

Item 1: Cover Page



Form ADV Part 2A

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**August 7, 2023**

This brochure provides information about the qualifications and business practices of Covato Capital Management, LLC ("CCM"). If you have any questions about the contents of this brochure, please contact us at (239) 330-1375. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Please note that the use of the term "registered investment advisor" and description of our firm and/or our associates as "registered" does not imply a certain level of skill or training. Clients are encouraged to review this brochure and any brochure supplements ("brochure supplements") for more information on the qualifications of our firm and our associates.

Additional information about CCM is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable CRD/IARD number for the firm is 173956.

## Item 2: Material Changes

We have made the following material changes since our prior brochure dated March 30, 2023:

- Item 1 has been amended to reflect that the name of our firm has changed to Covato Capital Management, LLC and our website address has changed to [www.covatocapital.com](http://www.covatocapital.com) as of July 2023.
- Item 4 has been amended to disclose that we may use an asset management platform provided by Pontera Solutions to manage certain held away client accounts. Please see Item 4 for details.
- Item 4 has been amended to disclose that we no longer provide a written financial plan as part of our rendering of Portfolio Management Services. Portfolio Management Services clients receive ad-hoc financial consulting services and access to certain financial planning software and tools. Clients wishing to receive a written financial plan must engage us separately for Financial Planning and Consulting Services. Please see Item 4 for details.
- Items 5, 10, and 11 have been amended to disclose certain conflicts of interest regarding CCM's relationships with the issuers of certain privately offered securities.
- Item 15 has been amended to disclose certain additional custody-related safeguarding procedures followed by our firm in connection with the assets of an affiliated pooled private investment vehicle that is sponsored, managed, and served by CCM's related persons.

We have made other changes throughout this brochure for purposes of clarifying the nature of our services and to enhance the overall readability and transparency of the disclosures contained herein. These changes are not material.

We will ensure that all current clients receive a Summary of Material Changes to this and subsequent brochures within 120 days of the close of our fiscal year. A Summary of Material Changes is also included with our brochure on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for CCM is set forth on the cover page of this brochure. We may further provide other ongoing disclosure information about material changes as necessary and will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

A copy of our firm brochure will be provided to you free of charge by contacting us at the telephone number appearing on the cover page of this brochure.

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## Item 4: Advisory Business

**ABOUT US.** Covato Capital Management, LLC is a Florida limited liability company and registered investment advisor founded in July 2014 by its managing member, Christopher P. Covato. The firm is owned by Mr. Covato. Our home office is located in Naples, Florida.

We are an independent fee-based investment advisor with a fiduciary duty to our clients. The fees we collect from clients are based on a percentage of the client's assets under our management, fixed fees, or hourly fees, depending on the nature of the services for which we are engaged. We believe our fee-based method of compensation minimizes conflicts of interest and best aligns with our fiduciary duty to you.

The information contained in this brochure describes our investment advisory services, practices, and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our services to the needs of our clients. As used throughout this brochure, the words "CCM," "firm," "we," "our," and "us" refer to Covato Capital Management, LLC, and the words "you," "your," and "client" refer to you as either a client or prospective client of our firm.

Prior to forming an investment advisor-client relationship, we may offer you a complimentary general consultation to discuss the nature of our services and to determine how we may best assist you in achieving your financial goals and objectives. Investment advisory services begin only after you enter into a written investment advisory agreement with CCM.

**OUR SERVICES.** We offer a variety of investment advisory services to clients. Our investment advice is custom tailored according to each client's unique investment profile, needs, and financial circumstances.

We may offer advisory services on either a discretionary or non-discretionary basis depending on the nature of the service for which we are engaged. Where you elect to grant us discretionary authority, you authorize us to implement our investment recommendations directly within your designated account(s) held at an independent qualified custodian (typically a bank or SEC registered broker-dealer) without obtaining your specific consent prior to each transaction. The full scope of our discretionary authority is set forth in a written advisory agreement entered with the client. Where you elect to engage us on a non-discretionary basis, you are free to accept or reject any of our investment recommendations and we will only implement our investment recommendations within your account after receiving your approval to do so. However, by granting us non-discretionary authority over your account, you authorize us to periodically rebalance your account to maintain the initially agreed upon asset allocation and to convert mutual fund share classes (to achieve reduced expense ratios, where possible) without your specific prior consent.

Clients always have the ability to impose reasonable restrictions on our management of their account(s) (for example, restricting our ability to purchase securities of certain issuers or securities from issuers within certain industry sectors or asset classes). While we generally attempt to accommodate client account restrictions, we reserve the right to reject such limitations if we determine that they would frustrate our management of your account or where we otherwise determine they cannot be reasonably implemented for any other reason, in our sole discretion.

We offer the following investment advisory services:

Portfolio Management Services. We offer ongoing and continuous Portfolio Management Services that are tailored to your unique investment profile and financial circumstances. While we typically require that you grant us discretionary authority to manage your designated accounts under this service, in limited instances and at our sole discretion, we may agree to provide you with Portfolio Management Services on non-discretionary basis. We will consult with you periodically to gather information regarding your financial goals, investment objectives, tolerance for risk, and the time horizon for investments. The information we typically request in this process will include your current and expected income level, tax information, investment experience, current and expected cash needs, current portfolio construction/asset allocation, and risk tolerance level, among other items. Based on our analysis of this information, we will then recommend and implement an investment strategy and portfolio within your account that is tailored to your financial circumstances and investment goals.

Client portfolios are typically constructed utilizing some or all of the following types of investments: mutual funds, exchange traded funds, and exchange traded notes (collectively “ETPs”), individual stocks and bonds, municipal securities, certificates of deposit, U.S. government securities, money market funds, and other listed securities. Where appropriate, we may manage your account through the implementation of certain model portfolios (“Model Portfolios”) designed by our firm or other professional money managers. Our Model Portfolios and trading strategies have generally been designed for investors with varying degrees of risk tolerance ranging from a more aggressive investment strategy to a more conservative approach. Factors that we take into consideration when determining whether any particular Model Portfolio or investment strategy is appropriate for your account include, without limitation, the investment objective of the Model Portfolio or investment strategy, its underlying holdings, and your financial needs, investment goals, and risk tolerance.

In some circumstances, the investment strategy or Model Portfolio selected for management of your account may incorporate the use of sub-advisors or third-party money managers (each an “Independent Manager”). You authorize our use of such Independent Managers in our written investment advisory agreement and/or in the account opening documents provided by the independent custodian of your account. Where Independent Managers are utilized to manage your account, we will always maintain the primary advisor-client relationship with you - we will make the initial and ongoing determination of the suitability of the Independent Manager’s investment program/strategy, communicate changes in your suitability information to the selected Independent Manager(s), and provide ongoing monitoring of your Independent Manager managed assets. The Independent Manager shall be responsible for all trading and research functions under this arrangement and will directly manage your sub-advised assets on a discretionary basis. You will be provided with the Form ADV Part 2A and 2B for any selected Independent Manager(s) at or prior to the time of their engagement. Any fees charged by the selected Independent Manager(s) under this arrangement shall be separate and in addition to the advisory fees paid to our firm as described in Item 5 of this brochure.

Following implementation of your initial investment portfolio, we will monitor the performance of your account on an ongoing basis and implement or recommend changes within your account as needed or appropriate, in consideration of current economic conditions, our market opinions and assumptions, and your individual financial circumstances and goals. It is your ongoing responsibility to promptly advise CCM in writing of any material changes in your financial circumstances throughout our relationship. Where specifically requested and agreed in writing,

CCM will use its best efforts to work alongside and with the client's other financial advisor(s) to provide an investment experience that complements the client's overall investment picture.

Where requested by the client, our Portfolio Management Services may include ongoing discretionary investment management and monitoring with respect to certain held-away accounts (e.g., employer sponsored retirement accounts) identified by the client. In order to manage certain types of held away accounts, we will utilize a third-party platform provided to us by Pontera Solutions (respectively, the "Pontera Platform" and "Pontera"). The Pontera Platform allows us to avoid having custody of client funds and securities since we do not have direct access to client log-in credentials to affect the disposition of funds or securities from the client's held-away accounts. Where these services are requested, a link will be provided to the client allowing them to connect the held away account(s) they desire CCM to manage via the Pontera Platform. Once the client's account(s) is connected to the Pontera Platform, CCM will review the current account allocations. We will monitor the account on an ongoing basis and when deemed necessary and appropriate, rebalance or recommend rebalance of the linked account(s) in consideration of the client's unique investment goals, needs, and limitations. We are not affiliated with Pontera in any way and receive no compensation from Pontera in connection with our use of the Pontera Platform.

Clients are advised that our management of accounts via the Pontera Platform is subject to the limitations and restrictions imposed by the underlying sponsor, issuer, and/or custodian of the client's held-away assets. For example, our instructions to rebalance holdings within your held-away account through the Pontera Platform may not be implemented by the account sponsor, issuer, or custodian for up to one (1) business day or more following entry. We may also not be able to view real-time account value and holdings data over the Pontera Platform. Clients understand that our investment of the assets held within such accounts is limited to allocation of the client's assets among the various investment options made available by the account sponsor, issuer, or custodian.

Upon entering into an agreement for advisory services with us, clients authorize us to use unrelated third party service providers (including, without limitation, Pontera) to service their account, including billing and the deduction of fees from client accounts. Clients agree to allow us to share non-public, personal information with these unrelated third-party service providers for the purpose of administering and managing their accounts. We require unrelated third-party service providers to execute a confidentiality agreement and to agree in writing not to share client information with any unauthorized person or entity. The use of unrelated third-party service providers will not cause the client to incur any additional fees. We pay unrelated third-party service providers (including Pontera) for services out of the total advisory fee charged to the client.

As part of our rendering of Portfolio Management Services, we will also remain reasonably available to you throughout our relationship to provide financial consulting advice on an as-needed basis regarding common financial topics and concerns (e.g., routine questions regarding cash flow/budgeting, credit/debt management, retirement and estate planning, education funding). These ad-hoc consulting services are typically delivered to clients through a combination of telephone/tele-video conferences (e.g., Zoom), e-mail, and/or through in-person consultations. In addition, we may also provide you with access to certain financial planning

software and tools which are designed to assist you with the management of your overall financial affairs.

Clients make all final investment decisions regarding any investments held outside the accounts placed under our direct management and are responsible for the implementation and monitoring of all such investments. CCM's ad-hoc financial consulting recommendations and the client's decision to utilize the financial planning software and tools offered by CCM does not constitute broad-based financial planning. Clients seeking these services must engage us separately for Financial Planning and Consulting Services – additional fees may apply.

Financial Planning and Consulting Services. Where Portfolio Management Services are not a good fit or are not desired by the client, or where the client desires the preparation of a written financial plan, we offer Financial Planning and Consulting Services on a stand-alone basis. These services are tailored to assist clients in the management of their financial affairs based upon their unique financial situation and assets, risk profile, investment time horizon, investment goals, and concerns. These services may encompass advice regarding, without limitation, some or all of the following financial topics:

- financial, budgeting and cash management;
- financial planning relating to divorce and marriage;
- estate planning;
- taxation issues and tax planning;
- retirement planning;
- educational funding; and
- investment goal setting.

Our written financial plans typically include general recommendations for a course of activity or specific actions to be taken by the client with respect to the covered financial topics. For example, recommendations may be made that the client begin or revise certain investment programs, create or revise wills or trusts, obtain or revise insurance coverage, commence or alter retirement savings, or establish education savings or charitable giving programs. The client is provided with a written summary of their financial situation, our observations, and financial planning recommendations. For topic specific financial planning and consulting engagements, we may instead provide the client with a shorter written report or checklist summarizing our observations and recommended actions for the client to address the selected financial topics.

Financial Planning and Consulting Services are exclusively offered on a non-discretionary basis. This means that you have an unrestricted right to decline to implement any advice provided by our firm and the sole discretion to determine the manner, timing, and service providers to be used for implementation of our investment recommendations. You are never under any obligation to use CCM or any of its representatives to implement the advice we provide to you under this service.

Our Financial Planning and Consulting Services may include recommendations that you engage certain third-party service providers and professionals, for example, attorneys, accountants, third party money managers, and insurance agents. We do not practice law or accounting and will not provide you with any legal, tax, or accounting advice. We are not liable for the acts, errors or omissions of any recommended third-party providers and do not receive any compensation in connection with referring our clients to such parties.

Financial Planning and Consulting Services are available either on an annual (retainer) basis or on a per project basis. For annual financial planning engagements, we will deliver an initial written financial plan and meet with the client periodically thereafter to review the plan, track the client's progress towards his or her financial goals, and update the plan accordingly. For project based financial planning/topical consulting engagements, the client may select a discrete financial topic or topics upon which they would like to receive our financial advice. Except where otherwise agreed, once the written financial report or checklist covering the selected topics is delivered to the client, the engagement is concluded and no further update or review of the financial report or checklist is provided unless specifically requested by the client, subject to the execution of a subsequent written agreement for services and the client's payment of additional fees.

Project based financial planning and consulting engagements are typically completed within six (6) months of your engagement of our services, assuming that all the information and documents we request from the client are provided to us promptly. It is your ongoing responsibility to promptly advise CCM in writing of any material changes in your financial circumstances during the course of our financial planning and consulting engagement.

**WRAP FEE PROGRAMS AND TYPES OF INVESTMENTS.** CCM does not sponsor, participate in, or recommend any "wrap fee" programs to its clients.

We do not recommend one particular type of investment or asset class over any other. Our investment advice is custom tailored according to the unique investment profile of each client. The types of investments we typically recommend to clients are discussed above. Other types of investments may be recommended from time-to-time, depending on the client's specific financial objectives, risk tolerance, investment time horizon, and other factors. As a general matter, we will discuss a wide variety of investments with clients, depending on their unique financial circumstances, needs, and limitations.

**ROLLOVER RECOMMENDATIONS.** As a firm policy, CCM does not provide recommendations to clients with respect to the rollover of assets between employer sponsored retirements accounts (e.g., 401(k), 457 plans, and 403(b) accounts) and individual retirement accounts (e.g., Roth IRAs, Traditional IRAs, SIMPLE IRAs, and SEP IRAs). Instead, we take an educational approach in accordance with the U.S. Department of Labor's Interpretive Bulletin 96-1. Under this approach, our role will be strictly limited to providing you with educational materials regarding the general pros and cons of rollover transactions. We will make no recommendation to you regarding the prospective rollover of your assets and you are advised to consult with your trusted tax and legal advisors and/or another independent financial professional with respect to all rollover decisions.

To assist your independent decision-making process, we may provide you with materials discussing some or all of the following topics: the general pros and cons of rollover transactions; the benefits of retirement plan participation; the impact of pre-retirement withdrawals on retirement income; the investment options available inside your retirement plan account; and high level discussion of general investment concepts (e.g., risk versus return, the benefits of diversification and asset allocation, historical returns of certain asset classes, etc.). We may also provide you with questionnaires and/or interactive investment materials that may provide a means for you to independently determine your future retirement income needs and to assess the impact of different asset allocations on your retirement income. You will make the final rollover decision.



**CLIENT ASSETS UNDER MANAGEMENT.** As of December 31, 2022, CCM managed approximately \$8,370,000 of client assets on a discretionary basis, and \$0 of client assets on a non-discretionary basis.

## Item 5: Fees and Compensation

**OUR FEES.** A description of the advisory fees we charge in connection with each of our advisory services is as follows:

Portfolio Management Services. We charge advisory fees for Portfolio Management Services that are calculated based upon a percentage of the value (including the value of any cash balances, but not be adjusted for any margin debt) of the client’s account in accordance with the below fee schedule.

MARKET VALUE OF ASSETS UNDER MANAGEMENT	ANNUAL ADVISORY FEE	QUARTERLY ADVISORY FEE
\$0 - \$250,000	1.25%	0.3125%
\$250,001 - \$1,000,000	1.10%	0.2750%
\$1,000,001 - \$3,000,000	0.90%	0.2250%
\$3,000,001 and greater	0.65%	0.1625%

Advisory fees for Portfolio Management Services are paid to us quarterly in arrears and are calculated based upon either (i) the market value of the client’s account as of the last trading day of the billing period and/or (ii) the average daily balance of the client’s account during the billing period. The specific billing method to be applied will be set forth in a written investment advisory agreement executed by the client and CCM. Unless otherwise agreed, our advisory fees are charged on a flat tier basis. This means that the lowest advisory fee rate applicable to your account based upon its market value will be applied across the entire account – there is no blending of annual advisory rates. *For example*, a client account with an average daily balance of \$2,000,000 for the billing period would pay a quarterly fee of \$4,500 ( $\$2,000,000 \times .2250\% = \$4,500$ ) for the quarter.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable level of advisory fees to be charged. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee. Our advisory fees are prorated for partial periods occurring at the commencement or termination of our services based on the number of days services are provided during any partial period(s). We reserve the right to amend our fees upon thirty (30) days’ written notice to the client.

For purposes of determining the value of your account, securities, mutual funds, and other instruments traded on a market for which actual transaction prices are publicly reported shall be typically valued at the last reported sale price on the principal market in which they are traded. We will rely on this information from your custodian to calculate our fees. In the rare instances where valuation information for specific investments is not available through the custodian (e.g., thinly traded securities, private investments, etc.), our approach will generally be to value such assets at zero, unless otherwise agreed with the client. We do this in order to avoid the possibility of overbilling your account. Alternatively, we may seek to obtain and document price information from at least one independent source, whether it be a broker-dealer, bank, administrator, pricing service, or other source, or otherwise determine “fair value” of the asset in question.

Clients may make additions or withdrawals from their account at any time, although we may adjust our advisory fees as necessary on a pro-rata basis (based on the date of the transaction) to account for such transactions. Clients should note that some or all of the investments in their account may be intended as long-term investments and withdrawals of cash and premature liquidations of securities positions may impair the achievement of your investment objectives.

Notwithstanding the above, our advisory fees for Portfolio Management Services are generally negotiable and individual clients may enter fee arrangements with us that are materially different from those described above.

Financial Planning and Consulting Services. We charge fixed fees (typically ranging from \$500-\$2,000 per engagement) and/or hourly fees (typically ranging from \$50-\$200 per hour) for our Financial Planning and Consulting Services. The amount of any fixed fee and/or the hourly fee rate applicable to your engagement is determined prior to the commencement of services based on our expectation of the complexity, time, research, and resources required to complete the requested services and will be set forth in a written financial planning and consulting agreement. Fixed fees must be paid in full at the commencement of our relationship or in periodic installments as set forth in our written financial planning and consulting agreement. Hourly fees are invoiced to the client and paid in full upon delivery of the written financial plan, report, or checklist or in periodic installments as set forth in our written financial planning and consulting agreement. We do not require you to pay fees six or more months in advance and in excess of \$500. Should any such engagement last longer than 6 months between inception and completion of the requested services, any prepaid unearned fees will be promptly returned to the client (payable by check or wire transfer to the client’s name) less a pro-rata charge for bona fide advisory services rendered to date.

Notwithstanding the above, our advisory fees for Financial Planning and Consulting Services are generally negotiable and individual clients may enter fee arrangements with us that are materially different from those described above.

**OUR BILLING PROCEDURES.** Clients pay our advisory fees in the following manner:

Portfolio Management Services. Unless otherwise agreed, we will deduct our advisory fees for Portfolio Management Services directly from your account held at the qualified custodian. We will directly deduct our advisory fees only where you have provided us with written authorization

to do so, typically contained in our written advisory agreement and/or the account opening documentation of your custodian.

Each time an advisory fee is to be deducted from your account, we will concurrently (i) send the qualified custodian of your account an invoice specifying the amount of the advisory fee to be deducted and (ii) send you an itemized invoice specifying the formula used to calculate our advisory fee, the amount of assets under management upon which our advisory fee is based, and the time period covered by the advisory fee. The qualified custodian of your account will separately send you an account statement at least quarterly, identifying the amount of funds and of each security contained in your account at the end of the period and setting forth all transactions in your account during the period, including the amount of any advisory fees paid directly to CCM. Our advisory fees will typically be deducted from your account within five (5) business days following delivery of our invoice to the client.

The custodian of your account is not responsible to verify the accuracy of any advisory fee calculations. Therefore, we encourage you to promptly review and compare our fee invoices with the account statement(s) you receive from the qualified custodian of your account. If you find any inconsistent information or if you have any other questions or concerns regarding your account, you should call CCM immediately at the telephone number reflected on the cover page of this brochure.

If we are unable to directly debit our advisory fee from your account at the qualified custodian for any reason, we will send you a fee invoice for our advisory fees which is payable upon receipt by check, wire transfer, or other method of payment deemed acceptable to our firm.

Financial Planning and Consulting Services. Fees for Financial Planning and Consulting Services are paid to us via check, wire transfer, or other method of payment deemed acceptable to our firm. Clients are required to pay our invoices immediately upon receipt.

**OUR TERMINATION POLICIES.** Our advisory services may be terminated as follows:

In the event we should fail to provide you with a copy of this brochure at least forty-eight (48) hours in advance of entering into an advisory agreement with our firm, you may terminate our services on written notice delivered to us within five (5) business days of entering into the advisory agreement. You will not be charged any advisory fees by CCM, nor will you incur any penalties. Absent termination under these circumstances, clients may terminate our various service offerings as described below.

Portfolio Management Services engagements may be terminated by either party, without penalty, on thirty (30) days' written notice to the non-terminating party. In the event of early termination, CCM is compensated with a prorated portion of the advisory fees owed for the terminating billing period based on the number of days Portfolio Management Services were provided during the period.

Financial Planning and Consulting Services engagements may be terminated at any time by either party, without penalty, on thirty (30) days' written notice to the non-terminating party. In the event of early termination, CCM is compensated with a prorated portion of the agreed upon fees. For hourly fee-based arrangements, the proration of fees shall be based upon the number of hours we have actually billed your account through the termination date. For fixed fee-based arrangements, the proration of fees shall be based upon our good faith determination (which shall be conclusive and binding on the client) of the total

value of the work completed by us through the date of termination. In both scenarios, any excess pre-paid fees will be returned to the client and any fees incurred but not yet billed shall be immediately due and payable to our firm.

**ADDITIONAL FEES AND EXPENSES.** As part of our investment advisory services, we may recommend that you invest in mutual funds and/or ETPs. The advisory fees that you pay to our firm are separate and distinct from the internal management fees and other costs and expenses that may be charged by mutual funds and ETPs to their shareholders/noteholders.

You will also pay the independent qualified custodian and broker of your account transaction charges, custodial, and/or brokerage fees and commissions, mark-ups and mark-downs, spreads paid to market makers, wire transfer fees and other fees and taxes associated with activity and holdings contained in your account (collectively "Brokerage Charges"). The Brokerage Charges will typically be paid to the custodian and/or broker-dealer directly from your custodial account or they will be billed separately to you by the appropriate service provider. Brokerage charges you may incur are described in the account opening documentation of your custodian.

Where any portion of your account has been allocated to any Independent Manager(s), the advisory fees charged by such Independent Manager(s) shall be separate and in addition to our advisory fees. The fees charged by Independent Manager(s) typically cannot be negotiated. The amount of any applicable Independent Manager advisory fees and the payment procedures applicable to such fees will be set forth in the Independent Manager's Form ADV Part 2A and/or the account opening documents of your custodian. We do not receive any portion of the advisory fees you pay to any Independent Manager(s), nor do we receive referral fees for our recommendation of any Independent Manager(s) to clients.

To fully understand the total costs you will incur by engaging our services, you should review the prospectus and disclosure documents of each mutual fund, ETP, and/or Independent Manager investment program in which you are invested and the contractual arrangement with the custodian of your account. For information on our brokerage practices, please refer to Item 12 of this brochure. While we believe our advisory fees to be reasonable for the services provided, you are advised that lower fees for comparable services may be available from other sources.

**COMPENSATION FOR SALE OF INSURANCE PRODUCTS OR SECURITIES.** As described in Item 4 above, CCM is an independent, fee-based investment advisory firm with a fiduciary duty to our clients. The fees CCM collects from clients are based solely on a percentage of the client's assets under our management, fixed fees, or hourly fees, depending on the nature of the services for which we are engaged. We do not sell any insurance products, maintain any soft dollar arrangements, or collect any commissions in connection with the investment advice we provide to our clients.

Notwithstanding the above, clients are advised that certain of CCM's personnel, including Mr. Covato, will benefit and receive additional compensation indirectly as a result of their recommendation and sale of certain privately offered securities to advisory clients. Specifically, where appropriate, CCM may recommend to clients the purchase of interests of an affiliated pooled private investment vehicle (the "Affiliated Fund") that is sponsored, managed, and advised by Volatility Capital Management, LLC and Volatility Capital Advisors, LLC, both of which are affiliated with CCM by means of shared ownership and control (such entities collectively, the "Fund Management Affiliates"). Generally, client investments in the Affiliated Fund will increase the amount of compensation due CCM's personnel by virtue of their ownership, control, and/or management of the Fund Management Entities, thus creating a conflict of

interest. For additional details regarding this conflict of interest and how CCM mitigates it, please see Items 10 and 11 of this brochure. Clients are never obligated to purchase interests in CCM's Affiliated Fund.

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

We do not charge any performance-based fees for our services or engage in side-by-side management of accounts.

## Item 7: Types of Clients

CCM typically offers its advisory services to individuals, high net worth individuals, trusts, charitable organizations, partnerships, corporations, and other business entities. CCM generally requires all clients to meet the following minimum initial account size requirements and fees to commence or continue an advisor-client relationship:

- Portfolio Management Services: \$500,000 of assets under management at inception and minimum annual advisory fees of \$2,000.
- Financial Planning and Consulting Services: Minimum fees of \$500 per engagement.

CCM may waive the foregoing minimum account size and fee requirements on a case-by-case basis as it deems appropriate in its sole and absolute discretion. If an account falls under the minimum account size due to market fluctuations or trading losses, the client typically will not be required to invest additional funds with CCM to meet the minimum account size requirement. CCM may group certain related client accounts together for purposes of achieving the minimum account size and determining an annualized fee for Portfolio Management Services accounts.

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

**OVERVIEW OF METHODS OF ANALYSIS.** CCM may use the following methods of analysis in formulating management of client accounts:

Charting. In this type of technical analysis, we review charts of market and securities activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and when that trend might reverse.

Fundamental Analysis. We attempt to measure the intrinsic value of securities of particular companies by looking at economic and financial factors (including the overall economy, industry specific conditions, and the financial condition and management of specific companies) to determine if such securities are underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell). Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating particular securities.

Technical Analysis. We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. Technical analysis does not consider the underlying financial condition of a company or security. This presents a risk in that a poorly managed or financially unsound company may underperform regardless of overall market movement.

Asset Allocation. Rather than focusing primarily on asset selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance. A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry, or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

Mutual Fund and ETP Selection and Analysis. We look at the experience and track record of the manager of the mutual fund or ETP in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETP in an attempt to determine if there is significant overlap in the underlying investments held in another fund in the client's portfolio. We also monitor the mutual fund and ETP in an attempt to determine if they are continuing to follow their stated investment strategy. A risk of mutual fund and ETP analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in any mutual fund or ETP, managers of different funds held by the client may purchase the same security, increasing the risk of loss to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the mutual fund or ETP which could make the holding(s) less suitable for the client's portfolio.

Independent Manager Selection and Analysis. This is the analysis of the experience, investment philosophies, and past performance of Independent Managers in an attempt to determine if they have demonstrated an ability to invest over a period of time and in different economic conditions. Key factors we consider when evaluating Independent Managers are their investment processes and philosophy, risk management methods and procedures, historical performance, investment strategy and style, fees and operating expenses, assets under management and number of clients, and tax-efficiencies. Our evaluation may also incorporate both qualitative and quantitative fundamental analysis to validate and confirm an Independent Manager's style and skill, as well as to compare them to other managers of similar style. We may utilize various research databases, proprietary models, financial periodicals, prospectuses and filings with the SEC, industry contacts and manager data, among other items, as part of the research process. Monitoring the Independent Manager's underlying holdings, strategies, concentrations, and leverage as part of our overall periodic risk assessment may complete the analysis. As part of the due-diligence process, the Independent Manager's compliance and business enterprise risks may be surveyed and reviewed.

**OVERVIEW OF INVESTMENT STRATEGIES.** CCM may use the following investment strategies in formulating its investment recommendations with respect to client accounts:

Long-term Purchases. We may recommend the purchase of securities with the idea of holding them in a portfolio for a year or longer. Typically, we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want the portfolio to have exposure to a particular asset class over time, regardless of the current projection for this class.

Short-term Purchases. We may recommend the purchase of securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we recommend for purchase.

Trading. We may suggest the purchase of securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

Options. We may suggest the use of options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative because it derives its value from an underlying asset.

The two types of options are calls and puts:

A call gives the holder the right to buy an asset at a certain price within a specific period of time. We will suggest the purchase of a call option(s) if we have determined that the stock will increase substantially before the option expires.

A put gives the holder the right to sell an asset at a certain price within a specific period of time. We will suggest the purchase of a put option(s) if we have determined that the price of the stock will fall before the option expires.

We may use options to speculate on the possibility of a sharp price swing. We will also suggest the use of options to “hedge” a purchase of the underlying security; in other words, we may suggest an option purchase to limit the potential upside and downside of a security we previously recommended for purchase.

We may use “covered calls,” in which we suggest the sale of an option on a security already within a particular portfolio. In this strategy, the portfolio will receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We may use a “spreading strategy,” in which we recommend purchasing two or more option contracts (for example, a call option for the client to buy and a call option for the client to sell) for the same underlying security. This effectively puts the portfolio on both sides of the market, but with the ability to vary price, time, and other factors.

Use of Leveraged and/or Inverse ETPs. On some occasions, CCM may recommend the purchase and sale in client accounts of leveraged or inverse ETPs. ETPs are typically registered unit investment trusts (“UITs”) or open-end investment companies whose shares represent an interest in a portfolio of securities that track an underlying benchmark or index. However, some ETPs that invest in commodities, currencies, or commodity or currency based instruments are not registered as investment companies. Unlike traditional UITs or mutual funds, shares of ETPs typically trade throughout the day on an exchange at prices established by the market, thus varying throughout the trading day.

Leveraged ETPs seek to deliver multiples of the performance of the index or benchmark they track. Inverse ETPs are “short” funds, meaning that they seek to deliver the opposite of the performance of the index or benchmark they track. Like traditional ETPs, some inverse ETPs track broad indices, some are sector-specific, and still others are linked to commodities or currencies. Inverse ETPs are often marketed as a way for investors to profit from, or at least hedge their exposure to, downward moving markets. Some funds are both short and leveraged, meaning that they seek to achieve a return that is a multiple of the inverse performance of the underlying index. An inverse ETP that tracks the S&P 500, for example, seeks to deliver the inverse of the performance of the S&P 500, while a 2x leveraged inverse S&P 500 ETF seeks to deliver twice the opposite of that index’s performance. To accomplish their objectives, leveraged or inverse ETPs pursue a range of investment strategies through the use of swaps, futures contracts, and other derivative instruments.

Most leveraged or inverse ETPs “reset” daily and are designed to achieve their stated objectives on a daily basis. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time.

This effect can be magnified in volatile markets. Using a two-day example, if the index goes from 100 to close at 101 on the first day and back down to close at 100 on the next day, the two-day return of the inverse ETP will be different than if the index had moved up to a close at 110 the first day but then back down to close at 100 on the next day. In the first case with low volatility, the inverse ETP loses 0.02 percent; but in the more volatile scenario the inverse ETP loses 1.82 percent. The effects of mathematical compounding can grow significantly over time, leading to scenarios such as those noted above.

Additionally, sophisticated day traders attempt to time the market and buy in front of the inverse and leveraged ETP companies thus requiring the ETP companies to have to settle for a lower price than they would have otherwise received, further compounding the time loss that is common on these types of products.

Some ETPs also do not invest directly in the underlying investment. For example, some oil and gas ETPs invest in futures in place of the physical assets, therefore there is additional expense to the ETPs involved in buying new futures contracts every month.

Because some ETPs invest in a variety of investment instruments that are subject to different tax treatments ETPs can create unique tax consequences therefore it is important that investors work with their tax professionals. Also, some leveraged ETPs have substantial capital gains distributions at the end of the year.

Leveraged and inverse ETPs are not designed to be held for long periods of time therefore require considerable monitoring by CCM.

Short Sales. In some instances, CCM will make use of short sales of securities. In a short sale, the client borrows securities and sells them with the expectation that it will be able to re-purchase the same securities at a lower price in the future and return the borrowed securities to the lender. If the price of the security sold short increases, the client’s account would incur a loss, since the



securities borrowed must now be re-purchased at a higher cost than they were sold. Conversely, if the price of the borrowed securities declines, the client can purchase new shares to replace those borrowed and the client's account would realize a gain.

**RISKS OF RELATED TO INVESTMENT STRATEGIES AND METHODS OF ANALYSIS.** We use our best judgment and good faith efforts in rendering investment advice to our clients. We cannot warrant or guarantee any particular level of investment performance or that any recommended investment will be profitable over time. Not every investment recommendation we make will be profitable. Investing in securities involves risk of loss that clients should be prepared to bear. You assume all market risk involved in the investment of your account assets. Investments are subject to various market, currency, economic, political, and business risks.

Except as may otherwise be provided by law, we are not liable to you for:

- any loss arising from our adherence to a client's instructions or the results of any self-directed transactions; or
- any independent act or failure to act by a custodian of your account(s).

While all investing involves risks and losses can and will occur, we generally recommend a broad and diversified allocation of mutual funds and other securities intended to reduce the specific risks associated with a concentrated or undiversified portfolio. Nonetheless, investing in securities involves risk of loss that clients should be prepared to bear. You should consider the following high-level summary of investment risks. What follows is not intended to be an exhaustive description of all risks you may encounter in engaging our firm for advisory services. We encourage you to inquire with us frequently about the risks related to any investments in your account.

Risk of Loss. Securities investments are not guaranteed, and you may lose money on your investments. As with any investment manager that invests in common stocks and other equity securities, our investment recommendations are subject to market risk—the possibility that securities prices will decline over short or extended periods of time. As a result, the value of your account(s) will fluctuate with the market, and you could lose money over short or long periods of time. You should recognize whenever you determine to invest in the securities markets your entire investment is at risk. Clients should not invest money if they are unable to bear the risk of total loss of their investments.

Economic Risk. The prevailing economic environment is important to the health of all businesses. Some companies, however, are more sensitive to changes in the domestic or global economy than others. These types of companies are often referred to as cyclical businesses. Countries in which a large portion of businesses are in cyclical industries are thus also very economically sensitive and carry a higher amount of economic risk. If an investment is issued by a party located in a country that experiences wide swings from an economic standpoint or in situations where certain elements of an investment instrument are hinged on dealings in such countries, the investment instrument will generally be subject to a higher level of economic risk.

Market Risk. The value of your portfolio may decrease if the value of an individual company or multiple companies in the portfolio decreases or if our belief about a company's intrinsic worth is incorrect. Further, regardless of how well individual companies perform, the value of your portfolio could also decrease if there are deteriorating economic or market conditions. It is

important to understand that the value of your investment may fall, sometimes sharply, in response to changes in the market, and you could lose money. Investment risks include price risk as may be observed by a drop in a security's price due to company specific events (e.g. earnings disappointment or downgrade in the rating of a bond) or general market risk (e.g. such as a "bear" market when stock values fall in general). For fixed-income securities, a period of rising interest rates could erode the value of a bond since bond values generally fall as bond yields go up. Past performance is not a guarantee of future returns.

Long Term Purchase Risk. A risk in a long-term purchase strategy is that by holding the security for a period in excess of one year's time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make a recommendation to sell.

Short Term Purchase Risk. A short-term purchase strategy poses risks should the anticipated price swing not materialize; we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Trading Risk. A trading strategy poses risks should the anticipated price swing not materialize we are then left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Options Risk. Transactions in options carry a high degree of risk. Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obliged either to settle the option in cash or to acquire or deliver the underlying investment. If the option is "covered" by the seller holding a corresponding position in the underlying investment or a future on another option, the risk may be reduced. If you buy an option, your risk is defined because the most that you can lose is your investment — or the premium you paid for the option — plus commissions.

Leveraged and/or Inverse ETP Risk. As described above, leveraged ETPs seek to deliver multiples of the performance of the index or benchmark they track. Inverse ETPs are "short" funds that they seek to deliver the opposite of the performance of the index or benchmark they track. These products are different from and can be significantly riskier than traditional ETPs and mutual funds. Due to the use of leverage and for other reasons, you risk losing your entire investment in these products in a single day. In addition, these products may not be able to exactly replicate the performance of the index they seek to track because of increased fund expenses and other factors. For example, because these instruments generally rebalance the underlying portfolio on a daily basis, they may incur increased trading costs which result in an increased deviation from the index or benchmark they seek to track. In addition, compounding of the returns can produce a divergence from the underlying index over time, in particular for leveraged products. In highly volatile markets with large positive and negative swings, return distortions are magnified over

time. Because of these distortions, these instruments are typically inappropriate as an intermediate or long term holding. To accomplish their objectives, these products use a range of strategies, including investments in swaps, futures contracts, and other derivatives. These products may not be diversified and can be based on commodities or currencies. These products may have higher expense ratios and be less tax efficient than more traditional ETPs and mutual funds.

Independent Manager Risk. An Independent Manager's past track record of success cannot be relied upon as a predictor of success in the future. In addition, the underlying holdings of your Independent Manager managed account(s) are determined by the Independent Manager directly, and may change overtime without advance warning to us, creating the potential for overlap with other investments held in your account. This increase in the correlation of your holdings will increase the risk of loss where the value of any overlapping holdings should decrease. There is also a risk that an Independent Manager may deviate from the stated investment mandate or strategy of the account, which could make the holding(s) less suitable for the client's portfolio. Our firm does not control any Independent Manager's daily business and compliance operations, and thus our firm may be unaware of any lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

Short Sale Risk. Short sales involve greater reliance on the firm's ability to accurately anticipate the future value of an instrument, potentially higher transaction and other costs, and the potential for unlimited loss since there is theoretically no limit to the increase in the value of the securities sold short. An account holding both long and short positions could have long positions decline in value at the same time that the value of short positions increases, thereby increasing the account's overall potential for loss to a greater extent than would occur without the use of shorting.

Short positions also involve the risk that the third party to the short sale fails to honor its contract terms and the risk of margin calls. Typically, most broker-dealers which will lend shares to clients require that they client maintain a margin account with a minimum equity requirement ranging between 30% - 35% of the value of any borrowed shares sold shot. If the value of the collateral in your margin account drops below the minimum equity requirement, your broker-dealer may require you to deposit more cash or securities to your margin account to cover the shortfall immediately.

Private Placement Risk. Where suitable an appropriate, CCM may recommend investments in private placements, including, without limitation, investment in the Affiliated Fund. Private placements carry the risk of loss of principal, interest, or both. Private placements are typically illiquid and may carry company specific interest rate and economic risk. They also typically involve various internal charges and costs of participation which are higher and which are not typically associated with investments in publicly traded and registered securities, such as administration, legal, audit, appraisal, redemption, and accounting fees, and various other fees and costs. Private placements could see investor principal tied up for longer than the stated investment period, and a worst case scenario may see investors losing some or all of their principal.

More generally, clients are advised that private placements involve a substantially higher degree of risk and are more speculative than publicly traded securities. They are not appropriate for all clients. You should be financially capable of accepting an extremely high degree of risk and should

have significant resources beyond those invested in any private placements. Stated differently, your private placement investments should purely represent “risk capital” within your overall investment portfolio, the complete loss of which would have insubstantial effect on your overall financial circumstances and financial goals. Clients are urged to carefully review any disclosure documents, operating agreements, subscription materials, private placement memoranda, prospectuses, and similar documentation provided by the issuers of private securities with their independent legal and tax advisors before investing.

Risks Related to Analysis Methods. Our analysis of securities relies in part on the assumption that the issuers whose securities we recommend for purchase and sale, the rating agencies that review these securities, and other publicly available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Securities Transactions at the Direction of Clients. Irrespective of whether you engage us on a discretionary or non-discretionary basis, clients typically maintain the concurrent ability to make transactions within their account held at the custodian. Our firm is not responsible for the consequences or costs of the client’s self-directed (non-advised) investment decisions.

Interim Changes in Client Risk Tolerance and Financial Outlook. The particular investments recommended by our firm are based solely upon the investment objectives and financial circumstances disclosed to us by the client. While we strive to meet with clients at regular intervals (at least annually, unless otherwise agreed) to discuss any changes in the client’s financial circumstances, the lack of constant and continuous communication presents a risk insofar as your liquidity, net worth, risk tolerance and/or investment goals could change abruptly, with no advance notice to our firm, resulting in a mis-aligned investment portfolio and the potential for losses or other negative financial consequences.

It is your continuing and exclusive responsibility to give us complete information and to promptly notify us of any changes in your financial circumstances, income level, investment goals or employment status. We encourage you to contact us regularly and promptly to discuss any such changes.

## Item 9: Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of our firm, or the integrity of our management. We have no information to disclose in response to this Item 9.

## Item 10: Other Financial Industry Activities and Affiliations

CCM and its associated persons are not registered as, and do not have any pending application(s) to register as, a broker-dealer or registered representative or associated person of a broker-dealer.

CCM is not registered as and does not have a pending application to register as a futures commission merchant, commodity pool operator, or commodity trading advisor. However, CCM’s Fund Management Affiliate, Volatility Capital Management, LLC, is registered as a commodity pool operator with the National Futures Association (“NFA”) in connection with its management of the Affiliated Fund. CCM’s principal,

Christopher Covato, is registered in his individual capacity as Principal, NFA Associate Member, and Associated Person of Volatility Capital Management, LLC in connection with the same.

We may recommend Independent Managers for management of your assets based on your financial needs, objectives, and suitability. We do not receive compensation directly or indirectly from any of the recommended Independent Manager; therefore, no conflict of interest exists with respect to these arrangements.

As described in Item 5 of this brochure, certain of CCM's related persons, including Mr. Covato, are also affiliated with CCM's Fund Management Affiliates, which in turn sponsor, manage, and/or advise the Affiliated Fund. Conflicts of interest exist with respect to such persons' allocation of their time and effort to CCM's advisory clients and the Fund Management Entities. For example, because the compensation these individuals may receive as a result of their efforts on behalf of CCM and the Fund Management Entities varies in character (i.e., asset-based, performance-based, a combination of the two, etc.) and amount, these individuals may be incentivized to allocate more of their time and effort to one or more entities over one or more others.

Common personnel shared by CCM and the Fund Management Entities, including Mr. Covato, may recommend the purchase of the securities of the Affiliated Fund to CCM's advisory clients, where appropriate and in line with their fiduciary duty to the client. Therefore, investors in the Affiliated Fund may include persons who are advisory clients of CCM. Should any advisory client invest in the Affiliated Fund, such shared personnel will indirectly receive additional compensation as a result. Specifically, such clients will be subject to certain reallocations of profits and/or payments of management and other fees payable and reallocable to the Fund Management Entities. CCM's shared personnel with the Fund Management Entities will receive a portion of these fees and/or profit reallocations. Therefore, these individuals have a financial incentive to recommend investment in the Affiliated Fund to advisory clients, rather than making such recommendations based solely on the client's best interests.

CCM mitigates the foregoing conflicts of interest by requiring that CCM and its related persons always act in accordance with CCM's code of ethics (discussed in Item 11 of this brochure) and from principles of fair and equitable dealing and good faith with respect to all advisory clients. Our personnel will only recommend investment in the Affiliated Fund to advisory clients when they believe such recommendation is in-line with the fiduciary duty owed to the client and the client's investment objectives, needs, and tolerance for risk.

Prior to making an investment in the Affiliated Fund (or any other private placement recommended by CCM), clients are urged to obtain a comprehensive understanding of the terms and conditions of the investment by reviewing the applicable private offering memorandum, fund operating agreement, subscription documents, organizational documents, and/or other important information regarding the investment objectives, underlying investments, investment time-horizon, costs, fees, tax implications, and the risks associated with participation in the Affiliated Fund. We always encourage clients to review these documents with their independent legal and tax counsel.

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

**OUR CODE OF ETHICS.** CCM subscribes to a Code of Ethics (the "Code") which will be available to its clients upon request. The Code applies to CCM, its principal(s), and associated persons. The Code holds each such

person responsible for promoting honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; fair disclosure to applicable regulatory agencies; and the prompt reporting of violations of the Code to firm management.

The overarching principle guiding CCM's Code and the application thereof with respect to conflicts of interest is that the personal interest of CCM or its personnel should not be placed improperly before the interest of any CCM client. More specifically, the firm and its personnel must not use their influence or relationships improperly to influence investment decisions of CCM's clients whereby the firm or its personnel would benefit to the detriment of any client or cause any client to take action, or fail to take action, for the benefit of CCM or its personnel.

**MATERIAL INTERESTS IN SECURITIES RECOMMENDATIONS TO CLIENTS.** As discussed in Items 5 and 10 above, CCM shares common management personnel, including Mr. Covato, with the Fund Management Affiliates which sponsor, manage, and advise the Affiliated Fund. Mr. Covato, through his ownership of the Fund Management Entities, also has an ownership interest in the Affiliated Fund which could increase in value if his recommendation or offering of interests of the Affiliated Fund is accepted by clients. Therefore, Mr. Covato and CCM have a conflict of interest when recommending or offering investments in the Affiliated Fund due to Mr. Covato's material interests in the Affiliated Fund. CCM mitigates this conflict of interest by disclosing it to clients and disclosing that clients always have the right to decide whether to act on any recommendation regarding the Affiliated Fund made by CCM. Our fiduciary obligation is to always act and recommend investments that are in the client's best interest. Clients are never obligated to invest in the Affiliated Fund.

Except as disclosed above in this Item 11, CCM and individuals associated with our firm do not have any proprietary or material interests in or any role in the management of any companies or investments that we recommend to our clients.

**CONFLICTS RELATED TO MANAGEMENT OF PROPRIETARY ACCOUNTS.** CCM and/or individuals associated with our firm may manage proprietary accounts. Proprietary accounts owned by the firm or individuals associated with our firm may buy and sell the same securities that we buy and sell for client accounts. This practice creates an actual conflict of interest with our clients insofar as our firm and/or individuals associated with our firm may have a financial incentive to trade in securities for proprietary accounts in advance of or opposite to transactions in the same securities for client accounts. To address this conflict, our policy is that, assuming the purchase or sale is otherwise appropriate for the subject client accounts, we will purchase or sell securities for our clients' accounts, as the case may be, before purchasing or selling any of the same securities for any proprietary accounts. The only exception to this policy is that CCM and its personnel may purchase securities for proprietary accounts as part of a block trade entered simultaneously with client accounts. In some cases, we may buy or sell securities for our own account for reasons not related to the strategies adopted by our clients.

In summary, our practice of investing in the same securities for proprietary accounts that we may also buy or sell for client accounts is restricted by the following controls:

- we are required to uphold our fiduciary duty to our clients;
- we are prohibited from misusing information about our clients' securities holdings or transactions to gain any undue advantage for ourselves or others;

- we are prohibited from buying or selling any security that we are currently recommending for client accounts, unless we place our orders after client orders have been executed (or simultaneously with client orders, but only as part of block trade); and
- we are required to periodically report our securities holdings and transactions to the firm’s Chief Compliance Officer, who must review those reports for improper trades.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the accounts we advise.

We will disclose to advisory clients any material conflict of interest relating to us, our representatives, or any of our employees which could reasonably be expected to impair the rendering of unbiased and objective advice.

We may refrain from rendering any advice or services concerning securities of companies of which our firm or any of our associated persons may have substantial economic interest, unless we either determine in good faith that we may appropriately do so without disclosing such conflict to the client or disclose such conflict to the client prior to rendering such advice or services with respect to the account.

## Item 12: Brokerage Practices

**RECOMMENDATION AND SELECTION OF BROKER-DEALERS.** Although clients may direct that we use a particular broker-dealer of their choice, we generally recommend that clients engage the custodial and brokerage services of Interactive Brokers, LLC (“IB”), 1 Pickwick Plaza, 2nd Floor, Greenwich, Connecticut 06830, an SEC registered broker-dealer firm and a member of the Financial Industry Regulatory Authority (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). We are not affiliated with IB and IB does not monitor or control the activities of our firm. You will ultimately select the custodian and executing broker for your account by completing the account opening documentation of the chosen service provider. Upon request, we may provide you with reasonable assistance in completing such documentation. Once a broker-dealer has been selected by the client, unless we are instructed otherwise in writing, you authorize us to execute all trades within your account through the trade execution services of such firm.

**BEST EXECUTION.** In recommending broker-dealers, we have an obligation to seek the “best execution” of transactions in your account. This duty requires that we seek to execute securities transactions for clients such that the total costs or proceeds in each transaction are the most favorable under the circumstances. The determinative factor in the analysis of best execution is not the lowest possible commission cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of the recommended broker-dealer’s services. The factors we consider when evaluating a broker-dealer for best execution include, without limitation, the broker-dealer’s:

- execution capability;
- commission rate;
- financial responsibility;
- responsiveness and customer service;
- custodian capabilities;
- research services/ancillary brokerage services provided; and
- any other factors that we consider relevant.

Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for specific account transactions. With this in consideration, our firm will continue to recommend that clients use IB until their services do not result, in our opinion, in best execution of client transactions.

**DIRECTED BROKERAGE.** If the client selects the broker-dealer other than the recommended broker-dealer, you are advised that we may be unable to obtain best execution of your transactions and your commission costs may be higher than those of our recommended broker-dealer. For example, in a directed brokerage account, you may pay higher brokerage commissions and/or receive less favorable prices on the underlying securities purchased or sold for your account because we may not be able to aggregate your order with the orders of other clients. In addition, where you direct brokerage, we may place orders for your transactions after we place transactions for clients using our recommended broker-dealer. We reserve the right to reject your direction that we utilize a particular broker-dealer if such selection would frustrate our management of your account, or for any other reason.

**SOFT DOLLAR ARRANGEMENTS AND OTHER BENEFITS.** As of the date of this brochure, CCM does not receive any soft dollar benefits.

As a registered investment advisor, we may be granted access to the institutional platform of your account custodian. As such, we will also have access to research products and services from your account custodian and/or other brokerage firm. These products may include financial publications, information about particular companies and industries, research software, and other products or services that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. Such research products and services are provided to all investment advisors that utilize the institutional services platforms of the selected broker-dealer firm and are not considered to be paid for with soft dollars. However, you should be aware that the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge.

We do not pay a fee for these foregoing products and services provided by your account custodian and all client accounts may not be the direct or exclusive beneficiary of such products and services. It is further important to note that our receipt of such products and services creates an incentive for CCM to continue to recommend that clients engage IB based upon our desire to continue to receive these items, rather than receiving best execution or purely the lowest price for client transactions. We mitigate this conflict of interest by periodically monitoring and reviewing the services provided to our clients by IB for best execution.

**BROKERAGE FOR CLIENT REFERRALS.** We do not receive any compensation or incentive for referring you to any broker-dealers for brokerage trades or Independent Manager(s) for sub-advisory services, nor do we receive client referrals or other compensation (such as brokerage services or research) in exchange for directing client transactions to any broker-dealer.

**ORDER AGGREGATION.** We are authorized in our discretion to aggregate purchases and sales and other transactions made for your account with purchases and sales and other transactions in the same or similar securities or instruments for our other clients. When transactions are aggregated, the actual prices applicable to the aggregated transactions will be averaged, and your account will be deemed to have purchased or sold its proportionate share of the securities or instruments involved at the average price



so obtained. We direct that confirmations of any transactions effected each client's account will be sent, in conformity with applicable law, to the client.

We do not block trade for non-discretionary accounts. Accordingly, non-discretionary accounts may pay different costs than discretionary accounts pay. If you enter into non-discretionary arrangements with our firm, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than clients who enter into discretionary arrangements with our firm.

The trade aggregation and allocation practices of mutual funds, ETPs, and Independent Managers that we recommend to you are disclosed in the respective prospectuses and disclosure brochures which will be provided to you. We encourage you to review those documents carefully to understand the trade aggregation and allocation practices of these third parties.

## Item 13: Review of Accounts

**ACCOUNT REVIEW POLICIES.** We review client accounts as follows:

Portfolio Management Services. Portfolio Management Services accounts are monitored on an ongoing basis and are formally reviewed periodically, but not less than annually, typically by the investment advisor representative with whom the client regularly works. However, the specific individuals conducting formal account reviews may vary from time to time, as personnel join or leave our firm. The frequency of formal reviews is determined based on each client's investment objectives and investment profile.

Financial Planning and Consulting. Annual (retainer) Financial Planning and Consulting clients receive comprehensive, written financial plans that are formally reviewed and updated at least annually. Our investment advisor representatives conduct these reviews in person, over the phone and/or via the internet. One-time or project based Financial and Consulting client plans/reports are not reviewed or updated after their delivery to the client, unless the client specifically requests such review and pays an additional advisory fee.

**MORE FREQUENT REVIEWS.** More frequent reviews of Portfolio Management Services accounts and Annual (retainer) Financial Planning and Consulting accounts/plans may be triggered by a change in client's investment objectives; risk/return profile; tax considerations; contributions and/or withdrawals; large sales or purchases; security specific events; or changes in the economy more generally.

**REPORTING POLICIES.** Clients will receive account statements from the independent qualified custodian holding their funds and securities reflecting all transactions during the period and all holdings in their account at least quarterly. We shall independently prepare and deliver supplemental reports of your account holdings and performance as reasonably requested by the client.

## Item 14: Client Referrals and Other Compensation

As referenced in Item 12 above, the broker we recommend to clients, IB, provides services and products to us without cost or at a discount that we may use to service some or all of our client accounts. We may enter into similar arrangements with other broker-dealers and custodians in the future. As part of its fiduciary duties to clients, CCM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by our firm and/or our associated persons in

and of itself creates a potential conflict of interest and may influence our recommendation of certain custodians to clients.

We have no arrangements, written or oral, in which we compensate others or are compensated for client referrals.

## Item 15: Custody

CCM has constructive custody of its clients' assets insofar as CCM may directly debit its fees from certain client accounts pursuant to its advisory agreement and specific written authorization from each client for such direct debits. We cannot otherwise transfer funds or securities from client accounts held at the qualified custodian without the client's prior approval. All funds and securities are held in the client's name in an account or accounts maintained at an independent qualified custodian.

In accordance with Florida Administrative Code 69W-600.0132(2)(i), each time an advisory fee is deducted from the client's account, CCM will concurrently send to both the client's custodian and the client an invoice for the fees to be directly debited. The invoice provided to the client shall be itemized and shall disclose the formula used to calculate the fee, the amount of assets under management upon which the advisory fee is based, and the time period covered by the advisory fee. The client will also receive account statements independently prepared and delivered by the custodian, at least quarterly, identifying the amount of funds and of each security in the account at the end of the period and setting forth all transactions in the account during the period, including the amount of any advisory fees paid directly to us. Clients are urged to carefully review and compare the itemized invoices and any other statements of account provided by CCM with those provided by the custodian. Custody of client's funds and securities is always maintained in the client's name at the qualified custodian.

As discussed above in Items 5, 10, and 11, certain related persons of CCM are also affiliated with the Fund Management Affiliates which sponsor, manage, and advise the Affiliated Fund. This dual affiliation results in our firm being imputed with custody over advisory client funds that are invested in the Affiliated Fund. Because CCM is deemed to have custody of the assets invested in the Affiliated Fund by its advisory clients, the firm is subject to certain annual independent audit requirements relating to the Affiliated Fund. Specifically, in accordance with Florida Administrative Code 69W-600.0132(3)(d), CCM follows the following additional safeguarding procedures with respect to the Affiliated Fund:

1. All investors in the Affiliated Fund receive, at least quarterly, a statement showing:
  - a. The total amount of all additions to and withdrawals from the Affiliated Fund as a whole as well as the opening and closing value of the Affiliated Fund at the end of the quarter based on the custodian's records;
  - b. A listing of all long and short positions on the closing date of the statement in accordance with FASB Rule ASC 946-210-50;
  - c. The total amount of additions to and withdrawals from the Affiliated Fund by the investor as well as the total value of the investor's interest in the Affiliated Fund at the end of the quarter;
2. At least annually, the Affiliated Fund is subject to an audit and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors within 120 days of the end of its fiscal year;
3. The audit is performed by an independent certified public accountant that is registered with, and subject to regular inspection as of the commencement of the professional engagement period,

and as of each calendar year-end, by the Public Company Accounting Oversight Board in accordance with its rules;

4. Upon liquidation, CCM will distribute the Affiliated Fund's final audited financial statements prepared in accordance with generally accepted accounting principles to all investors and the Florida Office of Financial Regulation promptly after the completion of such audit;
5. The written agreement with the independent certified public accountant requires the independent certified public accountant to, upon resignation or dismissal from, or other termination of, the engagement, or upon removing itself or being removed from consideration for being reappointed, notify the Florida Office of Financial Regulation within four (4) business days accompanied by a statement that includes:
  - a. The date of such resignation, dismissal, removal, or other termination, and the name, address, and contact information of the independent certified public accountant; and,
  - b. An explanation of any problems relating to audit scope or procedure that contributed to such resignation, dismissal, removal, or other termination.

CCM shall have no liability to clients for any loss or other harm to any property in the client's account(s) held at the qualified custodian, including any harm to any property in the account resulting from the insolvency of the custodian or any acts of the agents or employees of the custodian and whether or not the full amount or such loss is covered by the SIPC or any other insurance which may be carried by the custodian. Clients understand that SIPC provides only limited protection for the loss of property held by a broker-dealer.

## Item 16: Investment Discretion

CCM's Portfolio Management Services are typically offered to clients on a discretionary basis. You will be required to execute instructions regarding our trading authority as required by the custodian of your account(s). Our discretionary authority is restricted to trading activity only, including the buying and selling securities (including the determination of the timing and amount of securities to be bought or sold) within your account, the utilization of margin, the engagement and termination of Independent Manager relationships, and so on. We will use our discretionary authority to execute our investment recommendations within your account(s) (in strict accordance with your unique investment profile, investment needs and limitations, and the selected investment strategy or Model Portfolio) without obtaining your approval prior to each specific transaction. It should be noted that in the course of exercising such discretionary authority, CCM may give advice and take action with respect to your account which may differ from the advice given or the timing and nature of action taken with respect to the accounts of other CCM clients. Except for direct deductions of its advisory fees or as otherwise specifically authorized by you, CCM will not be permitted to initiate transfers of funds or securities in or out of your account at the qualified custodian.

If specifically requested by you, CCM may agree to manage your Portfolio Management Services account on a non-discretionary basis, in which case CCM will obtain your approval prior to entering into any transaction (except for withdrawals of CCM's advisory fees) for your account. You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

Financial Planning and Consulting Services are provided exclusively on a non-discretionary basis. You have an unrestricted right to decline to implement any advice provided by our firm and the sole discretion to determine the manner, timing, and service providers to be used for implementation of our investment

recommendations. You are never under any obligation to use CCM or any of its representatives to implement the advice we provide to you under this service.

## Item 17: Voting Client Securities

We do not accept authority to vote client securities or provide clients with any advice regarding voting of any proxies. Most clients will receive proxies and other solicitations directly from the custodian or transfer agent. If any proxy materials are received on behalf of a client, they will be sent directly to the client or a designated representative of the client, who is responsible to vote the proxy. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

## Item 18: Financial Information

CCM does not require or solicit prepayment of more than \$500 in advisory fees per client six months or more in advance. Therefore, we are not required to provide a balance sheet with this brochure.

As an advisory firm that maintains discretionary authority for client accounts, CCM is required to disclose any financial condition that is reasonably likely to impair its ability to meet its contractual obligations. We have no such financial circumstances to report.

CCM has not been the subject of a bankruptcy petition at any time in the past.

## Item 19: Requirements for State-Registered Advisors

**CCM'S PRINCIPALS AND MANAGEMENT PERSONNEL.** CCM's principal and managing member is Christopher P. Covato. Mr. Covato's education and business background and that of other investment advisor representatives of the firm are disclosed in their respective Form ADV Part 2B brochure supplements. Copies of these brochure supplements will be provided to you free of charge by contacting us at the telephone number found on the cover page of this firm brochure.

**OTHER BUSINESS OF CCM.** CCM conducts no business other than providing investment advisory services as described in this firm brochure. Any outside business activities of CCM's personnel are disclosed in their respective Form ADV Part 2B brochure supplements. A copy of the brochure supplement for your investment advisor representative will be provided to you free of charge by contacting us at the telephone number found on the cover page of this firm brochure.

**PERFORMANCE-BASED FEES.** As described in Item 5 of this firm brochure, CCM does not charge performance-based fees of any kind. Therefore, we have no information to disclose under this item.

**MATERIAL INFORMATION REGARDING CERTAIN ARBITRATIONS AND REGULATORY ACTIONS.** Neither CCM nor its management have ever been subject to any arbitration or regulatory proceeding involving investment-related activity or charges of fraud, theft, or the like.

**ARRANGEMENTS WITH ISSUERS OF SECURITIES.** Except as disclosed in Items 5, 10, and 11 of this brochure with respect to the Affiliated Fund, CCM and its personnel do not have any arrangements or relationships with any issuer of securities.

Item 1: Cover Page



Form ADV Part 2B: Christopher P. Covato

**Covato Capital Management, LLC**

**5640 English Oaks Lane**

**Naples, Florida 34119**

**Phone: (239) 330-1375**

**Fax: (239) 206-2379**

**Web: [www.covatocapital.com](http://www.covatocapital.com)**

**August 7, 2023**

This supplemental brochure provides information about Christopher P. Covato, the managing member of Covato Capital Management, LLC ("CCM"). Additional information about CCM (CRD No. 173956) and Mr. Covato (CRD No. 1993414) is also available at the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This supplements CCM's Form ADV Part 2A firm brochure, which should have also been provided to you. Please contact us at (239) 330-1375 if you did not receive a copy of CCM's firm brochure or if you have any questions.

## Item 2 – Educational Background and Business Experience

### INVESTMENT ADVISOR REPRESENTATIVE NAME AND BIRTH YEAR

Christopher P. Covato; Year Born: 1961

### EDUCATIONAL BACKGROUND

1981: Associate Degree – Specialized Technology and Avionics - Pittsburgh Institute of Aeronautics

### BUSINESS BACKGROUND

2023 – Present: Principal, NFA Associated Person, Volatility Capital Management, LLC

2023 – Present: Managing Member, Volatility Capital Advisors, LLC

2020 - Present: Investment Advisor Representative, Founder, and Managing Member – Covato Capital Management, LLC

1999 - 2022: Flight Crew, Check Captain, and Instructor Pilot - Atlas Air, Inc.

2018 - 2019: Investment Advisor Representative - CS Planning Corp.

2015 - 2018: Investment Advisor Representative, Founder, and Managing Member - Covato Capital Management, LLC

### PROFESSIONAL QUALIFICATIONS

Series 65, Uniform Investment Advisor Law Examination (2014)

Series 3, National Commodities Futures Examination (2022)

## Item 3 – Disciplinary Information

Mr. Covato has not been the subject of any legal or disciplinary events that are material to you or any prospective client's evaluation of CCM's advisory business or Mr. Covato's fitness to serve as an investment advisor representative of the firm.

## Item 4 – Other Business Activities

In addition to serving as the manager and principal of CCM, Mr. Covato is also a principal and managing member of Volatility Capital Management, LLC ("VCM") and Volatility Capital Advisors, LLC ("VCA," and collectively with VCM, the "Fund Management Affiliates"), entities which collectively sponsor, manage, and advise an affiliated privately offered pooled investment vehicle ("Affiliated Fund"). In the foregoing capacities, Mr. Covato is responsible for the day-to-day operations of the Fund Management Affiliates and the Affiliated Fund. Mr. Covato's outside activities in connection with these businesses include managing investments on behalf of the Affiliated Fund and soliciting the sale of interests in the Affiliated Fund, which may include recommendation and sale of the Affiliated Fund's interests to CCM's advisory clients. Accordingly, Mr. Covato is involved in the business of offering and selling private securities to prospective participants in the Affiliated Fund.

While the foregoing outside business activity is expressly separate from the business of CCM, where Mr. Covato makes such private sale or offering to any CCM client, he is required to bear in mind the client's relationship to CCM and act in accordance with his fiduciary duty to the client. Mr. Covato will always consider the client's investment objectives and individual financial situation before and while engaging in any private offering of securities of the Affiliated Fund to any client. Clients are never obligated to purchase interests in the Affiliated Fund.

Mr. Covato, CCM, and the Fund Management Affiliates advise all clients of the actual conflicts of interest that arise from the relationships outlined above. These conflicts include increased compensation to the Fund Management Affiliates and Mr. Covato, individually, as a result of Mr. Covato's recommendation of the Affiliated Fund to advisory clients and their decision to invest.

Except as disclosed above, Mr. Covato is not actively engaged in any investment-related business or occupation other than his role as an investment advisor representative of CCM.

## Item 5 – Additional Compensation

Except as disclosed in Item 4, Mr. Covato does not receive any additional compensation from any other party in connection with providing advisory services to CCM's clients.

## Item 6 – Supervision

Mr. Covato is the managing member and Chief Compliance Officer of CCM. He remains aware of and keeps CCM in compliance with the current rules and regulations put forth by each ruling regulatory authority where CCM conducts advisory business. While Mr. Covato is not subject to oversight by any other person at the firm, he remains bound by CCM's Code of Ethics. Mr. Covato can be reached by calling the telephone number which appears on the cover page of this brochure supplement.

## Item 7 – Requirements for State-Registered Advisors

As of the date of this brochure supplement, Mr. Covato:

- has not been involved in any material arbitration or arbitration claims;
- has not been awarded against or otherwise found liable in any civil, self-regulatory organization, or administrative proceeding; and
- has not been the subject of a bankruptcy petition.