Brochure”) is to describe and disclose the services, fees, potential conflicts of interest, and other necessary information clients should consider prior to becoming a client. The information contained herein is current as of the date of this Brochure and is subject to change at Caprin’s discretion. Please retain this Brochure for your records. In addition, Davidson Investment Advisors has a separate Firm Brochure and Wrap Brochure that describe the investment advisory services offered by Davidson and is available upon request.

Caprin was acquired by Davidson effective March 1, 2023 and currently operates as a division of Davidson Investment Advisors. Davidson Investment Advisors is wholly-owned by D.A. Davidson Companies, a financial services holding company. Davidson Investment Advisors has been conducting business since 1975. Its headquarters are in Great Falls, Montana with additional offices in Seattle, Washington; Carlsbad, California; Spokane, Washington; Bozeman, Montana; and, with the addition of Caprin, Richmond, Virginia.

### TYPES OF ADVISORY SERVICES

In keeping with our philosophy of capital preservation and income, Caprin manages both intermediate and short maturity fixed income portfolios.

Caprin’s intermediate municipal bond portfolios generally, but not always, will have an average maturity of six to nine years, while Caprin’s intermediate taxable bond portfolios generally, but not always, will have an average maturity of four to six years.

In our intermediate portfolios, Caprin may use traditional mutual funds and exchange traded funds (“ETFs”) whose goals are consistent with those of Caprin’s strategies. Mutual funds and exchange traded funds may be used to help gain exposure to the desired market more quickly when building new accounts or to more easily adjust a

portfolio’s positioning along the maturity curve.

In addition to the intermediate maturity portfolios described above, Caprin offers short maturity municipal bond and low duration taxable bond strategies. The short maturity municipal bond and low duration taxable bond portfolios generally, but not always, will have an average maturity of one to three years.

Caprin also has a cash management short maturity taxable fixed income strategy that invests portfolios to average maturities of generally four months to eighteen months.

Laddered municipal and taxable bond portfolios will generally own securities with maturities up to 12 years but can be individualized within other agreed upon parameters and may also include traditional ETFs.

Within the short maturity municipal bond and low duration taxable bond strategies, Caprin may use traditional ETFs in these portfolios to gain market exposure while building new accounts. Traditional ETFs are not a part of cash management portfolios.

In addition to the individual bond strategies described above, Caprin manages separate account strategies using only ETFs. Caprin may also serve as “model provider” for these ETF strategies where they are available through select turnkey asset management programs (TAMPs). Registered investment advisors and broker dealers utilize TAMPs as a way to make available many investment solutions to their clients. In the model format, Caprin’s all-ETF strategies are available via subscription, and all transactions are executed by an unaffiliated third party, typically the TAMP itself.

These all-ETF strategies, one that focuses on the municipal bond market, another which seeks exposure to the taxable bond market, and one that combines municipal and taxable fixed income sectors, may have an equivalent average maturity ranging from roughly zero to 10 years based on the weighted average of the characteristics of the ETFs held in each portfolio. It is important to recognize that the maturity characteristics of these all-ETF strategies primarily are provided to help investors compare portfolio features as the majority of traditional fixed income ETFs do not mature like an individual bond.

In addition to the portfolio management services described above, Caprin may occasionally serve as sub-adviser to other duly registered investment adviser firms for the purpose of managing their clients' fixed income portfolios using some or all of the strategies described above. In such circumstances, the agreement between Caprin and the firm(s) for whom Caprin serves as sub-adviser authorizes Caprin, without prior consultation, to buy or sell securities according to the investment guidelines agreed to between Caprin and the primary advisory firm subject to client parameters established between the primary advisory firm and the client. Caprin generally has the flexibility to accept or reject client specific parameters on a case-by-case basis.

Caprin makes itself available to clients of financial advisors via dual contract arrangements, where clients sign both custodial agreements and Caprin's investment advisory agreement, but Caprin prefers whenever possible to participate as a manager available in certain Wrap Fee programs. As a Wrap Program Participant, the custodian charges clients only one fee, and a previously agreed to portion of that fee is then paid to Caprin as portfolio manager. When managing portfolios, Caprin treats its Wrap Fee clients exactly the same as it treats its direct clients and other clients referred by independent advisors. Generally, the investment parameters of a Wrap Fee client relationship are similar to those discussed in the previous paragraph on sub-advisory relationships.

### **ASSETS UNDER MANAGEMENT**

As of February 28, 2023, Caprin managed approximately \$1.26 billion in assets, all of which are discretionary. Additionally, Caprin serviced approximately \$57 million in model-based assets, which are not included on Davidson's ADV Part 1.

### **SCOPE OF SERVICES AND APPLICABLE STANDARDS OF CARE**

**Advisers Act Fiduciary Duty.** As a registered investment adviser, Davidson Investment Advisors and its Caprin division are subject to a fiduciary duty under the Investment Advisers Act of 1940 (the "Advisers Act"), which includes both a duty of care and a duty of loyalty (referred to in this Brochure as the "Advisers Act Fiduciary Duty").

This means Davidson is required to act in the client's best interest when providing investment advice and managing client accounts. The duty of care requires, among other things, for Davidson to seek best execution and to provide advice that is in the client's best interest based on the client's investment objectives, risk level, investment time horizon, financial information and other circumstances or mandate (collectively, client's "Investment Profile"). The duty of loyalty requires Davidson to eliminate or mitigate material conflicts of interest with clients, and to provide full and fair disclosure of such conflicts of interest. The duty also requires Davidson to provide ongoing monitoring of clients' accounts and its recommendations in advisory accounts.

**Special Rules for Retirement Accounts.** When it comes to retirement and other qualified accounts, including employer-sponsored plans ("plans"), individual retirement accounts ("IRAs"), SEP IRAs, SIMPLE IRAs, Keogh plans, Coverdell educational savings accounts, and other similar accounts (collectively, "retirement accounts"), our fiduciary status is highly technical and dependent on the particular services Davidson is providing. The Firm is subject to an additional fiduciary obligation under Title I of the Employee Retirement Income Security Act of 1974 ("ERISA") and/or the Internal Revenue Code (the "Code"), which are laws governing retirement accounts (such fiduciary obligations referred to in this Brochure as the "DOL Fiduciary Duty"). These laws limit the types of products and services Davidson can offer and provide when the Firm acts as a fiduciary to client's retirement accounts.

Any discussions to open, rollover or transfer assets to a Davidson IRA account are not reasonably intended to be viewed or construed as an individualized/personalized suggestion for a client to take a particular course of action with respect to their retirement accounts ("General Information and Education"), and may also include:

- General Information and Education about the financial markets, asset allocations, financial planning illustrations and the advantages and risks of particular investments;

- General Information and Education materials about issues and alternatives that should be considered when deciding whether to roll out or transfer retirement account assets to the Firm;
- Transfers of IRA assets held at a financial service company other than the Firm (including directly with an investment product sponsor);
- Recommendations about investments in accounts that are not retirement accounts (i.e., taxable accounts);
- Transactions clients enter into without a recommendation from Davidson or that are contrary to, or inconsistent with, their recommendation;
- Ongoing recommendations of securities or other transactions or discretionary investment advice, except as otherwise agreed to in writing in any applicable agreements or disclosures;
- Recommendations or investment advice that the Firm provides to clients with respect to an account that they have at the Firm, which clients choose to implement in another account or at another financial services company without the Firm's written consent; and
- Recommendations that are not fiduciary "investment advice" as defined in Department of Labor regulation section 2510.3-21 (i.e., investment advice for a fee or other compensation rendered on a regular basis pursuant to a mutual understanding that such advice will serve as a primary basis for client's investment decision, and that will be individualized to the particular needs of client's retirement account).

**The Best Interest Standard and Reasonable Compensation.** The best interest standard under both the Advisers Act Fiduciary Duty and the DOL Fiduciary Duty does not require that Davidson guarantee the performance of any investment or that client's investment objectives will be achieved. In addition, Davidson may provide recommendations and take actions in connection with the accounts of other clients that may differ from the recommendations and services provided to client. There may be times when Davidson is legally prohibited from making a recommendation that may be otherwise considered to be in client's

best interest, such as due to insider trading. Client understands any recommendations Davidson makes will reflect the information client provides to the Firm about their investment objectives, risk level, investment time horizon, financial information and other circumstances and Davidson will not be responsible for any information client omits or fails to provide, including changes thereto. Davidson's recommendations and advice will also reflect any limitations client imposes, including through applicable investment restrictions and guidelines. Clients are responsible for notifying Davidson if their investment objectives, risk tolerance and financial circumstances change. Davidson will not be responsible for clients' decision to invest or transfer their IRA; clients assume the risk of such decisions.

Reasonable compensation under the DOL Fiduciary Duty has generally been determined based on the compensation paid or received in an arm's-length transaction considering the nature and extent of all services (including products, features and benefits) provided. This standard does not require Davidson to offer its services at the lowest cost, or for the least compensation, in the marketplace, or that it offer its services to clients at the same or lower cost or compensation levels than it offers to other clients, including similarly situated clients. Certain clients may have negotiated lower fees and compensation for their accounts than those that apply to client's advisory account. By entering into an agreement with Davidson, client agrees that they believe the fees and other compensation payable for the Firm's services are reasonable in light of the totality of the services provided. If client decides not to use all or some of the services made available, client agrees the Firm has no obligation or responsibility to reduce or lower its fees and compensation during the period those services are available. If client wants to change the services the Firm makes available to them or has any concerns regarding the level of fees their retirement account pays or Davidson's compensation, clients should contact Davidson immediately.

## Item 5 Fees and Compensation

### DESCRIPTION

A client's investment management agreement will set forth the actual compensation the client will pay to Caprin. A client pays Caprin an ongoing fee based on the market value of the assets in the account on the last day of the preceding quarter. Caprin does not have one standard annual fee schedule that is applicable across all strategies but has a fee schedule per strategy and account type. Though Caprin strives for consistency wherever possible, we recognize that not all client arrangements are identical and therefore reserves the right to negotiate fees.

### HOW FEES ARE CHARGED

The specific manner in which fees are charged by Caprin is established in each client's written agreement with Caprin or within each respective agreement governing the managed account program provided by a third-party program sponsor, which may be Sub-Advisory, Wrap, or Dual Contract. Caprin maintains two distinct fee schedules for separately managed accounts that differ primarily based on the nature of the relationship between Caprin and its clients. When Caprin and its representatives bear primary responsibility, including assisting with the selection of the appropriate investment strategy and reporting, the relationship is direct ('DIRECT'). When a third-party investment adviser or financial adviser makes the recommendation or decision to engage Caprin as an asset manager for the client using a managed account program available to the adviser through their broker/dealer, Caprin's responsibilities are reduced to that of portfolio management only for the Caprin investment strategy as the adviser bears the primary responsibility for all aspects of the client's investment program ('DUAL CONTRACT').

Where Caprin and the client have a specific written agreement, fees will generally be billed on a quarterly basis in advance, and bills will be submitted directly to each client's custodian of record. In these arrangements, management fees will be prorated for each capital contribution made during the applicable calendar quarter (with the exception of inconsequential contributions).

Furthermore, accounts opened or closed during a calendar quarter will be charged a prorated fee reflecting the accounts' actual time under management.

If a Caprin account is governed by a Sub-Advisory or Wrap program agreement, Caprin's fees, along with the fees of the program sponsor, and all corresponding rules are the sole responsibility of the program sponsor and are governed by the client agreement with the program sponsor. For this reason, the fee schedules provided below are only for Caprin separately managed accounts that are DIRECT as described above or DUAL CONTRACT, where an adviser supervises investment strategies under a managed account program and the client has an agreement with Caprin and a separate agreement with the adviser's firm.

Below are typical strategy-specific fee schedules applicable to separately managed accounts for which Caprin has trading discretion:

#### Intermediate Maturity Municipal and Taxable Fixed Income:

Caprin's fee schedule for Intermediate Maturity Municipal Bond and Taxable Bond accounts managed on a DIRECT basis is as follows: 0.50% on account assets up to \$5 million; 0.40% on the next \$10 million in account assets; Fees are subject to review on assets above \$15 million.

Caprin's fee schedule for Intermediate Maturity Municipal Bond and Taxable Bond accounts managed on a DUAL CONTRACT basis is as follows: 0.35% on account assets up to \$5 million; and 0.25% on the next \$10 million of account assets; Fees are subject to review on account assets above \$15 million. Fees for Caprin managed Sub-Advisory or Wrap accounts are governed by the program sponsor's agreement and may differ from sponsor to sponsor.

#### Short Maturity Municipal and Low Duration Taxable Fixed Income:

Caprin's fee schedule for Short Maturity Municipal Bond and Low Duration Taxable Bond accounts, whether managed on a DIRECT basis or DUAL CONTRACT basis is as follows: 0.30% on account assets up to \$5 million; 0.20% on the next \$10 million in account assets; Fees are subject to

review on assets above \$15 million. Fees for Caprin managed Sub-Advisory or Wrap accounts are governed by the program sponsor's agreement and may differ from sponsor to sponsor.

#### **Laddered Municipal or Taxable Fixed Income:**

Caprin charges a flat 0.16% fee on account assets on select platforms for new Laddered Municipal Bond portfolios and only on a DUAL CONTRACT basis. If a program sponsor has requested Caprin act as Sub-Advisor or Wrap Program Portfolio Manager, the portfolios are governed by that program sponsor's agreement, fees and minimums.

#### **Taxable Cash Management:**

Caprin's fee schedule for Taxable Cash Management accounts is as follows: 0.20% on account assets up to \$5 million; .15% on the next \$10 million in account assets; Fees are subject to review on assets above \$15 million.

#### **ETF Strategies:**

Caprin created in late 2010 and began marketing strategies that utilize various Exchange Traded Funds (ETF's) and maintains two distinct fee schedules for these strategies that are based on the nature of the relationship between Caprin and the client. Caprin makes its Managed ETF strategies available as separately managed accounts on a DIRECT and DUAL CONTRACT basis and as model selections available through platforms like Unified Managed Accounts Platforms (UMA) and TAMPs administered by overlay managers through Sponsor Firms. When Caprin's Managed ETF strategies are utilized as separate accounts, Caprin's fee is 0.25% on all assets. When Caprin's Managed ETF strategies are selected as a Model through an overlay manager, Caprin's fee is set by the Sponsor Firm and overlay manager, and this fee may vary between Sponsor Firms. All clients are encouraged to consult with their advisor for a full description and explanation of fees for each account and participating program.

**Services Covered by the Fees.** The fee includes Caprin's investment management and other administrative services.

**Services NOT Covered by the Fees.** Caprin's fees do not include brokerage commissions, transaction fees, and other related costs and expenses that

may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties like fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, commissions and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds, which may be incorporated into a client account depending on the strategy selected, also charge internal management fees that are disclosed in a fund's prospectus. Caprin encourages all clients and prospective clients to consult with their financial adviser or custodial relationship on the fees and services provided by the respective managed account program or custodial relationship through which Caprin has been accessed.

**Additional Fees and Expenses.** Caprin may invest client assets in one or more pooled investment vehicles, such as mutual funds and ETFs, if such investments are consistent with the investment objectives and policies of the client accounts involved. If Caprin makes such an investment on behalf of its clients, those clients will be responsible, indirectly as investors in the pooled investment vehicles, for a portion of the operating expenses of the pooled investment vehicles in which they are invested. In effect, those clients would be paying multiple advisory fees.

When investing in mutual funds, including money market funds, a 12b-1 fee may be assessed, depending on the fund selected. 12b-1 fees are sales charges that are incorporated into the expense ratio of the fund. As a matter of Caprin's policy, any new purchases of mutual funds in a Program account must be in an advisory share class that does not impose a 12b-1 Fee, where such a share class is available.

**Termination of the Advisory Relationship.** If either Caprin or client terminates the client's investment management agreement, any prepaid, unearned fees will be refunded. In calculating a client's reimbursement of fees, Caprin will calculate a pro-rated refund based on the number of days remaining in the billing period.



**Purchasing Like Services Outside of an Advisory Relationship.** The products and services provided to a client in connection with a Caprin advisory account may be available to a client outside of the advisory account. Clients are cautioned that, depending on factors such as: the level of fees charged by the executing broker-dealer, the amount of trading activity in the client's account, the value of the client's account, the types of securities held in the client's account, the client's investment strategy, and the level of service sought by the client, the aggregate cost of the client's advisory account may be higher than if the client had selected the services separately. In addition, fees charged by Caprin may be higher or lower than the fee charged by another firm that offers comparable advisory services.

**Additional General Fee Information.** Caprin may modify a client's existing fees and/or add additional fees or charges by providing the client thirty (30) days prior written notice. The fee schedules set forth above are current fee schedules for various strategies. Each strategy has had different fee schedules in effect over time, which may have reflected fees that are higher or lower than those currently stated.

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

Caprin does not charge performance-based fees.

## Item 7 Types of Clients

Caprin provides portfolio management services to individuals, high net worth individuals, corporations, corporate pension and profit-sharing plans, charitable institutions, foundations, endowments, municipalities, and other U.S. institutions.

**Minimum Account Requirements.** Caprin generally requires a minimum account size of \$2 million for accounts of clients hiring Caprin directly for individual bond portfolios, but when other independent investment advisers or financial advisers introduce clients to Caprin, Caprin generally has agreed to lower its minimum account size to \$250,000 for all strategies except the taxable cash management strategy, for which the

minimum size generally remains \$2 million. Caprin requires a minimum account size of \$100,000 for accounts of clients hiring Caprin to manage an all ETF separately managed account. When clients select all ETF strategies through a UMA or TAMP, minimum investments may vary.

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

Investing in securities involves risk of loss that clients should be prepared to bear. Specific to fixed income securities, these risks include: credit risk (the risk that the bond issuer may experience financial problems that make it difficult or impossible to pay interest or principal in full), inflation risk (due to rising prices, this is the risk of potential loss of buying power over time and possibly lower prices for existing fixed income holdings as a result of potentially higher interest rates), interest rate risk (because most bonds have a fixed coupon and a fixed maturity and mature at face value, this is the risk of loss that investors bear when selling a fixed-coupon bond before it matures and at a time when interest rates have risen above the level when the bond was originally purchased), and liquidity risk (the risk that investors won't find an active market for a bond, potentially preventing them from buying or selling when they want and making valuation more difficult). Additional risks include: management risk (the risk that the investment techniques and analyses applied by Caprin will not produce the desired results and that legislative, regulatory, or tax developments may affect the techniques available to Caprin in connection with managing the account), and concentration and regulatory risk (because a strategy concentrating in a single sector or group of similar issuers can become subject to greater risks of adverse economic conditions or regulatory changes).

Caprin takes a conservative and measured approach to the incremental risks of investing in fixed income securities. Opportunities to enhance yield are carefully measured against potential risks as Caprin strives to minimize overall volatility through investment cycles.

Accordingly, Caprin employs the following "top-down" investment process, as overseen by Caprin's

Investment Committee for each strategy offered:

The Investment Committee meets on a schedule concurrent with Federal Reserve meetings to review the Investment Team's assessment of the current investment landscape and the recommended investment parameters for achieving strategy goals. Following the Committee's review and discussion of the recommendations, average duration ranges, asset class targets, and other metrics for the firm's strategies are voted on. Approved parameters are incorporated into the firm's strategy rules that then guide the Investment Team's activity. Caprin's Investment Team works collectively to assess the current outlook, previous activity, and evaluate circumstances relative to current strategy parameters. Our quantitative analytics are effective tools for providing real-time insight on market conditions and relative value on an intraday basis. The team utilizes this proactive approach as needed to recommend strategy adjustments.

**Duration and Maturity Positioning.** When interest rates are expected to be stable, Caprin will structure portfolios with yield curve allocations generally in line with the assigned benchmark (at a neutral duration). When interest rates are expected to fall, Caprin will structure portfolios with longer-than-benchmark yield curve allocations and target duration. When interest rates are expected to increase, Caprin will strive for portfolios with duration and yield curve allocations shorter than the assigned benchmark. The following key considerations are used to develop Caprin's interest rate outlook:

- **Economic Analysis** – Caprin evaluates economic metrics and indicators to assess interest rate trends within the broader economic cycle, including measures such as inflation, employment, international and domestic growth, demographic trends, political events, inflation expectations, likely monetary and fiscal policy, and risk market price momentum. Caprin also considers current macro-driving events and their potential impact on interest rate trends.
- **Fed Policy** – Caprin analyzes current Federal Reserve targets, policies and language in

determining an outlook for interest rates within a Fed-driven cycle. We scrutinize Fed statements and targets in terms of longevity and potential impact on broader economic conditions.

- **Interest Rate Momentum** – Caprin has developed quantitative analytics to evaluate interest rate trends, longer-term momentum, and interest rate volatility. These supplement the firm's fundamental analyses.

**Sector Positioning.** Caprin develops its outlooks for desirable and out-of-favor sectors from several vantage points in the investment process. These outlooks are incorporated into strategy via opportunity recommendations to the Investment Committee or risk concerns to the Credit Committee. The decisions made by either Committee are policy.

Caprin integrates research from external sources and from proprietary internal analytics to develop its outlook on the sectors relevant to the particular strategy. The internal analytics are both fundamental credit scoring metrics which assess individual credits that translates to the identification of broader sector trends and fundamental relative strength models that measure the attractiveness of certain sectors relative to each other. External sources include issuer and obligor reviews and analytics on the performance of various market-based risk management tools. Caprin utilizes Bloomberg to evaluate the ETF segment across characteristics such as yield curve, duration, credit quality, sector, and asset class metrics based on the aggregate of the securities underlying the ETFs, and to validate that recommended allocations have desired characteristics and performance attributes.

**Security Selection and Execution.** Caprin uses rules-based investment parameters in its portfolio management application (Perform) which are constructed for each strategy based on Investment and Credit Committee decisions. Bond purchases and sales needed to align portfolios with strategy parameters are identified using those rules. Caprin utilizes Perform FPC to monitor each portfolio across 50+ characteristics to assess yield curve, duration, credit quality, sector, and asset class metrics for each strategy, and to help highlight

portfolio characteristics and outliers.

Target transactions are recorded in Perform, and the designated market specialist initiates activities to buy or to sell securities to satisfy the requested transactions. Portfolio Managers evaluate each investment opportunity incorporating both third party research and internal analyses and work closely to capture opportunities that arise.

Caprin has developed research models that compare financial strength and risks across issuers. We seek to add value by identifying securities with a favorable relative value to issuer risk profile. When appropriate, Caprin executes block trades to secure the best price and to ensure implementation of our best ideas across the maximum number of accounts. Recognizing that the market is dynamic, portfolio managers are poised to respond to changing conditions. Ongoing communication ensures our team and our process is responsive and that client portfolios benefit from our current best thinking.

## **Item 9 Disciplinary Information**

Davidson Investment Advisors and its Caprin division do not have any material legal, financial, or disciplinary events that require disclosure. We are required to disclose any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

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

Davidson Investment Advisors is a wholly-owned subsidiary of D.A. Davidson Companies, a financial services holding company with other subsidiaries: D.A. Davidson & Co. and D.A. Davidson Trust Company. D.A. Davidson & Co. is a broker-dealer registered as such with FINRA (Financial Industry Regulatory Authority) and a SEC Registered Investment Adviser. D.A. Davidson Trust Company is a federal savings bank. This presents a conflict of interest, as each of these firms are under common ownership. However, as discussed in further detail under the Code of Ethics section below, Davidson and its Caprin division have a fiduciary duty to place its client's interest above all else.

Davidson Investment Advisors may recommend clients use D.A. Davidson & Co. and D.A. Davidson Trust Company, related parties, for custody and safekeeping purposes. The client also retains the right to direct Davidson to use another broker. If a client elects to use D.A. Davidson & Co. or D.A. Davidson Trust Company, the client may terminate the arrangement at any time. See additional information in regard to Directed Brokerage under Item 12 – Brokerage Practices.

D.A. Davidson Trust Company employs Davidson Investment Advisors to manage money for some of its clients who have granted investment discretion to the Trust. Davidson Investment Advisors also manages four D.A. Davidson Trust Company common trust funds.

D.A. Davidson & Co. Financial Professionals may refer clients to Davidson Investment Advisors, Inc. in its capacities as independent investment adviser and as an investment adviser participating in D.A. Davidson's advisory programs. D.A. Davidson and its Financial Professionals have an incentive to recommend a Program or an investment manager that is affiliated with D.A. Davidson because the entire client fee is retained by D.A. Davidson and its Affiliate. However, in providing investment advisory services to clients, D.A. Davidson and its Financial Professionals are required to act solely in the best interest of clients. The criteria used by them in deciding to select or recommend affiliated investment products are the same as those used for unaffiliated investment products.

**Mutual Fund.** Davidson Investment Advisors is the investment adviser to the Davidson Multi-Cap Equity Fund, a series of the Adviser Series Trust, an investment company registered under the Investment Company Act of 1940. For additional information, the Fund's Prospectus and Statement of Additional Information are available on-line at: [www.davidsonmutualfunds.com](http://www.davidsonmutualfunds.com). Prospective investors should review these documents carefully before making any investment in the mutual fund.

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

### **CODE OF ETHICS**

Davidson Investment Advisors, including its Caprin division, has adopted a Code of Ethics (“Code”) which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Davidson's Code establishes rules of conduct for all employees and is designed to govern personal securities trading activities in the accounts of employees, among other things. The Code is based upon the principle that Davidson and its employees owe a fiduciary duty to its clients to conduct their affairs, including their personal securities transactions, in such a manner as to avoid: serving their own personal interests ahead of clients; taking inappropriate advantage of their position with the Firm; and any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by calling us at 804-648-3333.

### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

As a general practice, Davidson, including its Caprin division, does not engage in principal transactions.

Davidson employees are allowed to invest in the same securities recommended to or owned by clients. However, to avoid conflicts of interest, all Davidson employees are required to receive prior approval to trade in personal security accounts.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees 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.

### **D.A. DAVIDSON & CO. PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

As previously noted, Davidson Investment Advisors may recommend D.A. Davidson & Co., a related party and broker-dealer, as the qualified custodian for Davidson Investment Advisor clients. Subject to the requirements of applicable law, D.A. Davidson & Co. may act as principal, buying securities for itself from, or selling securities it owns to, an advisory client, but only on a case-by-case basis with advance written authorization from the client, and when it is in the best interest of a client to do so.

D.A. Davidson & Co.'s policy generally prohibits agency cross transactions for advisory clients, but in rare cases exceptions may be granted. An agency cross transaction is a transaction in which D.A. Davidson & Co. acts as broker for the party or parties on both sides of the transaction. However, no cross transactions may be made in ERISA-covered or IRA advisory accounts. For additional information regarding D.A. Davidson & Co.'s principal trading and agency cross transaction policies, please refer to D.A. Davidson & Co.'s Wrap Fee Program Brochure. You may also request a copy by calling us at 800-332-0529.

For additional information regarding D.A. Davidson & Co.'s principal trading and agency cross transaction policies, please refer to D.A. Davidson & Co.'s Firm Brochure.

## **Item 12 Brokerage Practices**

When providing our services, Caprin will execute transactions through securities broker-dealers. When selecting broker-dealers for execution, we will consider a variety of factors. In most cases, executing brokers will be selected based on availability of product and/or the best net price bid or offer to the client; availability of product generally requires Caprin to purchase and sell bonds away from a client's designated custodian because of the nuances of trading fixed income securities. Unlike stocks and other exchange traded securities where markets of sufficient size are readily accessible, Fixed Income Securities are always issued in limited size and trade over the counter in a negotiated manner. In cases where commissions are negotiated, executing brokers will

be selected first on suitability of investment selection, quality and breadth of service, and then lowest commissions; Caprin also considers its past experience with such firms and the quality of service provided to us (and our clients by extension), the liquidity of the security being traded, the speed and attention we receive from the trading desk of the firm selected, market conditions at the time, and other factors. Based on these factors, Caprin may trade with executing brokers that may charge fees that are higher than the lowest available fees. However, in no scenario will higher commissions be paid to an executing broker as compensation for providing research services for Caprin – Caprin does not enter into or utilize “Soft Dollar” arrangements.

Additionally, in connection with accounts where the client has accessed Caprin via a managed account program sponsored by a broker/dealer or related firm and where the client pays a program fee to the program’s sponsor for the respective program, Caprin will in most instances not trade securities with that program sponsor when a conflict of interest or a commission payment for securities transactions to the program sponsor would arise. We may implement this restriction at our discretion, while some program sponsors may impose this restriction. This restriction could result in execution prices that are not always at the best possible levels.

When Caprin determines based on its duty to seek best execution that the most appropriate method of execution is that of a Step Out transaction, client(s) may be subject to commissions and other charges in addition to the fee they are already paying to their custodian/program sponsor. For instance, as discussed earlier in Item 5, clients may incur in the case of ETF related transactions an additional commission of up to \$0.01 per share, and such commission will be included in the net price of the transaction as reported to the client’s custodian and/or Wrap Program Sponsor. In the case of Fixed Income Security transactions stepped out, the executing broker dealer may in some cases impose on the transaction a markup or markdown, which will be reflected in the net price of the transaction to the client. These fees are in addition to any “program fee” the client may pay when utilizing a Caprin strategy through a managed

account program.

Caprin prefers whenever possible to execute transactions in “blocks,” meaning that orders for more than one client, frequently from more than one custodian/program sponsor, are grouped together to increase the size of the transaction. “Block trading” may enable Caprin to obtain more favorable execution, including better pricing and enhanced investment opportunities than were Caprin to trade solely with each client’s designated custodian/program sponsor, particularly because Caprin predominantly trades fixed income securities, which trade in an over the counter, negotiated market. Blocking transactions in this manner may also help Caprin avoid a potentially adverse effect on the price of a security that could result from simultaneously placing a number of separate, successive or competing client orders (particularly for clients at many different custodians).

Because Caprin trades predominantly in Fixed Income Securities, and because of Caprin’s duty to find, to the best of its abilities, securities most appropriate for each client account given portfolio strategy and the then prevailing market conditions, Caprin places nearly all fixed income transactions for clients with firms other than the client’s designated custodian/program sponsor (and even in some cases is prohibited from trading with a client’s designated custodian or broker dealer firm where the transaction may create a conflict of interest); further, it is increasingly rare that any given broker dealer maintains a sufficient inventory of suitable fixed income securities, a factor Caprin must contend with when seeking to build and manage client portfolios according to their designated strategy. Because of the nuances of trading Fixed Income Securities, Caprin encourages all current and prospective clients to evaluate the total costs of any investment program or strategy before making their selection and periodically thereafter.

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

Client accounts are managed according to targets consistent with the client’s investment guidelines and established by Caprin’s Investment and Credit Committees. Caprin Portfolio Managers regularly

review portfolios for compliance. Where differences from approved strategy ranges are noted, recommendations are developed and changes made as market conditions permit. In addition to the ongoing review of portfolios by Portfolio Managers, each client account receives a supervisory review no less than annually. This supervisory review encompasses criteria established by the Investment and Credit Committees regarding sector and position sizes as well as overall portfolio conformity with parameters established by each committee and in each client's investment guidelines. Reviews may be conducted more frequently as dictated by strategy changes or market action.

In addition to reviewing all client accounts, Caprin may provide upon request reports to help clients better understand their investment account and Caprin's management of it and also to supplement those prepared and distributed by each client's independent, qualified custodian. Caprin reports generally include a detailed list of positions including market value. Certain client reports include a realized gain and loss report, a purchase report, and a performance report comparing each account to a comparable industry benchmark. Caprin provides reports to direct clients on at least a quarterly basis, and Caprin may provide reports for referred or third-party clients upon request of their primary financial advisor. These reports may be distributed in hard copy or electronic form. You are encouraged to compare Caprin's prepared reports with those provided by your independent, qualified custodian. Caprin reminds its clients that reports generated by their custodian of record are the official statistics from an accounting and tax perspective. Please refer to Item 15 below for additional information about Statements and Reports provided by your custodian.

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

### **CLIENT REFERRALS**

Caprin may offer referral fees to non-affiliated investment advisors who refer clients to Caprin for fixed income, portfolio management services. In exchange for such referrals, Caprin may compensate the referring advisor with a

percentage of Caprin's management fee charged to the client who was referred by the non-affiliated advisor. In no instance will this fee sharing arrangement increase the fee paid by the client relative to a direct relationship between Caprin and the client. Furthermore, in all such circumstances, the referred client is provided a letter of full disclosure describing the relationship between Caprin and the referring advisor and the form of compensation that exists between them. The client must acknowledge this relationship in writing with his signature for any sharing of management fees or any other form of direct or indirect payment to occur.

Caprin currently has no such marketing relationships.

Davidson Investment Advisors will from time to time pay referral fees to independent persons or firms, as well as Financial Professionals at D.A. Davidson & Co., a related person and broker-dealer, ("Promoters") for introducing clients to us. Whenever Davidson pays a referral fee, we require the Promoter to provide the prospective client with a copy of this Brochure and a separate disclosure statement that includes: the Promoter's name and relationship with the Firm; the fact that the Promoter is being paid a referral fee; the amount of the fee; and whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Promoter.

As a matter of firm practice, the advisory fees charged to clients referred by Promoters or related parties are not increased as a result of any referral.

### **OTHER COMPENSATION**

It is Caprin's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **Item 15 Custody**

Caprin is authorized only to enter purchase and sale orders and to request the payment of management fees from Caprin managed accounts held at qualified custodians, and for the latter reason, Caprin may be considered to have custody of client accounts; however, Caprin may not open

accounts on clients' behalf and will not serve as trustee of client accounts, nor will Caprin accept the authority to transfer money.

As a related person to D.A. Davidson & Co. and D.A. Davidson Trust Company, Davidson Investment Advisors, including its Caprin division, are deemed to have indirect custody of some clients' assets. However, all client assets are held with financial institutions known as qualified custodians who are responsible for maintaining the assets and records of those assets.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Caprin encourages you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Caprin statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 Investment Discretion**

Caprin receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold; such authority is described in each Advisory Agreement executed by Caprin clients. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. An investment account will not be opened until Caprin has received a fully executed Investment Advisory agreement and, should an account be funded partially or entirely with currently owned securities, has completed an Initial Position Review to determine those securities that will be sold and those that may be acceptable relative to Caprin's strategies and guidelines. Upon completion of an Initial Position Review, Caprin will notify the designated account contact (either the direct client or the referring financial advisor) to review the scope of required security sales. Should a security be identified as a required sale, and Caprin is not able to affect a sale in accordance with its procedures, the security must be removed from the account managed by Caprin.

When selecting securities and determining amounts, Caprin observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to Caprin in writing. Caprin reserves the right to accept or reject client-provided investment guidelines and restrictions if and when, in Caprin's opinion, they vary meaningfully from the investment guidelines specific to the client's selected investment strategy.

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

Caprin accepts, though not in the traditional sense, authority to vote proxies on behalf of its clients but understands that some clients may prefer to retain such authority. Proxy votes are exceedingly rare with fixed income securities as they pertain primarily to equity investments, and for fixed income securities they are more likely to be in the form of covenant change requests, which Caprin considers analogous to proxy items and for which this procedure exists.

Caprin shall vote covenant requests for clients except in cases where clients, including ERISA clients, explicitly reserve in writing their right to vote. Accordingly, Caprin has adopted and implemented voting policies and procedures for clients that we believe are reasonably designed to ensure votes are in the best interest of clients. Caprin votes solely with the goal of maximizing the value of clients' investments.

Davidson's Proxy Manager and/or Chief Compliance Officer reviews all issues. Caprin acknowledges that it may have a conflict of interest in voting on behalf of clients, and, in such circumstances, the Chief Compliance Officer will be sensitive to such issues. Clients may obtain a copy of Caprin's complete proxy voting policies and procedures upon request, and clients may also obtain information from Caprin about how Caprin voted any proxies on behalf of their account(s) by submitting written notice to the following: Proxy Administrator, Caprin Asset Management, a division of Davidson Investment Advisors, 1802 Bayberry Court, Suite 202, Richmond, VA 23226.

**Class Actions.** Davidson will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

## **Item 18 Financial Information**

We are required to disclose any financial condition that is likely to impair our ability to meet our contractual obligations. Davidson Investment Advisors, Inc., including the Caprin Asset Management division, has no additional financial circumstances to report.

Davidson Investment Advisors, Inc., including the Caprin Asset Management division, has not been the subject of a bankruptcy petition at any time during the past ten years.

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.