

PMA

PRUDENT

MANAGEMENT

ASSOCIATES

## ADV Part 2A Firm Brochure

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### Item 1 – Cover Page

March 26, 2024

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This brochure provides information about the qualifications and business practices of Prudent Management Associates.

If you have any questions about the contents of this brochure, please contact Fred Snitzer at 215-994-1062 or at [pma@prudentmanagement.com](mailto:pma@prudentmanagement.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Prudent Management Associates also is available on the SEC's web-site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Prudent Management Associates is a registered investment adviser with the Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

There were no material changes to this brochure since the filing of Prudent Management Associate’s last annual amendment on March 29, 2023.

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<sup>1</sup> **A NOTE ABOUT THE FORMAT OF THIS BROCHURE:** The SEC requires all investment advisers to organize their disclosure documents according to specific categories, some of which may not pertain to a particular adviser's business. Where a required category is not relevant to our business, we list the category and state that it does not apply.

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## **Item 4 – Advisory Business**

Prudent Management Associates (also referred to as “PMA” or the “firm”) is a registered investment adviser formed in 1982.

For over forty years, PMA has endeavored to make available to smaller investors the same sophisticated manager selection and asset allocation process used by the largest and most sophisticated institutional investors. Our coherent and intellectually sound investment process rooted in the principles of modern portfolio theory, coupled with a rigorous process of evaluating, selecting, and monitoring the funds we use to construct portfolios, have created a track record we are proud of.

Prudent Management Associates invests primarily through low-cost, low-turnover, no-load mutual funds that have a proven track record, management stability, deep experience, and a consistent investment philosophy. PMA uses these mutual funds to carefully construct risk-controlled portfolios, designed to provide downside protection during bear markets while still participating in up markets. In using no-load mutual funds, the firm is completely independent of the funds it chooses, and is compensated only by the client. PMA may also use ETFs (“Exchange-Traded Funds”) in limited circumstances – for example, if certain exposures are not available through no-load mutual funds – and, in such circumstances, PMA will remain completely independent of the ETFs it uses and will continue to be compensated only by the client.

The direct owners of the firm are Keystone Development Services, Inc., Marshall Blume Associates, Inc., and Kantwell Partners, LLC. (“Kantwell”). As a result of the passing of Marshall Blume in 2019, the indirect owner of Marshall Blume Associates, Inc. is Loretta Blume. Keystone Development Services, Inc. is owned by Andrew, Paul and Fred Snitzer and Barbara Snitzer Solit. Kantwell is owned by David Wellborn, and (indirectly) David Kantor.

Although investment risk can never be eliminated entirely, we are conservative and risk-averse investors. We do not chase trends. We do not invest directly in individual stocks or bonds, derivatives, currencies, commodities, real estate, hedge funds, private equity, or any type of alternative investment. We invest primarily in low-cost, no-load mutual funds, across a broad range of categories: small, mid, large, value, growth, and blend. We generally do not invest in sector funds. Within the bond portion of our clients’ portfolios, we primarily invest in short-term and intermediate-term bond funds. We also may invest a small percentage of our bond portfolio in high-yield bond funds when market conditions warrant.

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PMA combines the role of the consultant and the money manager into one firm, evaluating mutual funds and constructing highly-diversified portfolios from the funds that pass the firm's screen. PMA carefully monitors the volatility of the financial markets for excessive exuberance or pessimism, tracks the changing correlations between asset categories, and adjusts the client's portfolios accordingly.

With PMA, clients have to make only one fundamental decision: what level of risk they are comfortable taking. After clients have decided, the firm will invest client assets in one of PMA's carefully constructed investment portfolios. Clients are provided with a monthly market value statement that shows the breakdown of their portfolio by fund. On a quarterly basis, clients are given a performance report and transaction report.

PMA offers four basic portfolios to its clients: a Small, a Moderate, a Substantial and an All-Equity Risk Portfolio (see Item 8 for a fuller explanation of the construction of these four portfolios). Each portfolio's risk is a function of its asset allocation – the percentage of the portfolio invested in stock funds and the percentage invested in bond funds. However, PMA knows that every investor is unique and is willing to tailor its four portfolios to meet the needs of a specific client. We work closely with each client to help define current needs and long-term goals. We guide both individual and institutional clients as they make their key decision: the level of risk they need to assume in order to achieve their financial objectives. Although we do not recommend it, clients may, if they wish, request that PMA not use specific mutual funds.

As of January 31, 2024, PMA manages \$1,052,758,169.

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## Item 5 – Fees and Compensation

Prudent Management Associates' management fee is payable quarterly in advance and is based upon a percentage of the market value of assets under management on the last business day of the previous quarter. In some cases, the market value on which fees are calculated will differ from the value reflected on the custodial statement because PMA's market value includes dividends posted on the last day of a month, whereas the custodian may post such dividends at the beginning of the subsequent month.

PMA typically deducts management fees from client assets, but when requested, will send an invoice to clients for its services instead.

PMA's basic fee schedule is as follows:

- .75% on the first \$ 1 million of managed assets
- .65% on the next \$ 4 million
- .50 % of any amount thereafter

PMA generally requires clients to have a minimum of \$1 million in investible assets under PMA's management.

PMA has relaxed the minimum requirement under certain circumstances, but always in PMA's discretion. PMA also in its sole discretion sometimes agrees to lower fees based on certain criteria. These criteria include, but are not limited to, whether the client is a charitable institution, account size, anticipated future earning capacity, anticipated future additional assets, related accounts and account composition. Clients currently pay a range of fees that differ from the fee schedule.

### *Other Fees and Expenses*

In addition to PMA's advisory fee, clients also pay fees to custodians for the maintenance of portfolio assets. The fee is not included as part of PMA's bills to clients. For PMA clients the custodian is an entity owned by Fidelity Investments which charges a quarterly asset-based fee on most, but not all, mutual funds PMA selects for clients. At the time of this brochure update, Fidelity's maximum custody fee is 3.75 bps (.0375%) annually.

PMA clients also bear a proportionate share of the operating expenses of the no-load mutual funds in their portfolios. Mutual fund expenses are netted out of the funds' returns and do not result in a deduction from the client account. As of December 31, 2023, the average asset weighted expenses of all funds in PMA portfolios was 24 basis points (.24%). From time to time fund families introduce new share classes with lower expense ratios. While PMA

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endeavors to optimize its clients' investment returns, it does not guarantee the clients will be in the lowest-expense share class at all times. In some cases, investment in lower-cost share classes is restricted by the fund or the custodian.

Clients may also incur fees related to wire transfers, but these fees are generally rare and insignificant.

The Investment Advisory Agreement between PMA and the client may be terminated by either party upon thirty days' written notice. Upon termination, PMA shall refund to the client the pro-rated remaining balance (if any) of the client's quarterly investment management fee.

*No Additional Compensation to PMA*

PMA is an independent firm with no allegiances to any mutual fund family. PMA has no compensatory arrangement with any mutual fund family that would cause us to direct a client's assets to a particular fund family. PMA is not compensated by any fund manager with which it does business nor does PMA receive 12b-1 fees. Since PMA invests only in mutual funds and ETFs, it does not have to negotiate fees with broker-dealers. PMA has no soft dollar arrangements.

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

Prudent Management Associates does not offer or accept a performance-based fee. All fees are based on a percentage of assets under management.

## **Item 7 – Types of Clients**

Prudent Management Associates provides portfolio management services to high net worth individuals, corporate pension and profit-sharing plans, charitable institutions, foundations, and endowments.

When PMA provides investment advice regarding a client's retirement plan account or individual retirement account, PMA is a "fiduciary" as that term is defined under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code. While PMA will accept the management of a rollover retirement account at a client's request, PMA does not make specific investment recommendations about retirement accounts before being engaged to exercise discretion over the retirement assets.

See Item 5 for information about minimum account requirements.

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

PMA's investment process involves two main functions: 1) the selection of mutual funds and ETFs and 2) the creation and monitoring of client portfolios using the selected products. As indicated in Item 4 above, PMA invests primarily through open-end mutual funds, though PMA may use ETFs in limited circumstances—for example, if certain exposures are not available through no-load mutual funds. The following discussion represents a general description of PMA's fund selection and portfolio construction procedures. (The same criteria and policies generally apply to ETFs as well.)

PMA conducts a variety of investment due diligence on any potential new investment which may be specific to the nature of the fund (i.e., actively managed or index-based) and can vary from the description outlined below. Similarly, although PMA monitors all managed funds on an ongoing basis, the nature of such oversight may vary across funds.

PMA invests the assets of its clients primarily in well-diversified, low-cost, highly-liquid, no-load mutual funds. We do not invest directly in individual securities. We do not invest in alternative investments like hedge funds, private equity, or real assets like gold, timber, or real estate (although some of our funds may purchase REITs (Real Estate Investment Trusts) or commodity companies). We do not invest directly in derivatives, currencies, or other exotic and highly risky types of investments.

We do our best to control risk by carefully selecting funds with whom we invest, diversifying over many asset classes (short and intermediate fixed income funds; large, mid, and small-cap funds; growth, blend, and value funds; domestic and international funds), monitoring the conditions of the economic and financial markets, and rebalancing or adjusting our model allocations.

Though one of PMA's main goals is to reduce the risk of each client portfolio as much as possible, PMA is still investing in the securities market in both stock and bond mutual funds (or ETFs), which will always involve the risk of loss for the client. Performance cannot be guaranteed and client accounts may decline in value. The only way to avoid investment risk is to invest in cash-equivalent vehicles like money market funds. In doing this, however, the client will risk the long-term effect of inflation that erodes the purchasing power of their assets. Furthermore, as we have learned during times of financial crisis, not even money market funds are completely safe.

Since 1982, PMA has developed a highly disciplined fund search and oversight process which combines qualitative and quantitative factors to determine those funds that PMA believes are likely to produce superior risk-adjusted returns or achieve a particular investment objective.

First, PMA divides its equity mutual funds into four asset categories—International equities, Aggressive U.S. equities, Conservative U.S. equities, and the S&P 500 Index. Within the International, Conservative and Aggressive domestic categories, PMA further delineates funds by size and style, enhancing the diversification benefits by giving clients exposure to large, mid, and small-cap funds, and growth, value, and blend funds. In addition to equity funds, many clients are invested in fixed-income mutual funds as well. For both taxable and tax-exempt (municipal) fixed income funds, PMA uses two primary categories based on maturity: Short and Intermediate. High-yield funds are included in the intermediate-maturity class.

The next step is often a detailed analysis of the historical volatility of each fund PMA is evaluating. For actively managed funds in particular, we examine the range of the returns and the pattern of returns to make sure the fund is behaving according to its mandate. For example, if the fund calls itself a mid-cap value fund, is it really behaving like one? Is it truly picking stocks within the mid-cap value universe? And, assuming the managers are only picking stocks within their stated style, are they actually adding value?

PMA has built statistical models to aid us in answering these questions.

Funds are typically further screened for low expense ratios and low turnover or trading activity. We generally eliminate all funds that do not have a five-year track record, even if the performance history is strong. These additional screens produce a small list of “eligible” funds.

The next and equally important stage of selecting funds requires a judgment of the person “behind the numbers”. Before placing client monies with any new fund, we conduct an interview with a portfolio manager and/or key personnel from each fund. PMA also evaluates a variety of other qualitative characteristics about each fund and firm before making a formal investment. Depending on the nature of the strategy, some of these characteristics include but are not limited to: who makes the decisions and what criteria they use; their costs and compensation incentives; their research capacity and process; their investment theory and philosophy; their thinking in constructing their overall portfolio; and their record, reputation, and trustworthiness.

It is important to note, after the initial selection, PMA monitors funds on an ongoing basis to determine whether they are still achieving the desired investment objective. For example, we host manager representatives (on-site or virtually) to provide updates and answer questions related to fund performance, firm-level news, and portfolio positioning. Select red flags that PMA monitors, which could lead to a fund being terminated, include but are not limited to: manager style drift, departure of key personnel, major operational issues, and significant

portfolio turnover. Certain oversight considerations may be more or less important depending on the nature of each specific fund.

We use these carefully screened funds to accomplish our second main task: the construction of the client portfolio. The funds serve as the building blocks of the portfolio. For example, many clients will be invested in 15 to 30 funds that represent a diverse group of asset and sub-asset classes covering both index and active strategies.

The building of the overall portfolio is part art, part science. For example, determining what percentage of a client's assets should be invested in international equities requires both mathematical analysis and intuitive judgment. How do we do this?

First, we separate our funds into five asset categories: International equity, Aggressive equity, Conservative equity, the S&P 500 Index, and Fixed Income. Each of these PMA-designated asset categories offers a different mix of expected risk and return. We calculate what we expect each category to return over the approximately next five years (using a dividend-discount model for equities and the current yield for bonds), and we look at how volatile each of these categories has been in the past (using the monthly standard deviation of returns). Then, we calculate the return correlations for each of our five categories. This calculation tells us how the five asset categories are moving together. Is one going up while the other goes down? Has there been a change in the way that the different asset categories are moving together?

Using the above data as inputs, a proprietary PMA model yields the proposed portfolio weights for each of our risk-based portfolios. However, we do not blindly follow the weights that the model calculates; often, our Investment Committee will adjust the weights the model recommends based on our own judgment about the riskiness of the markets.

PMA offers four primary model portfolios – Small Risk, Moderate Risk, Substantial Risk, and All-Equity. As their names imply, each portfolio has a different risk profile, which is primarily a function of the percentage allocation to stocks and the percentage allocation to bonds. For example, the Small Risk Portfolio currently has a target allocation of 80% to bond funds and 20% to stock funds. Generally speaking, this is a conservative asset allocation. In turn, the range of returns during any year is expected to be narrower than that of the other portfolios. Additionally, its returns should be steadier but also, over the long-term, lower than those of the Moderate Risk, Substantial Risk, and All-Equity Portfolios.

PMA may make incremental changes to the model portfolios. These changes are often infrequent and modest. Our Investment Committee meets at least four times a year to evaluate the risk of the markets, review the asset allocations of our model portfolios, and discuss various investment analyses presented by investment staff.

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### **Item 9 – Disciplinary Information**

This item does not apply to our business. Neither the firm nor any of its advisors or support staff have faced any disciplinary action in the over forty-year history of the firm.

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

David Kantor, an indirect minority owner of PMA, is a Partner of Santa Fe Advisors LLC, an investment advisory firm located in Santa Fe, New Mexico that provides investment advisory services to clients primarily in the New Mexico and Colorado areas. PMA does not have any relationship or arrangements with Santa Fe Advisors. Mr. Kantor's responsibilities at Santa Fe include analysis of potential investment opportunities and client relationship management and development. Mr. Kantor's position does not create any material conflicts of interest with Prudent Management clients.

PMA has no relationship with any other advisor, investment company or other pooled investment vehicle, hedge fund, off-shore fund, accounting firm, law firm, insurance company, pension consultant, real estate broker or dealer, sponsor or syndicator of limited partnerships, or any other type of relationship in which PMA receives compensation, either directly or indirectly, that could create a material conflict of interest.

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

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

Several of the employees and the managers of PMA do have their money invested at PMA, alongside their clients. We do not believe that this creates a conflict of interest. Like their clients, these PMA individuals are invested only in the mutual funds approved by PMA for its clients. When PMA employees invest in a mutual fund, in which client money is pooled, both are investing along with thousands of other investors. This is very different from investing in an individual security. Directing an individual client's assets to a particular mutual fund will in no way affect the performance of that fund. The fund's performance is a function of the skill of the manager, and the investment choices that the manager makes, in which he or she is choosing among thousands of different companies. PMA's choice of the funds in which we invest a particular client's assets is made solely on the basis of that client's specific circumstances and risk tolerance. It is not based on PMA funds in which PMA advisors are also invested.

## **Item 12 – Brokerage Practices**

Since Prudent Management does not purchase individual securities for its clients' accounts, it is not involved with the selection of broker-dealers.

In the event that PMA were to need the services of a brokerage firm, we would likely use the brokerage arm of either Fidelity Investments or the Vanguard Group.

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### **Item 13 – Review of Accounts**

The Investment Committee of Prudent Management Associates meets at least once every quarter, and more frequently when warranted, to discuss the asset allocation of our model portfolios and client accounts in light of current market conditions. Client accounts are also generally monitored and rebalanced on an ongoing basis by PMA's financial advisors.

The members of the Investment Committee are A. Craig MacKinlay (Consultant), Fred Snitzer (Managing Director), David Wellborn and David Kantor (Principals), Richard Lerch (Managing Director), Keith Hardman (Financial Advisor), Daniel Berkowitz (Investment Director), Paul Snitzer (General Counsel and Chief Compliance Officer), Barbara Solit (Marketing Director) and Michael Bilotta (Financial Advisor). David Kantor and David Wellborn generally do not attend Investment Committee meetings in person but may do so virtually or by phone.

Prior to the Investment Committee meetings, Craig MacKinlay will typically prepare and distribute a Market Analysis/Asset Allocation report. This report generally includes: (1) an overview of market performance, including an analysis of interest rate trends; (2) an analysis of average monthly returns and standard deviations for PMA's asset categories; (3) an overview of current economic conditions; (4) a discussion of expected future returns; and (5) a review of investment policy and asset allocation within the model portfolios.

At the meeting, a discussion about asset allocation also typically occurs. Prudent Management Associates' four primary model portfolios each have a designated, target asset allocation range and we are permitted to adjust our clients' portfolios within that range. For example, our Moderate Risk Portfolio can be allocated anywhere between 45% to 60% in equities. If the current target allocation is 55% in equities and we decide that market conditions warrant a reduction to 50% in equities, we will rebalance the portfolio to the new target. Or, if the target is 55% in equities but market appreciation has pushed the allocation of clients in the Moderate Risk Portfolio to 60% in equities, we have the discretion to rebalance their portfolios back to the target of 55% in equities.

At the Investment Committee meeting, we may also review the funds that we use to construct client portfolios. We may analyze the funds for style consistency, cost, performance, and turnover, amongst other considerations. We rarely discard a mutual fund that we have selected through our screening process (see Item 8), but may do so if there is a change in manager, or a change in the investment approach of the current manager. We may also evaluate potential new funds to add to the roster of mutual funds that we use to construct our risk-controlled portfolios.

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Clients are provided a monthly market value statement that shows the breakdown of their portfolio by fund. On a quarterly basis, clients are provided with a performance report and transaction report.

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

Prudent Management Associates has no arrangement with any client, estate lawyer or accountants or other party, in which we pay them for client referrals in any way (cash, gifts, etc.).

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## **Item 15 – Custody**

Fidelity currently acts as the custodian for client assets, subject to a very few exceptions, and all purchases and sales of mutual funds run through the custody account. PMA's advisory fees are typically deducted from the custody account as well.

PMA does not ever take physical possession of client assets. As the client's discretionary investment manager, PMA has the authority to instruct Fidelity to buy and sell mutual funds on a client's behalf and to utilize the assets in a client's account for that purpose. This includes rebalancing assets within an account by, for example, selling out of a bond fund and re-investing the assets into an equity fund.

PMA also may direct the transfer of assets between a client's managed account and one or more other accounts held in the name of the client but only with the client's express authorization and only where other protections are in place.

Other disbursements from client accounts require express approval by the client.

PMA clients will receive a monthly statement directly from their custodian, identifying all trading activity in the account and all deposits to and disbursements from the account. We urge our clients to carefully review such statements every month. We also urge our clients to then compare these official custodial records to the monthly account statements that clients will also receive from Prudent Management Associates. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities but any material discrepancy should be brought to PMA's attention promptly.

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## Item 16 – Investment Discretion

When a client enters into a relationship with Prudent Management Associates, they sign an investment advisory agreement which states: “Prudent Management Associates will provide the Client with continuous supervision of the Client's investments, undertaking and executing the purchase, sale or exchange of securities whenever it deems it advisable to do so.”

By signing this agreement, the client has given Prudent Management Associates limited discretion over their assets. This means that PMA now has the authority to choose which no-load funds to be bought and sold, and in what amount, without consulting with the client. In all cases, however, such discretion is to be exercised in a manner with the stated investment objectives for the particular client account.

The client is entitled to modify their investment decision and tailor it to their particular needs, within reason. For example, they can choose an allocation different from those offered in the PMA risk models; they can choose to exclude a particular fund from their account; they can, although we do not recommend it, include a fund that is not on our roster of funds. Generally, we prefer to use our asset allocation models and the funds that have passed our screen, but we are flexible, and we are very aware that this money is our clients', and not ours.

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

It has always been the policy of Prudent Management Associates not to vote proxies on behalf of our clients. In the investment advisory agreement that a client signs at the beginning of their relationship with PMA, there is a sentence that reads: “Prudent Management Associates has no authority to vote proxies on Client’s behalf sent to it by mutual fund investment management companies and that such proxies will not be forwarded to Client by Prudent Management Associates.”

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

Prudent Management Associates is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. This item does not otherwise apply to our business.