

Item 1 – Cover Page

# **Parsec Financial Management, Inc.**

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**Asheville, NC 28801**

**828-255-0271**

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

**March 30, 2016**

**Form ADV, Part 2**

This Brochure provides information about the qualifications and business practices of Parsec Financial Management. If you have any questions about the contents of this Brochure, please contact us at 828-255-0271. 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.

Parsec Financial Management is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information with which you determine to hire or retain an Adviser.

Additional information about Parsec is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

In October of 2015, the Board of Directors elected Rick Manske as CEO, Bill Hansen as CIO/CFO, and Harli Palme as COO. Previously Mr. Manske and Mr. Hansen served as the firm's Managing Partners.

Additional information about Parsec Financial is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Parsec who are registered, or are required to be registered, as investment adviser representatives of Parsec.

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## **Item 4 – Advisory Business**

Parsec Financial Management, (“Parsec”) was founded in 1980 by William Barton Boyer who is a principal owner. All employees are allowed the opportunity to participate in ownership by buying privately held stock in the firm. Ownership in the firm is a foundation for our succession plan and an opportunity for all employees to be part of the team.

Total Assets under Management as of December 31, 2015:	\$1,722,278,775
Discretionary:	\$1,605,310,203
Non-Discretionary:	\$ 116,968,572

### ***Types of Advisory Services***

Parsec offers three main services to clients:

1. investment management and financial planning for individuals,
2. ERISA consulting and employee education for employer-sponsored retirement plans, and
3. Trust services through Parsec Trust, a trust representative office of National Advisors Trust.

For individual clients and their families, Parsec provides investment management of client assets. Parsec obtains background information about each client’s current financial circumstances, investment objectives and risk tolerance through an interview and information gathering process. This information helps to create the investment policy statement, which establishes the client’s portfolio asset allocation.

Before investing client assets, a proposed portfolio is presented to the client. Upon client approval of investment recommendations, Parsec will create a portfolio consisting of a variety of securities, such as individual stocks, bonds, exchange-traded funds, and no-load and load-waived mutual funds. Clients have the opportunity to place reasonable restrictions on the types of investments that will be made on their behalf. Advisors are available on an ongoing basis to answer any questions regarding their portfolio or other financial matters. Review of accounts is done at least quarterly, and rebalancing is accomplished if necessary.

In addition to investment management, many clients receive a financial plan. The plan may include recommendations for budgeting, goal setting, insurance, taxes, investments, and estate planning, depending on each client’s unique situation. Parsec uses financial planning software that details assets, liabilities, expenses, cash flow, asset projections, and other details. Financial plans and investment policy statements are reviewed annually and updated as necessary.

Parsec also provides ERISA consultation via asset management to commingled retirement plans, as well as participant-directed retirement plans with daily valuation options. We offer model portfolios for the participant-directed plans that are updated and rebalanced periodically,

typically on a quarterly basis. Employee education is provided yearly, or as requested by the plan sponsor, and is tailored to the needs of the clients.

Parsec Trust is a trust representative office of National Advisors Trust Company (NATCO). When named as administrative Trustee, Parsec Trust (NATCO) will collect and distribute income, provide recordkeeping, produce required tax reporting and provide for the administration and disposition of trust assets as directed by the governing document.

## **Item 5 – Fees and Compensation**

The following annual fee rate schedule applies to individual clients, corporate brokerage accounts, and commingled ERISA qualified retirement plans:

- 1.00% for the first \$0 to \$1,000,000 of managed portfolio assets.
- 0.80% for the next \$1,000,001 to \$2,000,000 of managed portfolio assets.
- 0.40% for the next \$2,000,001 to \$20,000,000 of managed portfolio assets.
- 0.30% for the next \$20,000,001 to \$30,000,000 of managed portfolio assets.
- 0.20% for the next \$30,000,001 and above of managed portfolio assets.

Parsec's investment management service is separated into two services: Parsec Wealth Management and Parsec Portfolios.

Parsec Wealth Management clients have a \$1,000 quarterly minimum. The service includes portfolio management and financial planning. Parsec Portfolios clients have a \$300 quarterly minimum. The service is investment management only and there is no financial planning included.

Upon plan implementation, the applicable percentage fee would begin on a pro-rata basis for the quarter. Fees are billed quarterly, in advance. Payment is due within 30 days after presentation of an invoice. Payment can either be by check or a deduction from the account (with the client's permission). The portfolio review is sent with the invoice.

Fees are occasionally negotiated in unusual situations. Legacy clients may be grandfathered in at a lower rate.

Client relationships can be canceled at any time by either party. Any prepaid and unearned fees will be promptly refunded.

Parsec's fees are exclusive of brokerage commissions, transaction fees and other related costs and expenses which shall be incurred by the client. Mutual funds, exchange traded funds and separate account managers also charge internal management fees, which are disclosed in a fund's

prospectus. Therefore, Parsec clients pay two levels of fees for these types of assets, both directly to Parsec and indirectly through fees charged by the underlying investment vehicle. Parsec's fees are based solely on assets under management.

For ERISA-qualified plan (daily valuation) consulting arrangements, the fee schedule is as follows:

- 0.50% for the managed portfolio assets from \$0 to \$1,000,000.
- 0.35% for the managed portfolio assets from \$1,000,001 to \$3,000,000.
- 0.25% for the managed portfolio assets from \$3,000,001 to \$5,000,000.
- 0.20% for the managed portfolio assets from \$5,000,001 to \$15,000,000
- 0.10% for the managed portfolio assets from \$15,000,001 and above.

The minimum annual fee is \$4,000 (\$1,000/quarter) for 3(38) Fiduciary and \$6,000 (\$1,500) for 3(21) Fiduciary.

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

Parsec Financial does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

Parsec Financial provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, foundations, endowments, trusts, estates and charitable organizations.

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

When we invest our clients' money, we construct a portfolio with a purposeful design that considers long-term historical returns, historical volatility and the correlation between assets.

We have designed a set of target portfolios to meet different client objectives. Each client is assigned one of these target portfolios, according to the client's goals, cash flow needs and risk tolerance. Every client's portfolio is not the same, however. Differences occur due to the timing of the initial investments, client preferences and legacy holdings. We strive to construct similar portfolios for clients with similar risk tolerance levels and objectives, i.e. a similar percentage in international companies, fixed income, small/mid cap companies, and various market sectors.

When designing a target portfolio, we determine the appropriate weight for each of the following components:

- International equities, including developed and emerging markets
- Large, mid and small cap equities
- Mix of growth and value companies
- Market sectors
- Fixed income types: domestic, global bonds, TIPS and high-yield
- Fixed income duration: short, intermediate and long-term debt

Once we determine the appropriate weight for each target portfolio, we look for the best investment vehicle to provide exposure to those areas, such as:

- Individual stocks and bonds
- Mutual funds (equities and fixed income)
- Exchange-Traded Funds (equities and fixed income)

Once we determine the appropriate investment vehicle, we then conduct extensive due diligence on a variety of securities to find those that best match our objectives. We take a long-term investment approach that focuses on diversification, client suitability, and tax efficiency.

Regarding individual stock selection, we follow a bottom-up process that seeks to identify high-quality companies, typically with market capitalizations of \$3 billion or higher, that are currently trading at attractive or discounted valuations. We look for companies with a long track record of consistent earnings and cash flow growth, above average return on invested capital, healthy balance sheets, and competitive market positions. We prefer companies that engage in shareholder friendly activities including a history of dividend payments and, when external growth opportunities are subpar, share buybacks.

Specifically, we focus on the following fundamentals in order to identify stocks with attractive risk/reward return profiles:

- Current valuation relative to projected earnings growth;
- Level and consistency of profit margins, earnings and dividends;
- Degree of financial leverage, avoiding heavily indebted companies;
- Return on invested capital versus cost of capital;
- Price/earnings ratio relative to the overall market and to the company's own historical range.

When appropriate to the client circumstances, we also invest in fixed income. We view fixed income as a means of diversifying a client's portfolio, providing a source of spending during negative equity markets, and to dampen volatility. In addition, we may from time to time include a small amount of alternatives to a client's portfolio, depending on market conditions.

Based on our research and analysis, we have compiled a recommended list of securities. We continually monitor the prices of the securities on this list, as well as any new developments regarding these holdings. In addition, every security in our coverage universe is formally reviewed at least 3 to 4 times a year, and more often if circumstances dictate.

The firm's Investment Policy Committee meets bi-weekly to review individual securities, mutual funds and separate account managers, in order to update their investment recommendations on these securities and managers on a regular basis.

Investing in securities involves risk of loss that clients should be prepared to bear. Investment risk consists of both systematic risk and unsystematic risk. Unsystematic risk is not related to the market as a whole, but rather is associated with a specific investment. Systematic risk is the risk associated with the overall market that is not unique to any one investment vehicle.

It is possible to reduce unsystematic risk by creating a portfolio diversified across many different companies and sectors. It is not possible to eliminate systematic risk. Macroeconomic factors such as inflation, unemployment, corporate earnings, commodity prices, and interest rates all contribute to systematic risk since they influence the prices of all risky assets. However, it is possible to lower systematic risk somewhat by diversifying internationally, since economic variables in the U.S. are not perfectly correlated with those in other countries. Of course, investing internationally exposes investors to risks related to social, political, and economic factors, as well as fluctuating exchange rates.

## **Item 9 – Disciplinary Information**

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



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

Parsec assists clients with Trust management through Parsec Trust, a Trust Representative Office of National Advisors Trust (NATCO). Parsec Financial acts as investment manager of trust assets, while Parsec Trust provides trustee services through NATCO.

Parsec engages Broadridge (via ProxyEdge) to provide class action litigation monitoring and securities claim filing services. ProxyEdge files all claim forms on behalf of clients, monitors all claims, collects applicable documentation, interprets the terms of each settlement, files the appropriate claim forms, interacts with the administrators, and distributes claim awards directly to clients enrolled in the service. ProxyEdge charges a contingency fee of 20%, which is subtracted from the award when it is paid. The proceeds are then sent directly to the client's account. Unless a client chooses to opt out of this service, they are automatically enrolled as part of the account opening process, and Parsec provides their account transaction information to ProxyEdge to assist with the class action research. If a client prefers to file their own securities litigation claim forms, they must opt out of the service by signing the ProxyEdge opt out section of the Service Agreement (part of the account opening documents). If clients do not participate in this service, they are responsible for pursuing their own claims.

## **Item 11 – Code of Ethics**

Parsec has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Parsec must acknowledge the terms of the Code of Ethics annually, or as amended.

Parsec's employees are required to follow Parsec's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Parsec may trade for their own accounts in securities which are recommended to and/or purchased for Parsec's clients. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of Parsec 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. The Code requires pre-clearance of individual equity transactions. All employees are required to provide annual securities holdings reports and quarterly transaction reports to the CCO. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between Parsec and its clients.

Parsec's clients or prospective clients may request a copy of the firm's Code of Ethics by

contacting the Chief Compliance Officer.

## **Item 12 – Brokerage Practices**

Parsec will recommend a registered broker dealer, bank or trust company to act as a separate custodian to take possession of the cash, securities, and other assets in the Account. Parsec's clients ("Client") directs Parsec to place all trades (other than those involving individual bonds) for client account(s) solely through the custodian selected and appointed by Client. Parsec will not seek best execution through other broker dealers on the Client's behalf except for transactions in individual bonds. Parsec recommends either Charles Schwab & Co., Inc., Fidelity Registered Investment Advisor Group, T.D. Ameritrade, and Scottrade as custodians for client assets. Clients may select other brokers. Parsec will not have authority to negotiate commissions or obtain volume discounts, and best execution may not be achieved because client has agreed to direct the use of a particular broker. Parsec regularly reviews its custodial brokerage recommendations and believes that its recommendations are consistent with its fiduciary duty.

By assigning a custodian for the assets, the client directs Parsec to execute all trades solely through the selected bank or registered broker-dealer. In instances where multiple banks or broker-dealers are used, trades will be placed with the custodian who holds the assets for the account in which trades are being executed, except for fixed income prime broker trades as described below.

Parsec's Brokerage Committee meets on at least an annual basis to review the firm's brokerage practices and brokerage services received from the various broker-dealers used. As part of the Brokerage Committee's review of the firm's brokerage practices, the following factors are considered in the review of broker-dealers and their services:

- Level of commission rates (typically a flat, per-transaction charge)
- Availability and quality of research
- Quality of executions
- Operations/settlement services
- Trade errors
- Reliability for firm
- Accuracy and quality of firm's reports
- Support software/hardware provided

For fixed income trading, clients for whom we buy individual bonds are asked to sign a Prime Broker Amendment to their account. On the buy side, this allows Parsec to expand our search for bonds beyond the custodian's inventory to third-party broker/dealers. On the sell side, Parsec is able to put the bonds out for the bid to a list of broker/dealers to ensure best execution. By

using a Prime Broker agreement, it isn't necessary to open an account for each client at each broker/dealer. Instead, the broker/dealer utilizes our master trading accounts at our custodians, and the custodian allocates the trade to the proper client. The client receives a trade confirmation from the custodian (instead of the broker/dealer who they may not be familiar with). The confirmation will indicate the specific broker/dealer that executed the trade.

The Investment Policy Committee will periodically recommend a firm-wide trade, or block trade. Block trades aggregate the trade order of all clients for whom the trade is recommended. All clients participating at each custodian will receive the same average price. A block trade log is maintained to show the rotation of order between custodians. Parsec will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the submission of the aggregated order. Completed orders will be allocated as specified initially. Partially filled orders will be allocated on a random basis, as determined by our trading software. Any exceptions will be documented with the order, or the trade log, or in the client notes within our client relationship management software.

Parsec allows employees to include their trades in with the aggregated block trade. As such, employees will receive the same price on aggregated orders as clients. Parsec includes its own employee profit sharing plan in aggregated orders as well.

### **Item 13 – Review of Accounts**

Parsec provides ongoing advice to the client regarding their investments. Account supervision is guided by the stated objectives of the client.

Clients receive written reports on a quarterly basis, which include information about their portfolio holdings and values. Reports also provide performance information, including a reference to relevant market indices or benchmarks.

Client accounts are reviewed routinely. The manner in which accounts and securities are reviewed include:

- All covered securities are reviewed three to four times per year, as part of our ongoing due diligence, as described in Item 8.
- Dependent upon our findings during routine security due diligence, securities may be bought or sold for groups of clients at the same time as needed, and as directed, by our Investment Policy Committee and the client's Investment Policy Statement.
- Daily deposit and withdrawal reports are reviewed to address client cash needs.
- Client accounts are reviewed monthly for excess cash, and for target asset allocation drift.

- Client accounts are reviewed two to four times annually for sector rebalancing, individual stock weightings, as well as allocation drift.

Additional account reviews may be necessary due to a change in client goals and objectives, economic or market conditions or specific client requests. All reviews are performed by a financial advisor or portfolio manager.

Advisors may also schedule client meetings on a periodic basis, or on client request, to review a client's portfolio, performance, market conditions, financial circumstances, and investment objectives. The meeting would also serve to confirm that Parsec's investment decisions and services are consistent with the client's objectives and goals.

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

### *Client Referrals*

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

Parsec pays Schwab a Participation Fee 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. The Participation Fee paid by Parsec is a percentage of the fees the client owes to Parsec or a percentage of the value of the assets in the client’s account, subject to a minimum Participation Fee. Parsec pays Schwab the Participation Fee for so long as the referred client’s account remains in custody at Schwab. The Participation Fee is billed to Parsec quarterly and may be increased, decreased or waived by Schwab from time to time. The Participation Fee is paid by Parsec and not by the client. Parsec has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs Parsec charges clients with similar portfolios who were not referred through the Service.

Parsec 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 Advisor generally would pay in a single year. Thus, Parsec will have an

incentive to recommend that client accounts for Schwab-referred clients be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of Parsec's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, Parsec will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab. For accounts of Parsec's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from Parsec's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab.

(b) Fidelity. Parsec participates in the Fidelity Wealth Advisor Solutions Program (the "WAS Program"), through which Parsec receives referrals from Strategic Advisers, Inc. ("SAI"), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. Parsec is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control Parsec, and SAI has no responsibility or oversight for Parsec's provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for Parsec, and Parsec pays referral fees to SAI for each referral received based on Parsec'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 Parsec does not constitute a recommendation or endorsement by SAI of Parsec's particular investment management services or strategies. More specifically, Parsec pays the following amounts to SAI for referrals:

For a period of 7 years from the date that a client funds any client account(s) with Parsec, Parsec shall pay SAI an amount equal to an annual percentage of .2% of any and all assets in such client's account. The referral fees are paid by Parsec and not by the client. The minimum annual fee to Fidelity under this program is \$10,000.

To receive referrals from the WAS Program, Parsec must meet certain minimum participation criteria, but Parsec 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, Parsec 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 Parsec 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 Parsec as part of the WAS Program. Under an agreement with SAI, Parsec has agreed that clients will not be charged 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, Parsec 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 Parsec's fiduciary duties would so require; therefore, Parsec 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 Parsec's duty to recommend or select brokers on the basis of best execution.

(c). Western Carolina Medical Society (WCMS). Parsec participates in the Preferred Vendor Program with the Western Carolina Medical Society. WCMS lists our services and makes information available to prospective physician clients via their website, social media and weekly e-newsletter. Parsec also receives a copy of the WCMS membership list and its monthly updates. For a term of three years Parsec pays an annual fee of \$2,000 payable to WCMS in return for the right to participate in the Preferred Vendor Program. WCMS will list Parsec's services, as well as its discount to WCMS members (20% discount from Parsec's currently published schedule on the first million dollars of assets managed), making this information available to prospective physician clients.

#### ***Other Compensation***

In general, Parsec may receive software, services, and/or products from the brokers we recommend. Specific disclosures from Charles Schwab & Company, Inc., Fidelity Registered Investment Advisor Group, T.D. Ameritrade, and NATCO appear below:

**Disclosure for Charles Schwab & Company, Inc.:** Parsec is independently owned and operated and not affiliated with Schwab. Schwab provides Parsec with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets is maintained in accounts at Schwab Institutional.

Schwab's services include 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.

Schwab also makes available to Parsec other products and services that benefit Parsec but may not benefit its clients' accounts. Some of these other products and services assist Parsec in managing and administering clients' accounts. These include 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 Parsec's fees

from its clients' accounts; and assist with back-office functions, recordkeeping, and client reporting.

Schwab Institutional also makes available to Parsec other services intended to help Parsec manage and further develop its business enterprise. These services may include consulting, publications, and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services rendered to Parsec by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Parsec.

To minimize paperwork, Schwab has a firm wide policy to absorb all trade error costs under \$100. They do not have that policy to gain business or to influence trades in their direction. Other brokers with whom Parsec deals do not have this policy.

As a fiduciary, Parsec endeavors to act in its clients' best interests. Parsec's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to Parsec of the availability of some of the foregoing products and services and not solely on the nature, cost, or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

Harli Palme, Chief Operating Officer and Chief Compliance Officer of Parsec, serves on the Schwab Advisor Services Technology, Operations and Service Advisory Board (the "Board"). As described under Item 12 of this Form ADV, Parsec may recommend that clients establish brokerage accounts with Charles Schwab & Co., Inc. ("Schwab") to maintain custody of the clients' assets and effect trades for their accounts. The Board consists of approximately 21 representatives of independent investment advisory firms who have been invited by Schwab management to participate in meetings and discussions of Schwab Advisor Services' services for independent investment advisory firms and their clients. Board members serve for three-year terms. Mrs. Palme's term ends December 2018. Board members enter nondisclosure agreements with Schwab under which they agree not to disclose confidential information shared with them. This information generally does not include material nonpublic information about the Charles Schwab Corporation, whose common stock is listed for trading on the New York Stock Exchange and the NASDAQ stock market (symbol SCHW). The Board meets in person approximately twice per year and has periodic conference calls scheduled as needed. Board members are not compensated by Schwab for their service, but Schwab does pay for or

reimburse Board members' travel, lodging, meals and other incidental expenses incurred in attending Board meetings.

**Disclosure for Fidelity Registered Investment Advisor Group:** Parsec may receive from *Fidelity*, without cost to Parsec, computer software and related systems support, which allow the firm to better monitor client accounts maintained at *Fidelity*. Parsec may receive the software and related support without cost because Parsec renders investment management services to clients that maintain assets at *Fidelity*.

Specifically, Parsec may receive the following benefits from *Fidelity* through the Fidelity Registered Investment Advisor Group: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services its Registered Investment Advisor Group participants; access to block trading which provides the ability to aggregate securities transactions and then allocate appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

**Disclosure for T.D. Ameritrade:** Parsec participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), an unaffiliated SEC- registered broker- dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Parsec receives some benefits from TD Ameritrade through its participation in the Program.

As disclosed above, Parsec participates in TD Ameritrade's institutional customer program and may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Parsec's participation in the program and the investment advice it gives to its Clients, although Parsec receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Parsec by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Parsec's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Parsec



but may not benefit its Client accounts. These products or services may assist Parsec in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Parsec manage and further develop its business enterprise. The benefits received by Parsec or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Parsec endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Parsec or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Parsec's choice of TD Ameritrade for custody and brokerage services.

Parsec Financial considers a number of factors in selecting brokers and custodians at which to recommend location of its client accounts, including, but not limited to, execution capability, experience and financial stability, reputation, and the quality of services provided. In selecting TD Ameritrade, Inc. as the broker and custodian for certain of its current and future client accounts, Parsec takes into consideration its arrangement with TD Ameritrade as to obtaining price discounts for TD Ameritrade's automatic portfolio rebalancing service known as "iRebal."

The standard iRebal annual license fee applicable to Parsec is \$80,000. That fee is subject to specified reductions (and even complete waiver) if specified amounts of client taxable assets are placed on the TD Ameritrade Institutional platform.

The non-taxable assets excluded from the commitment levels described above are those that constitute "plan assets" of plans subject to Title 1 of the Employee Retirement Income Security Act of 1974, amended, or of plans as defined in Section 4975 of the Internal Revenue Code (which include IRAs).

If Parsec does not maintain the relevant level of taxable assets on the TD Ameritrade platform, Parsec may not be eligible to receive the entire available price discount for iRebal, and may therefore have to pay additional fees to TD Ameritrade calculated on the basis of the shortfall.

Although Parsec believes that the products and services offered by TD Ameritrade are competitive in the market place for similar services offered by other broker-dealers or custodians, the arrangement with TD Ameritrade as to the iRebal service may affect Parsec's independent judgment in selecting or maintaining TD Ameritrade as the broker or custodian for client accounts.

**Disclosure for National Advisor's Trust (NATCO):** National Advisor's Trust. Parsec Financial Management, Inc. is a shareholder of National Advisors Holdings, Inc. ("NAH"), a Delaware corporation organized in August 1998. Parsec holds a minority interest, in the aggregate, of the outstanding stock of NAH. NAH has formed a federal trust company known as National Advisors Trust Company ("NATCO"). NAH and NATCO are regulated by the Office of the Comptroller of the Currency. The trust company provides a low-cost alternative to

traditional trust service providers and plans to provide trust services to clients of investment advisory firms, such as Parsec, across the United States. Parsec refers clients to NATCO for trust services. Parsec Trust is a trust representative office of National Advisors Trust Company (NATCO). Through NATCO, Parsec Trust can support client needs in all 50 states. Parsec Trust, through NATCO, provides trustee services and the safekeeping of client trust assets, while Parsec Financial provides investment management to the assets in those trusts.

### **Item 15 – Custody**

The client will appoint a bank or registered broker-dealer to act as a separate custodian to take possession of the cash, securities, and other assets in the account. Parsec does not have custody of client assets other than to deduct management fees from client accounts, if approved by the client. Assets stay in the client's name in the client's account.

Clients should receive monthly statements (or at least quarterly) from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets.

### **Item 16 – Investment Discretion**

Parsec's Service Agreement grants Parsec discretionary trading authority in client accounts. For new clients, the policy is to review the proposed portfolio with the client prior to making any trades. Once the initial portfolio has been implemented, we do not contact the client for approval of any trades, including buys and sells.

Parsec's discretionary authority also includes the authority to hire and fire third-party investment managers on a client's behalf.

If a client's managed portfolio is over \$1,000,000 in assets, the client may request to be considered non-discretionary and must sign a separate authorization. If the client denies discretionary authority, then he or she will be contacted for approval in advance of every trade. This contact may be in the form of a letter, e-mail, in person, or phone call.

Parsec cannot place any trades without a response from a non-discretionary client. This includes: trades needed to meet periodic distributions, non-sufficient fund checks presented for payment against the client's brokerage account, or emergency situations resulting from adverse market conditions or factors impacting individual securities. Non-discretionary accounts will not be automatically included in block trades, which may result in a delay in trading and inhibit best execution.

When selecting securities for both discretionary and non-discretionary clients, Parsec observes the investment policies, limitations and restrictions of the clients for which it advises.

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

Parsec does not typically accept discretionary authority to vote proxies for clients. However, Parsec does vote proxies for Trust accounts at National Advisors Trust and the Personal Trust Services division of Charles Schwab Bank. These accounts have a single, corporate trustee who typically lacks the authority to vote proxies. As an added service, Parsec votes proxies for commingled and daily-valuation ERISA accounts, and foundations when given permission by the Trustee.

For those clients for whom Parsec has undertaken to vote proxies, Parsec retains the final authority and responsibility for such voting subject to any specific restrictions or voting instructions by clients.

Parsec has adopted standard voting parameters addressing the vast majority of proxy matters with which it is familiar. Parsec further reviews its proxy voting practice to determine whether any material conflicts of interest are present. In the event of a vote involving a conflict of interest that does not meet the specific voting parameters of Parsec’s proxy voting guidelines or requires additional company-specific decision making, Parsec may seek an independent recommendation or request client consent on the issue.

Clients may request a copy of Parsec’s complete proxy voting policy from the Chief Compliance Officer. Clients may also request voting records of how securities have been voted in their particular account. Please provide Parsec with a reasonable time to compile records following a client request.

### **Item 18 – Financial Information**

Registered investment advisors are required in this Item to provide you with certain financial information or disclosures about our financial condition. Parsec has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has never been the subject of a bankruptcy proceeding.