

# Stewart & Patten

Company LLC

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*Investment Advisers since 1942*

## 1. Cover Page

### **SEC FORM ADV PART 2A: FIRM BROCHURE**

**FEBRUARY 2024**

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This Brochure provides information about the qualifications and business practices of Stewart and Patten Co., LLC. If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer, Lori E. Sherman, using the information above. The information in this Brochure has not been approved by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Although all of our Principals and Key Associates have advanced degrees and/or professional designations, Stewart and Patten's registration as an investment adviser does not imply any specific level of skill or training.

## 2. Material Changes

This updated Form ADV Part 2A contains the following changes from the prior version:

- *Item 4 – Updated description of the Firm’s assets under management.*

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## 4. Overview of Our Advisory Business

Key attributes of our Company include:

- Independent and unbiased investment management. Acting as a Fiduciary on your behalf; your interests *always* come first.
- A primary focus on capital preservation and protection from inflation.
- Independent research that seeks investments that represent value as well as potential for growth.
- Diligently preserving a legacy of trust stretching back over 80 years. We routinely serve the second and third generation of our clients' families.
- Providing consistency of philosophy, people and results – over decades.

The late John K. (Jack) Stewart entered the investment management business in 1942 as one of the very first registrants following the passage of the Investment Advisers Act of 1940. In 1962, Ronald S. Patten joined Mr. Stewart, and in 1965 they formed Stewart and Patten Company. In 1998, Stewart and Patten Company became a Limited Liability Company (LLC) within the State of California. We are not registered as a broker nor are we affiliated with any broker, dealer, investment company or other investment adviser. We do not buy or sell securities as principal nor do we share in any compensation with respect to security trades. Stewart and Patten is owned by Robert M. Gentry and Lori E. Sherman. The Firm managed \$1,010,156,465 in fully discretionary accounts, \$18,506,318 in non-discretionary assets and total assets under management of \$1,028,662,783 as of December 31, 2023.

Our business consists of managing security accounts, each of which uses as custodian, a bank or broker selected by the client. We hold a limited power of attorney that authorizes us to buy or sell securities. Although we do not consult with clients prior to individual security purchases and sales, occasional consultations are held to discuss general matters such as how the account managed by Stewart and Patten relates to the client's other assets and requirements. Some clients impose restrictions on investment in certain securities or types of securities. Client portfolios are invested in stocks, taxable and tax-exempt bonds, and short-term instruments such as Treasury bills and money market funds. A separate account is maintained for each client.

When we provide investment advice to you regarding your investment accounts, including your retirement plan account or individual retirement account, we are fiduciaries within the meaning of certain state and federal laws such as the Employee Retirement Income Security Act and/or the Internal Revenue Code and the regulations of the U.S. Securities and Exchange Commission, as applicable. These regulations require us to act in your best interest and not put our interests ahead of yours.

Stewart & Patten operates under an investment management agreement with each client. For new clients, following the initial execution of an agreement, it may be terminated at any time by either party on five calendar days' written notice delivered to the other without payment of penalty and without liability of either party to the other. For existing clients, an agreement can be terminated on 10 calendar days' written notice. The Firm does not assess any fees related to termination but is entitled to all management fees earned up to the date of termination. On termination of an agreement, fees are prorated. A client agreement may not be assigned to a third party without specific approval from the client. Clients are notified of any change in the structure of Stewart & Patten Co., LLC as soon as practicable after such change.

## 5. Fees and Compensation

Investment management is the only business and exclusive source of income for Stewart and Patten. We do not offer or sell any other type of service. Annual fees are based on the account valuation as follows:

- .75 of 1% on the first \$5,000,000 of valuation
- .60 of 1% on the next \$5,000,000 of valuation
- .40 of 1% on valuations over \$10,000,000

The above schedule pertains to a balanced investment account where a substantial portion of the account is invested in both equities and fixed income assets. The rate schedule would be increased by .25% of 1% at each level for an all-equity account. Occasionally, fees are negotiated lower than the schedule shown above.

Semi-annual fees are computed in arrears based on the five-month average ending account balances for the periods ending April 30 and October 31. Bills are sent to clients in early June and December. On rare occasions, we purchase mutual funds on behalf of clients or hold mutual funds from legacy managers in a client's account. In this circumstance, the client will be charged management and other fees by the mutual fund company in addition to Stewart and Patten fees.

In the past, Stewart and Patten has had non-affiliated investment advisers join the firm, or refer their clients to Stewart and Patten. For most of these accounts, fees are calculated and paid differently from traditional Stewart and Patten accounts in order to continue the billing procedure used at prior firms. For accounts that have come to Stewart and Patten in this way, fees are based on the market value of supervised assets at the end of each calendar quarter and are payable in advance. Any client who terminates the services of Stewart and Patten after paying a management fee in advance receives a pro-rata refund equal to the period in which they have pre-paid fees but are no longer a client.

In addition to investment management fees, clients may pay commissions to their broker / custodian upon the purchase or sale of an investment (see Brokerage Practices - page 7). In most cases, investment management fees are deducted directly from a client's account by Stewart and Patten and clients receive a "notification only" bill. We believe these fees are similar to those charged by other investment counseling firms for similar services; however, comparable service may be available from other sources for lower fees.

## **6. No Performance-Based Fees**

No part of Stewart and Patten's investment management fee is calculated as a percentage of the capital gains or the capital appreciation of client assets.

## **7. Types of Clients**

Although most of our clients are individuals, some clients are trusts, charitable foundations, retirement plans, estates, and corporations. Minimum dollar valuation for starting an account is \$1,000,000. Under special circumstances, smaller accounts are occasionally accepted.

## **8. Methods of Analysis, Investment Strategies, Risk of Loss**

Our investment approach consists of fundamental analysis, as opposed to technical or quantitative strategies. We study company financial statements and reports, industry trends and conditions, and general business conditions. Principal sources of information are (1) the company's annual report, prospectus, Form 10-K and press releases, (2) various trade publications, (3) general business periodicals, newspapers and the internet, (4) brokers' reports, (5) meetings or phone conversations with company officers, and (6) webcasts of company meetings for analysts. Common stocks provide the potential for growth and contribute a steadily rising income stream as dividends increase. Typically, we maintain the stock portion of a client's portfolio with a target of 60% of the total value of the account. Other targets are occasionally utilized to meet specific client needs. Our approach to stock selection is conservative and income-orientated, concentrating on financially strong companies with medium to large capitalizations. We generally select stocks paying dividends, where our fundamental analysis suggests good prospects for additional profit and dividend growth. A typical portfolio contains 25 to 30 stocks.

The bonds in a portfolio normally are intended, in part, to reduce volatility. We select high quality bonds - U.S. Government issues, municipal bonds, and corporate bonds - with maturities ranging up to 10 years. Usually, 30 to 35 percent of a portfolio is invested in bonds. Assets not invested in stocks or bonds are invested in cash equivalents like CD's, money market funds and Treasury bills, in order to maximize short-term returns.

Accounts are not assigned to individual principals or associates. Each member of the firm is familiar with all accounts, and we urge clients to contact any principal or associate whenever they have questions. The investment committee consists of the principals of the Firm. When committee members review an account, they present their recommendations to the whole committee, which usually meets daily. The committee decides which securities are bought or sold and the quantity. Generally, we will not purchase additional shares in any stock that results in the total holding in that issue exceeding 5% of the total portfolio.

We are long-term investors – not speculators – and our investment philosophy is conservative in nature. However, clients should recognize that investing in any type of stock or bond poses some level of risk. In our initial discussion with potential clients, we will quantify and discuss the volatility inherent in investing in more detail. We explain broadly that economic, environmental, political and market developments can result in the value of investments declining. There is no guarantee of investment return and past performance is no guarantee of future success.

## **9. Disciplinary Information**

Stewart and Patten Co., LLC, hereby certifies that neither the firm nor any principals or associates of the firm are presently debarred, suspended, proposed for debarment, or denied the ability to actively participate in the investment industry. Stewart and Patten Co., LLC as a firm, and all principals and associates of the firm, have never been convicted of, or had a civil judgment rendered against them for any reason, and are not presently indicted for, or otherwise criminally or civilly charged by any governmental entity with commission of any offense. This certification extends for every principal and associate of Stewart and Patten for the 80+ year history of our Company.

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

Stewart and Patten Co., LLC is an independent investment advisor, unaffiliated with any other financial institution or securities dealer or issuer. We recommend that our client's custody their assets with Charles Schwab & Co., Inc., ("Schwab") a SEC registered broker-dealer and member of FINRA and SIPC. Although we recommend that our client's custody their investment accounts at Schwab, we have no affiliation with this broker, do not supervise its custody or brokerage activities, are not compensated by them, and are not subject to its supervision.

Although we may refer our clients to other professionals such as attorneys or accountants for estate planning, tax or other matters, neither the Firm nor its principals or associates are affiliated with any law or accountancy firm.

## **11. Code of Ethics, Participation/Interest in Client Transactions, Personal Trading**

Stewart and Patten's Code of Ethics is applicable to all principals and associates of the Company. Our Code of Ethics is available upon request. While proper and ethical behavior is expected of every principal and associate in all aspects of Stewart & Patten's business, the following fundamental standards serve as a basic guideline for our Firm:

1. Principals and associates will place the interests of our clients first at all times.
2. Principals and associates will conduct all aspects of their personal business in such a manner as to avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility.
3. Principals and associates will not take inappropriate advantage of their positions.

To comply with applicable SEC regulations, transactions for clients always have priority over the personal transactions of principals and associates. Personal transactions of principals/associates never operate adversely to clients' interests. Principals and associates occasionally buy or sell securities bought or sold for clients. Principals/associates are required to conduct all aspects of their personal business in such a manner to avoid any actual or potential conflict of interest. Principals/associates trades are aggregated with client trades except periods when the firm makes a series of transactions in a given security for client accounts over a period of several days. In this case, no personal trades in this security would be allowed until after all client transactions are complete. The company maintains a file (updated quarterly) on all principals' and associates' transactions involving the purchase and sale of equity securities.

## **12. Broker Practices**

### **RECOMMENDATION OF CUSTODIANS AND EXECUTING BROKERS**

As noted above, Stewart and Patten recommends that clients establish brokerage accounts with Schwab to maintain custody of clients' assets and to effect trades for their accounts. Schwab provides Stewart and Patten with access to their institutional trading and custody services, which typically are not available to retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as they maintain a portion of their clients' assets in custodial accounts. Schwab's services include brokerage, custody, research and access to mutual funds and other

investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For Stewart and Patten's client accounts maintained in their custody, Schwab generally does not charge separately for custody but are compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through them or that settle into Schwab's accounts. In most cases, trade executions for client accounts are made by the custodial broker to avoid "trade away" charges imposed for trades executed at other broker-dealers. In cases where a desired security is not available for purchase or sale through the custodial broker, and in light of Stewart and Patten's best execution evaluation, certain executions may be made at a non-custodial broker-dealer.

Schwab also makes available to us other products and services that benefit Stewart and Patten but may not directly benefit its clients. Some of these other products and services assist us in managing and administering client accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of Stewart and Patten's fees from its clients' accounts; and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of our client accounts, including accounts not maintained at Schwab. Schwab also makes available other services intended to help us manage and further develop Stewart and Patten's business. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services by independent third parties. Schwab may discount or waive fees they otherwise would charge for some of these services or pay all or a part of the fees of a third-party providing these services to Stewart and Patten.

The Firm's recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to us of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab.

Stewart & Patten may aggregate multiple client trades into a single transaction when it is determined that aggregation is consistent with the Firm's duty to seek best execution, consistent with each participating client's investment objectives and that aggregation would be in the best interests of the participating clients. We will purchase or sell a security as one aggregated trade through a selected broker and then allocate that trade among the clients that have selected that broker as their custodian. Each client receives

the average price per share. We then repeat that process for clients who have selected other brokers until the total transaction has been completed for all clients. Transaction costs paid by each client are calculated in accordance with the client's agreement with the custodian.

Orders are placed with the small number of retail brokers utilized by some clients first in order to ensure that a connection is made with the broker during the trading day. All other brokers are traded on-line. The sequence in which aggregated trades are placed with each broker group varies based on the size of the order and the liquidity of the security in the marketplace.

### **13. Review of Accounts**

The frequency of review of client accounts varies. Copies of quarterly valuations are distributed to each investment committee member for review soon after release. Accounts with significant cash flows are reviewed immediately. The companies owned by clients are reviewed whenever earnings or significant news is announced, or after a principal or associate visits the company or its representatives. Other factors which trigger a review of client accounts include: a significant change in stock prices, a change in a client's personal or financial situation, a bond maturity, or a change in emphasis in particular investments such as a new candidate for purchase or sale.

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

Stewart and Patten pays no referral fees to any party.

### **15. Custody**

Various broker-dealers or other financial entities act as the physical, qualified custodian and executing broker-dealers for Stewart and Patten clients. These qualified custodians are independently owned and operated and not affiliated with Stewart and Patten and do not supervise or otherwise monitor our investment management services to our clients.

Each custodian sends account statements directly to the client (or to an independent third-party representative designated by the client), no less than quarterly, showing all funds and securities held, their current value and all transactions executed in the client's account, including the payment to Stewart and Patten of its investment management fees.

Although Stewart and Patten does not maintain physical custody of client investment accounts, it is deemed to have custody of some client assets on the basis of the Firm's

authority to: 1.) direct client-approved transfers of assets between a client's own accounts and if authorized, to client-designated third party accounts; and 2.) to receive payment of its management fees directly from a client's account.

In very rare instances, a principal of Stewart and Patten also serves as a trustee of a client's trust. As outlined above, non-affiliated brokerage firms - not Stewart and Patten – always serve as the physical custodians of client accounts. In these cases, Stewart and Patten is deemed to have custody of client assets as defined by the SEC. Nevertheless, client assets are still held at a qualified custodian not affiliated with Stewart and Patten. Co-trustees and/or beneficiaries of these trusts receive all custodial/brokerage reports, quarterly reports from Stewart and Patten, and year-end principal and income accountings from Stewart and Patten. An independent surprise examination is conducted of investment accounts where Stewart and Patten principals serve as trustee.

Virtually all client records are electronically updated each business day and reconciled monthly. Client account data is retained for at least five years.

## **16. Investment Discretion**

In almost all cases, Stewart and Patten has full discretion to manage client portfolios within the parameters of our general investment philosophy as outlined above. The types of securities in which we invest for our clients are limited to common stocks listed on the New York Stock Exchange, American Stock Exchange, or NASDAQ, corporate debt securities, municipal securities and U.S. Government obligations. Securities usually are purchased for the long term and our portfolio turnover tends to be relatively low. We do not use short sales, margin transactions, options or futures.

## **17. Voting Client Securities**

With the exception of a small number of accounts where a Principal of Stewart and Patten is a Trustee of the account managed, we do not vote proxies or other client solicitations for our clients. We have a written proxy voting policy for those accounts where we do vote proxies and a copy of this policy is available upon request. Clients are encouraged to contact us with questions concerning proxy or corporate governance votes and we do provide assistance as requested.

## **18. Financial Information**

Stewart and Patten does not require or solicit prepayment of its management fees from clients six or more months in advance. There are no, and have never been, any adverse

conditions related to the Firm’s finances that are likely to impair its ability to meet its contractual commitments to its clients. The Firm has not been the subject of a bankruptcy filing in the last ten years or ever.

## **Index of ERISA Related Disclosures**

Stewart and Patten provides investment management services to retirement plans governed by the Employee Retirement Investment Security Act (“ERISA”). ERISA regulations require that specific disclosures be made to the ERISA plan fiduciary that is authorized to enter into, or extend or renew, an agreement with the Firm to provide these services. The following Index identifies the disclosures required and the location where plan representatives may find them. It is intended to assist ERISA Plan representatives with compliance with the service provider disclosure regulations under section 408(b)(2) of ERISA. Any questions concerning this guide or the information provided regarding our services or compensation should be addressed to our Chief Compliance Officer at the number noted on the cover page of this ADV Part 2A.

<b>Required Disclosure</b>	<b>Location of the Required Disclosure</b>
Description of the services that Adviser will provide to covered ERISA plans.	Item 4 of this Form ADV Part 2A and the client plan’s investment management agreement with the Firm at page 1.
Statements that the services that Adviser will provide to covered ERISA plans will be as an ERISA fiduciary and registered investment adviser.	Item 4 of this Form ADV Part 2A.
Description of the direct compensation to be paid to Adviser.	Item 5 of this Form ADV Part 2A and the client plan’s investment management agreement with the Firm at page 1 and Schedule A.
Description of the indirect compensation Adviser might receive from third parties in connection with providing services to covered ERISA plans, if any.	Item 12 of this Form ADV Part 2A
Description of the compensation to be shared between Adviser and any third party or any affiliated entity, if any.	Items 12 and 14 of this Form ADV Part 2A.
Compensation that Adviser will receive upon termination of its agreement to provide investment management services, if any.	Item 5 of this Form ADV Part 2A.