

# Form ADV Part 2A

**Kopion Asset Management, LLC**



Item 1

Kopion Asset Management, LLC

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January 25, 2021

This brochure provides information about the qualifications and business practices of Kopion Asset Management, LLC (Kopion). If you have any questions about the contents of this brochure, please contact us at 214-425-7027 or [tl@kopion.com](mailto:tl@kopion.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 Kopion is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Kopion Asset Management, LLC is a "Registered Investment Advisor," which is a regulatory term and does not imply a certain level of skill or training.

## Item 2

### **SUMMARY OF MATERIAL CHANGES**

Kopion's prior Form ADV Part 2A was dated January 22, 2021. In this most recent filing, we have:

- Updated Items 4 and 13 to reflect that Kopion now collaborates with new clients to determine whether to invest their funds all at once or gradually over a period of time (i.e. Lump-Sum Investing or Dollar Cost Averaging).
- Updated Item 4 to reflect our recently calculated AUM.

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#### Item 4

### ADVISORY BUSINESS DESCRIPTION

Kopion Asset Management, LLC (Kopion) provides investment management services to individuals. This is done through a Limited Power of Attorney by which Kopion manages each client's account on their behalf. Kopion was founded in August 2009 and is 100% owned by Kopion's President, Terry Lee Ledbetter, Jr., CFA.

Kopion manages investment accounts for capital appreciation (i.e. growth), and this is typically pursued by holding a diversified portfolio of publicly traded common stocks. Kopion usually holds about 15-25 stocks at a time, which we believe provides a reasonable amount of diversification, though this is relatively concentrated compared to many other advisors. Kopion selects stocks through fundamental analysis, which means gathering a wide range of qualitative and quantitative information about a company in order to better understand its risk characteristics, growth prospects, and valuation. Kopion gathers this information from a variety of sources including news media, press releases, SEC filings, and conversations with companies, their competitors, and other financial professionals. Kopion is a long-term investor and usually holds its stocks for three or more years.

Kopion does not tailor its services to each client, but instead uses a "model portfolio" that represents the target allocation for every account that we manage (i.e. X% in Security A, Y% in Security B, etc.). When we decide to increase or reduce a position in the model portfolio, we do so for all accounts simultaneously. Kopion does not allow clients to influence which securities are held or excluded from their portfolios unless they are subject to government or employer regulations that restrict their trading in a given security. Whenever a new client joins Kopion, Kopion collaborates with that client to determine whether to invest that client's funds all at once or gradually over a period of time (i.e. Lump-Sum Investing or Dollar Cost Averaging).

The first advantage of Kopion's approach is that it is very efficient administratively, which allows us to spend most of our time researching the securities that we own or are considering for investment. A second advantage of this approach is that it treats all fully invested clients equally since they all hold the same stocks in the same proportions, and they move in and out of these positions in tandem.

The primary disadvantage of Kopion's approach is that it limits the types of clients that Kopion can serve. For example, Kopion does not provide financial planning or asset allocation services, so we are limited to clients who are able to make those decisions on their own or have received such advice from another provider. Similarly, Kopion does not manage fixed income investments, so clients who need such securities must invest in them on their own or through

another advisor. We believe that investment advisors are generally good at either investing or financial planning and that there are structural challenges to performing both of these functions well. Consequently, we have chosen to focus our efforts on equity investing. Our marketing materials explain this specialization, and we are hopeful that this will prevent prospective clients from entrusting us with more of their assets than would be appropriate or engaging Kopion if we are not suited to help them.

As of January 22, 2021, Kopion managed approximately \$142,000,000.

## Item 5

### FEES & COMPENSATION

Kopion receives a Management Fee for its services that is based on a percentage of the assets under management, and Kopion deducts this fee from clients' accounts. Kopion's Annual Fee Schedule is shown below:

- First \$1,000,000 = 1.25%
- Next \$9,000,000 = 0.80%
- Above \$10,000,000 = 0.60%

Kopion's fee is deducted quarterly in arrears. The quarterly fee is calculated by dividing the above annual rates by four to determine the quarterly rate, and then multiplying the quarterly rate by the value of the account at the end of each calendar quarter. The fee is also adjusted for any deposits or withdrawals made during the quarter in order to decrease or increase the fee in proportion to the size and timing of such transactions. Kopion's Fee Schedule is not negotiable.

Charging a Management Fee presents a conflict of interest since it gives Kopion an incentive to encourage investors to become Kopion clients and invest more funds with Kopion than they might otherwise. It also gives Kopion an incentive to encourage clients to remain with Kopion for longer than they might otherwise. Kopion attempts to overcome these conflicts of interest in the following ways:

1. Kopion's Compliance Manual explicitly prohibits its employees from recommending or asking that investors become clients.
2. Kopion's employees take an educational approach to their interactions with prospective and existing clients instead of a sales approach.
3. Kopion's employees attempt to be very forthright about the risks associated with Kopion's investment strategy.
4. Every three years, Kopion asks its clients to complete a Client Suitability Update Form. This form is intended to prompt clients to re-evaluate whether they should remain with Kopion. It also helps Kopion's

employees to assess whether Kopion remains an appropriate investment advisor for each client.

Kopion's Management Fee represents only the fee paid to Kopion, and it does not include any other expenses associated with maintaining or managing the account such as brokerage commissions. Clients will sometimes incur brokerage commissions when Kopion places trades. Clients will also incur expenses associated with any mutual funds and exchange-traded funds held in the account, though these expenses are generally incurred indirectly since the fund companies deduct them from the funds' assets. (Kopion typically only uses mutual funds and exchange-traded funds for money market investments, though it occasionally also uses them for tax-related trading.) Item 12 of this Form goes into greater detail about how Kopion selects brokerage services.

#### **Item 6**

### **PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT**

This item is not applicable to Kopion.

#### **Item 7**

### **TYPES OF CLIENTS**

Kopion provides investment management services to individuals who:

- 1) Desire to grow their assets,
- 2) Are able to tolerate risks such as those mentioned in Item 8, and
- 3) Intend for Kopion to manage their account for at least five years.

Kopion has a minimum account size of \$125,000 at the time of opening the account.

#### **Item 8**

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES & RISK OF LOSS**

As explained in Item 4, Kopion uses fundamental analysis to select publicly traded common stocks that we believe offer a good opportunity for capital appreciation (i.e. growth) over the next 3-5 years.

## INVESTING IN SECURITIES ALWAYS INVOLVES THE RISK OF LOSS, AND CLIENTS MUST BE WILLING TO BEAR THIS RISK.

Risk comes from a variety of sources. Because Kopion invests in publicly traded common stocks, an overriding risk that we face is general changes in the stock market since stocks often decline as a group during periods of economic weakness or crises.

In addition, Kopion's portfolio is relatively concentrated because we invest in about 15-25 stocks at a time and also tend to focus on a few economic sectors. This level of concentration presents a source of risk, though we believe that we generally strike a balance between being adequately diversified and still maintaining high standards for our research and which stocks we own. (Conventional mutual funds, by contrast, are highly diversified and own anywhere from 50-500 stocks. Such a high level of diversification provides a measure of protection, but it also limits the portfolio managers' ability to understand each investment and be selective about which stocks they hold.)

For a given stock, risks include:

- 1) A deterioration in the company's business condition,
- 2) A compression in the stock's valuation,
- 3) The possibility that the company won't be able to refinance its debt in a timely manner, and
- 4) The possibility that Kopion's analysis is incomplete or flawed.

The above items are the primary risks that we think about when managing accounts, but this is not a comprehensive list.

### Item 9

#### **DISCIPLINARY INFORMATION**

This item is not applicable to Kopion.

### Item 10

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS**

This item is not applicable to Kopion.



## Item 11

### CODE OF ETHICS

Kopion's President, Terry Lee Ledbetter, Jr., has personal accounts that are managed by Kopion and thus mirror Kopion's model portfolio. He thus buys and sells securities for his own personal accounts that he also buys and sells for clients' accounts. Jonathan Lindstrom, Kopion's Analyst, has personal accounts that hold securities that are part of Kopion's model portfolio. Consequently, Mr. Lindstrom sometimes buys and sells securities for his own personal accounts that he also buys and sells for clients' accounts. Kopion's Code of Ethics governs transactions made in Mr. Ledbetter's and Mr. Lindstrom's personal accounts. This document is available to all existing and prospective clients upon request and at [kopion.com/disclosures/codeofethics.pdf](http://kopion.com/disclosures/codeofethics.pdf). The Code of Ethics seeks to safeguard clients from conflicts of interests and restricts Mr. Ledbetter's and Mr. Lindstrom's personal transactions to the following three situations:

1. In block trades on the same day as client transactions, provided that:
  - a) Mr. Ledbetter and Mr. Lindstrom don't receive more favorable pricing than clients, and
  - b) Clients are given priority if a trade plan cannot be completed within a single day.
2. Any day after trades have been placed for clients.
3. No less than one calendar week before trades that are made for clients.

Kopion allows for two exceptions to the third scenario listed above:

- A. In cases where an action by the client necessitates trading, such as the opening of a new account or a withdrawal request (which could necessitate sale transactions), Kopion is allowed to immediately trade on the client's behalf, even if Mr. Ledbetter or Mr. Lindstrom recently made similar trades in their own accounts. Because such trades are essentially initiated by the client (and in the case of an account opening, also dependent on the timing of the custodian's processes), Mr. Ledbetter and Mr. Lindstrom are not in a position to front run the client.
- B. In cases where Mr. Ledbetter's or Mr. Lindstrom's trades were made in block trades alongside clients as specified in Item 1 above, Item 3 above does not apply. For example, if Kopion executes a trade plan that involves selling Holding A and Mr. Ledbetter or Mr. Lindstrom participates in that trade plan, Kopion is not required to wait a full calendar week before executing a different trade plan that also involves selling Holding A. The purpose of Item 3 above is to prevent front running, but when Mr. Ledbetter or Mr. Lindstrom trades alongside clients in a block trade as specified in Item 1 above, front running is impossible by definition.

## Item 12

### BROKERAGE PRACTICES

Kopion has standardized on Charles Schwab ("Schwab") as its custodian (i.e. broker) for four reasons. The first is that Schwab's commissions are generally competitive with other custodians. The second is that Schwab's service levels are usually superior to other custodians. The third is that standardizing on Schwab allows Kopion to aggregate client transactions into block trades so that Kopion's clients all receive the same price for a stock that is bought or sold. (We aggregate client transactions whenever possible.) Lastly, Kopion realizes significant operational efficiencies by standardizing on Schwab, partly due to Schwab's tight integration with the Portfolio Management System (PMS) that Kopion uses (PortfolioCenter). This integration streamlines Kopion's administrative functions and allows Kopion to devote more attention to investing activities such as research. While the four factors cited above are the reasons that Kopion has standardized on Schwab, we acknowledge that Kopion also enjoys a modest financial benefit from this standardization. The data interface between Kopion's PMS and Schwab is free, whereas interfaces between the PMS and other brokers would cost \$2,000 in the first year, and \$1,000 every year thereafter. (While at his prior job, Mr. Ledbetter used both the Schwab and non-Schwab interfaces and discovered that in addition to costing more, the non-Schwab interfaces are more labor intensive and don't work as well as the Schwab interface.)

Kopion's Client Agreement gives Kopion the freedom to direct trades to brokers other than Schwab in order to achieve better execution or streamline Kopion's administrative functions. (Such brokers are referred to as "Executing Brokers.") When Kopion places large orders for illiquid stocks, Kopion uses Cantor Fitzgerald (Cantor) or Jefferies as its Executing Broker. Prior to these relationships, Kopion had consistently begun to experience challenges when trading illiquid stocks through Schwab; Kopion's orders for these stocks had begun to push their prices up during the buying process and down during the selling process. Cantor and Jefferies, by contrast, have proven to be much better equipped to handle these types of trades.

Most asset managers pay a commission of \$0.03 to \$0.04 per share to Executing Brokers, though some pay as high as \$0.05 per share. Kopion pays its Executing Brokers \$0.04 per share in order to encourage a strong effort on their part even though we only use them to execute a minority of our trades. In addition to the commission paid to the Executing Broker, Kopion clients must also pay Schwab a \$25.00 "Prime Brokerage Fee" for these trades in order to cover Schwab's costs of coordinating with a third party broker. These costs are higher than Schwab's standard commission-free trades, but we believe that these additional costs are more than offset by the better buying and selling prices that our Executing Brokers can achieve for illiquid stocks. We thus use our

Executing Brokers to handle large orders of illiquid stocks, and we continue to use Schwab for all other trades.

By using Jefferies as an Executing Broker, Kopion was once allowed to attend a Jefferies conference and may be allowed to do so in the future. This provides research benefits for all clients. However, it also ostensibly creates an incentive for Kopion to select Jefferies as an Executing Broker for the research they provide rather than to focus on best execution for clients. In practice, however, the overwhelming majority of the research we use is generated internally. Kopion's research process thus does not depend on these conferences, and no attempt is made to ensure that Kopion maintains access to them. Kopion only uses an Executing Broker when we believe it will provide better execution than Schwab. For example, during 2018-2020, Executing Brokers represented just 2% percent of trades involving changes to Kopion's Model Portfolio. Nevertheless, when conference opportunities become available as a result of Kopion's trading at Jefferies, we may choose to take advantage of them to benefit all clients.

#### **Item 13**

### **REVIEW OF ACCOUNTS**

Kopion's President, Terry Lee Ledbetter, Jr. generally reviews Kopion's model portfolio at least once a month, and in doing so, he is essentially reviewing all of the fully invested accounts since they all mirror the model portfolio. In addition, for new clients whose funds are being invested gradually over a period of time (i.e. Dollar Cost Averaging), Mr. Ledbetter also reviews their accounts as required by the associated investment schedules.

Kopion's clients receive brokerage statements from the custodian (i.e. Schwab) once a month, and these statements list the securities and transactions within the account. In addition to these reports, Kopion sends its own quarterly statements to clients. Kopion's quarterly statements report the holdings and total value of the account, the performance of the account, and the management fee that will soon be deducted from the account.

#### **Item 14**

### **CLIENT REFERRALS & OTHER COMPENSATION**

This item is not applicable to Kopion.

#### **Item 15**

### **CUSTODY**

As explained in Item 13, Kopion's clients receive monthly statements from the custodian (i.e. Schwab) as well as quarterly statements from Kopion.

Kopion makes every effort to ensure the accuracy of its own statements. Nonetheless, clients are encouraged to compare Kopion's statements to those of the custodian. When doing so, clients should be aware that Kopion's statements reflect transactions as of the day that they are executed, whereas the custodian's statements wait to reflect transactions until after they have settled. (Settlement occurs two business days after execution.) In cases where Kopion trades near the end of the month, Kopion's account balances will thus differ from the custodian's. This difference can be reconciled using information from the custodian's statement under the section titled "Trades Pending Settlement."

#### **Item 16**

### **INVESTMENT DISCRETION**

Kopion's Client Agreement includes a Limited Power of Attorney, which gives Kopion full discretion over which securities Kopion may buy and sell for client accounts as well as the proportion of the account that each security may represent. As mentioned in Item 4, Kopion does not allow clients to influence which securities are held or excluded from their portfolios unless they are subject to government or employer regulations that restrict their trading in a given security.

#### **Item 17**

### **VOTING CLIENT SECURITIES**

Kopion's clients receive proxies and such solicitations directly from the custodian or a transfer agent. Kopion's Client Agreement dictates that Kopion will not vote nor give any advice about how to vote proxies for securities held in clients' accounts.

**Item 18**

**FINANCIAL INFORMATION**

This item is not applicable to Kopion.

# Form ADV Part 2B - Brochure Supplement

## Item 1

**Terry Lee Ledbetter, Jr.**

Kopion Asset Management, LLC

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January 25, 2021



This brochure supplement provides information about Terry Lee Ledbetter, Jr. that supplements the Kopion Asset Management, LLC (Kopion) brochure. You should receive a copy of that brochure. Please contact us at 214-425-7027 or [tl@kopion.com](mailto:tl@kopion.com) if you did not receive Kopion's brochure or if you have any questions about the contents of this supplement.

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## Item 2

### **EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE**

**Name:** Terry Lee Ledbetter, Jr., CFA

**Position:** President, Secretary, & Chief Compliance Officer

**Year of Birth:** 1978

**Education:** Terry Ledbetter, Jr. earned a BA in Business / Economics from Wheaton College (Wheaton, IL) in 2000. He then earned an MBA from Rice University (Houston, TX) in 2002. Though not part of his formal education, he completed the Chartered Financial Analyst® (CFA®) program and received the CFA designation in 2005. To receive the CFA charter, a candidate must pass three sequential, six-hour exams over the course of multiple years. The three exams test a wide range of investment topics. In addition, CFA candidates must accumulate four years of professional experience in the investment decision-making process (3 years when Mr. Ledbetter completed the program) and receive at least two professional references. CFA charterholders must annually reaffirm their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct. CFA and Chartered Financial Analyst are registered trademarks owned by CFA Institute.

**Business Background:** Terry Ledbetter, Jr. worked as a Securities Analyst at Friedberg Investment Management (Houston, TX) from July 2002 through July 2009. During his time at Friedberg Investment Management, Mr. Ledbetter also spearheaded a number of operational initiatives for the firm, the most notable of which was implementing a new Portfolio Management System. Mr. Ledbetter founded Kopion Asset Management, LLC in August 2009.

## Item 3

### **DISCIPLINARY INFORMATION**

None

## Item 4

### **OTHER BUSINESS ACTIVITIES**

None

**Item 5**

**ADDITIONAL COMPENSATION**

None

**Item 6**

**SUPERVISION**

Terry Ledbetter, Jr. is the sole owner of the firm and is the Chief Compliance Officer. He is solely responsible for all supervision and investment decisions. Kopion has implemented a Code of Ethics and an internal Compliance Manual. Mr. Ledbetter adheres himself to Kopion's Code of Ethics and Compliance Manual as required. His phone number is 214-425-7027 x101.



# Form ADV Part 2B - Brochure Supplement

## Item 1

### Jonathan Lindstrom

Kopion Asset Management, LLC

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January 25, 2021



This brochure supplement provides information about Jonathan Lindstrom that supplements the Kopion Asset Management, LLC (Kopion) brochure. You should receive a copy of that brochure. Please contact us at 214-425-7027 or [tl@kopion.com](mailto:tl@kopion.com) if you did not receive Kopion's brochure or if you have any questions about the contents of this supplement.

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## Item 2

### EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

**Name:** Jonathan Roland Lindstrom, CFA

**Position:** Analyst

**Year of Birth:** 1995

**Education:** Jonathan Lindstrom earned a BA in Economics with a minor in Mathematics from Wheaton College (Wheaton, IL) in 2016. Though not part of his formal education, he completed the Chartered Financial Analyst® (CFA®) program and received the CFA designation in 2020. To receive the CFA charter, a candidate must pass three sequential, six-hour exams over the course of multiple years. The three exams test a wide range of investment topics. In addition, CFA candidates must accumulate four years of professional experience in the investment decision-making process and receive at least two professional references. CFA charterholders must annually reaffirm their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct. CFA and Chartered Financial Analyst are registered trademarks owned by CFA Institute.

**Business Background:** Jonathan Lindstrom interned as a Municipal Bond Analyst for First Trust Advisors in Wheaton, IL from May 2016 through August 2016. He has worked as an Analyst at Kopion Asset Management since January 2017.

## Item 3

### DISCIPLINARY INFORMATION

None

## Item 4

### OTHER BUSINESS ACTIVITIES

None

## Item 5

### ADDITIONAL COMPENSATION

None

## Item 6

### **SUPERVISION**

Jonathan Lindstrom is supervised by Terry Ledbetter, Jr., the President, Secretary, and Chief Compliance Officer of the firm. Mr. Ledbetter's phone number is 214-425-7027 x101. Kopion has implemented a Code of Ethics and an internal Compliance Manual. Mr. Lindstrom adheres himself to Kopion's Code of Ethics and Compliance Manual as required.