

Disclosure Brochure

March 28, 2012

The Darrow Company, Inc.

a Registered Investment Adviser

801 Main Street
Concord, MA 01742

(978) 369-5144

www.darrowwealthmanagement.com

This brochure provides information about the qualifications and business practices of The Darrow Company, Inc. (hereinafter "Darrow"). If you have any questions about the contents of this brochure, please contact Thomas J. McFarland at (978) 369-5144. 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 The Darrow Company, Inc. is available on the SEC's website at www.adviserinfo.sec.gov.

The Darrow Company, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

Item 2. Material Changes

This Item discusses only the material changes that have occurred since Darrow's last annual update dated March 23, 2011. Darrow does not have any material changes to disclose in this Item.

Item 3. Table of Contents

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Supervised Person Brochure Supplements

Item 4. Advisory Business

Darrow is a fee-only wealth management and investment advisory firm that has operated since September 1987. Darrow manages assets by designing and executing comprehensive financial strategies based on each client's individual and unique requirements.

Darrow provides financial modeling, consulting, and investment management services. Darrow's primary office is in Concord, MA, but it also maintains offices in Boston, MA and Los Angeles, CA. Thomas McFarland is the principal owner of Darrow. As of December 31, 2011, Darrow had \$124,359,434 in assets under management, all of which are managed on a discretionary basis.

Prior to engaging Darrow to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with Darrow setting forth the terms and conditions under which Darrow renders its services (collectively the "*Agreement*").

This disclosure brochure describes the business of Darrow. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of Darrow's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on Darrow's behalf and is subject to Darrow's supervision or control.

Financial Modeling and Consulting Services

Darrow provides its clients with a broad range of comprehensive financial modeling and consulting services (including account consolidation and non-investment related matters). These services may address, among other issues, tax and cash flow projections, balance sheet and net worth analysis, tax planning, asset allocation strategies, retirement planning, estate planning, professional practice planning, strategies for exercising incentive stock options and nonqualified stock options, and educational needs funding.

Darrow also may render consulting services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, Darrow either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

In performing its services, Darrow is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. Darrow may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if Darrow recommends its own services. The client is under no obligation to act upon any of the recommendations made by Darrow under a financial modeling or consulting engagement or to engage the services of any such

recommended professional, including Darrow itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of Darrow's recommendations. Clients are advised that it remains their responsibility to promptly notify Darrow if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Darrow's previous recommendations and/or services.

Investment Management Services

Clients can engage Darrow to manage all or a portion of their assets on a discretionary basis.

Darrow primarily allocates clients' investment management assets among individual debt securities, exchange-traded funds (ETFs), certificates of deposit, mutual funds, and *Independent Managers* (as defined below), in accordance with the investment objectives of the client. Darrow also provides advice about any type of investment held in clients' portfolios.

Darrow tailors its advisory services to the individual needs of clients. Darrow consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. Darrow ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify Darrow if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon Darrow's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in Darrow's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

Use of Independent Managers

As mentioned above, Darrow recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between Darrow or the client and the designated *Independent Managers*. Darrow renders services to the client relative to the discretionary and/or non-discretionary selection of *Independent Managers*. Darrow also monitors and reviews the account performance and the client's investment objectives. Darrow receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When selecting an *Independent Manager* for a client, Darrow reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past

performance and risk results to the extent available. Factors that Darrow considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, Darrow's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by Darrow, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to Darrow's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*.

Management of Collective Investment Vehicle

Darrow is the managing member of DWM Strategic Equity Income Fund, LLC (the "*Private Fund*"), a Delaware limited liability company formed in January 2007 to engage primarily in the business of investing and trading in securities. Interests in the *Private Fund* are privately offered pursuant to Regulation D under the Securities Act of 1933, as amended. The *Private Fund* currently relies on an exemption from registration under the Investment Company Act of 1940, as amended. Darrow has discretionary authority to determine the broker or dealer to be used by the *Private Fund*.

The *Private Fund* seeks to generate capital appreciation by investing across multiple asset classes. To do so, the *Private Fund* allocates a portion of its capital to multiple third-party managers in addition to investing a portion of the *Private Fund* directly in individual securities, ETFs, structured products, or private placements.

Participation as an investor in the *Private Fund* is restricted to investors that are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended.

To the extent certain of Darrow's individual advisory clients qualify, they will be eligible to participate as limited partners of the *Private Fund*. Investment in the *Private Fund* involves a significant degree of risk. All relevant information, terms and conditions relative to the *Private Fund*, including the compensation received by Darrow, suitability, risk factors, and potential conflicts of interest, are set forth in the Confidential Private Offering Memorandum (the "*Memorandum*") and the Subscription Agreement (together, the "*Offering Documents*"), which each investor is required to receive and/or execute prior to being accepted as an investor in the *Private Fund*.

While the *Private Fund* is generally Darrow's client, the term "client(s)" sometimes refers to the investors in the *Private Fund*.

Darrow will devote its best efforts with respect to its management of both the *Private Fund* and its individual client accounts. Given the above discussion relative to the objectives, suitability, risk factors,

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and qualifications for participation in the *Private Fund*, Darrow may give advice or take action with respect to the *Private Fund* that differs from that for individual client accounts. To the extent that a particular investment is suitable for both the *Private Fund* and certain individual client accounts, such investments will be allocated between the *Private Fund* and the individual client accounts pro rata based on the assets under management or in some other manner which Darrow determines is fair and equitable under the circumstances to all of its clients.

Item 5. Fees and Compensation

Darrow offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management.

Financial Modeling and Consulting Fees

Darrow may charge a fixed fee and/or hourly fee for financial modeling and consulting services. These fees are negotiable, but generally range up to \$10,000 on a fixed fee basis and/or \$250 to \$400 on an hourly rate basis, depending upon the level and scope of the services and the professional rendering the financial modeling and/or the consulting services. If the client engages Darrow for additional investment advisory services, Darrow may offset all or a portion of its fees for those services based upon the amount paid for the financial modeling and/or consulting services.

Prior to engaging Darrow to provide financial modeling and/or consulting services, the client is required to enter into a written agreement with Darrow setting forth the terms and conditions of the engagement. Generally, the financial modeling and/or consulting fee (estimated hourly or fixed) is payable upon entering the written agreement.

Investment Management Fee

Darrow provides investment management services for an annual fee based upon a percentage of the market value of the assets being managed by Darrow. Darrow's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Darrow does not, however, receive any portion of these commissions, fees, and costs. Darrow's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by Darrow on the last day of the previous quarter (the "*Portfolio Value*"). The annual fee varies (between 0.75% and 1.50% for equities and between 0.40% and 0.50% for fixed income) depending upon the market value of the assets under management and the type of investment management services to be rendered.

In limited circumstances, Darrow may alter its billing arrangement for clients (i.e. bill in arrears instead of advance). This is agreed upon directly with the client. In addition, where Darrow is managing a 401(k) plan not held at one of Darrow's primary custodians, Darrow will bill the client based upon a percentage of the assets under management based on the value of the assets on December 31st of the prior year. While Darrow's fee is charged quarterly, the valuation for the billing will be set annually.

The *Portfolio Value* is determined by one or more independent third-party custodians that Darrow deems reliable. As discussed below, Darrow may recommend that clients utilize one or more custodians, and as such, not all clients maintain assets at the same custodian. Darrow may utilize one or more custodians to place the same trades for clients whose assets are held at different custodians. If Darrow effects the

same trade (generally for fixed income and only where the CUSIP number is identical) through more than one custodian, the pricing services of the custodians may not match. Darrow chooses one custodian's pricing service to prevail when calculating the client's portfolio value and its fees. This may differ from the value of the account as stated on the custodial statement. Additionally, the custodian generally does not include accrued interest, while Darrow believes its valuation incorporates a more accurate methodology. However, clients are advised that the custodian's statement is the true and accurate reflection of their current account.

As discussed above in Item 4, Darrow is the investment manager to the *Private Fund*. Darrow charges an annual management fee to the *Private Fund* based upon a percentage (1.20%) of the market value of the *Private Fund*. Darrow's annual fee is prorated and charged monthly, in advance, based upon the market value of the assets in the *Private Fund* on the last day of the previous month. Additional details about these fees are disclosed in the *Offering Documents*.

Darrow, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

Darrow may also consider the value of assets invested by clients in the *Private Fund* when setting its fees for investments in its equity models. To enable clients to benefit from the lowest possible fee rate, immediate family member accounts and/or business related accounts may be aggregated for the purpose of determining fees (e.g., profit sharing account and immediate family members and/or pension or personal trusts associated with those individuals whose designated fee schedules are the same (e.g., equity or fixed income) will be aggregated and treated, for billing purposes, as one account within the same fee structure so as to achieve the lowest possible fee rate).

Fees Charged by Financial Institutions

As further discussed in response to Item 12 (below), Darrow generally recommends that clients utilize the brokerage and clearing services of Fidelity Institutional Wealth Services ("*Fidelity*"), Charles Schwab & Co., Inc. ("*Schwab*") and/or National Advisors Trust Company, FSB ("*National Advisors Trust*") for investment management accounts.

Darrow may only implement its investment management recommendations after the client has arranged for and furnished Darrow with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Fidelity*, *Schwab*, *National Advisors Trust*, any other broker-dealer recommended by Darrow, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in

the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to Darrow's fee.

Darrow's *Agreement* and the separate agreement with any *Financial Institutions* may authorize Darrow to debit the client's account for the amount of Darrow's fee and to directly remit that management fee to Darrow. Any *Financial Institutions* recommended by Darrow have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Darrow. Alternatively, clients may elect to have Darrow send an invoice for payment.

Fees for Management During Partial Quarters of Service

For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

At an account's inception, Darrow selects a date that it will begin managing the assets ("*start date*"). The *start date* varies depending upon the status of assets being successfully transferred to the account custodian. Darrow charges a prorated fee for the first quarter beginning on the *start date* through the end of the quarter.

The *Agreement* between Darrow and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. Darrow's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

The client may make additions to the account at any time, subject to Darrow's right to terminate an account. Clients may withdraw account assets on notice to Darrow, subject to the usual and customary securities settlement procedures. However, Darrow designs its portfolios as long-term investments and asset withdrawals may impair the achievement of a client's investment objectives. Additions may be in cash or securities, provided that Darrow reserves the right to decline to accept particular securities into a client's account. In addition, for ERISA accounts, mutual fund shares may be deposited only if they are front-end load funds (including "front-end load-waived funds") or no-load funds.

Additions may be in cash or securities provided that Darrow reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Darrow may consult with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter that exceed \$50,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

Item 6. Performance-Based Fees and Side-by-Side Management

Darrow does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

Item 7. Types of Clients

Darrow provides its services to individuals, investment limited partnerships, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

Minimum Account Size

As a condition for starting and maintaining a relationship, Darrow generally imposes a minimum portfolio size of \$500,000. Darrow, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities. Darrow only accepts clients with less than the minimum portfolio size if, in the sole opinion of Darrow, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance. Darrow may aggregate the portfolios of family members to meet the minimum portfolio size.

A minimum investment of \$500,000 is required to invest in the *Private Fund*. Darrow, in its sole discretion, may accept clients with smaller portfolios. A description of the minimum investment of the *Fund* and Darrow's ability to waive such minimum is described in the *Offering Documents*.

Additionally, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than Darrow. In such instances, Darrow may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Investment Strategies and Methods of Analysis

Darrow tailors its investment recommendations to its clients' investment objectives utilizing global asset allocation models developed for each of Darrow's managed investment objectives. These models are periodically adjusted according to changes in future market expectations and current market conditions.

Darrow offers a variety of models with varying degrees of risk, ranging from its fixed income-only (conservative) model to its equity-only (aggressive) model. Darrow constructs its models using a top-down macroeconomic global market perspective. Individual asset classes, market sectors (i.e. domestic, international, real estate, basic materials, natural resources, alternatives), market caps (i.e. large, mid, small) and styles (i.e. value, growth) are then assigned within the model according to Darrow's global macroeconomic analysis. Subsequently, a combination of passive investment strategies utilizing ETFs and actively managed mutual funds (primarily no-load or load waived) are utilized to implement the models. When appropriate, individual securities (equities or fixed income) are incorporated into the models. When selecting mutual funds, Darrow reviews the manager of the mutual fund and evaluates a series of factors (i.e., management tenure, investment philosophy and strategy, expense ratio, risk-adjusted performance under various market condition and periods, risk attributes, peer performance, security holdings, etc.). Darrow reviews client accounts at least quarterly and rebalances the accounts as market conditions warrant.

As discussed in Item 4 (above), Darrow may recommend clients who are "accredited investors" to invest in the *Private Fund*.

When evaluating securities, Darrow's primary method of analysis is cyclical. Cyclical analysis involves the analysis of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that Darrow is recommending. The primary risk in using cyclical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that Darrow will be able to accurately predict such a reoccurrence.

Risk of Loss

Mutual Funds and Exchange Traded Funds (ETFs)

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss. As such, a fund investor may incur substantial tax liabilities even when the fund underperforms.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

Market Risks

The profitability of a significant portion of Darrow's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that Darrow will be able to predict those price movements accurately.

Use of Independent Managers

Darrow may recommend the use of *Independent Managers* for certain clients. Darrow will continue to do ongoing due diligence of such managers, but such recommendations rely, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, Darrow does not have the ability to supervise the *Independent Managers* on a day-to-day basis, if at all.

Use of Private Collective Investment Vehicles

Darrow may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called "hedge funds"). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

Management Through Similarly Managed Accounts

Darrow manages portfolios by allocating portfolio assets among various securities on a discretionary basis using one or more of its proprietary investment strategies (collectively referred to as “*investment strategy*”). In so doing, Darrow buys, sells, exchanges and/or transfers securities based upon the *investment strategy*.

Darrow’s management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Securities in the *investment strategy* are usually exchanged and/or transferred without regard to a client’s individual tax ramifications. Certain investment opportunities that become available to Darrow’s clients may be limited. As further discussed in response to Item 12B (below), Darrow allocates investment opportunities among its clients on a fair and equitable basis.

General Risk of Loss

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

Item 9. Disciplinary Information

Darrow is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. Darrow does not have any required disclosures to this Item.

Item 10. Other Financial Industry Activities and Affiliations

Darrow is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

As discussed above in Item 5, Darrow may recommend that *National Advisors Trust* serve as custodian for certain investment management accounts. *National Advisors Trust* is a federally chartered trust company controlled by National Advisors Holdings, Inc. (“NAH”). Darrow’s principal, Thomas J. McFarland III, currently has approximately a one percent (1%) ownership interest in NAH. While Darrow may recommend the services of *National Advisors Trust* for the reasons set forth in response to Item 12 (below), the recommendation of *National Advisors Trust* by Darrow presents a conflict of interest. Neither Darrow nor Mr. McFarland directly receives any portion of the fees charged by *National Advisors Trust* but may receive distributions relative to his respective ownership interest in *National Advisors Trust*.

Item 11. Code of Ethics

Darrow and persons associated with Darrow ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with Darrow's policies and procedures.

Darrow has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by Darrow or any of its associated persons. The *Code of Ethics* also requires that certain of Darrow's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in Darrow's *Code of Ethics*, none of Darrow's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of Darrow's clients.

When Darrow is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when Darrow is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

An affiliate of Darrow is the general partner to the *Private Fund*. Darrow may recommend, on a fully disclosed basis, that certain clients invest in the *Private Fund*. As such, a conflict of interest exists to the extent that Darrow recommends that clients invest in *Private Fund*.

Clients and prospective clients may contact Darrow to request a copy of its *Code of Ethics*.

Item 12. Brokerage Practices

As discussed above, in Item 5, Darrow generally recommends that clients utilize the brokerage and clearing services of *Fidelity*, *Schwab*, and/or *National Advisors Trust*.

Factors which Darrow considers in recommending *Fidelity*, *Schwab*, and/or *National Advisors Trust* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Fidelity* and *Schwab* enable Darrow to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Fidelity*, *Schwab*, and/or *National Advisors Trust* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by Darrow's clients comply with Darrow's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where Darrow determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. Darrow seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other *Financial Institutions* with whom Darrow and the *Financial Institutions* have entered into agreements for prime brokerage clearing services. Darrow periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct Darrow in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and Darrow will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by Darrow (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Darrow may decline a client's request to direct brokerage if, in Darrow's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless Darrow decides to purchase or sell the same securities for several clients at approximately the same time. Darrow may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among Darrow's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently.

Under this procedure, transactions will generally be averaged as to price and allocated among Darrow's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that Darrow determines to aggregate client orders for the purchase or sale of securities, including securities in which Darrow's *Supervised Persons* may invest, Darrow shall generally do so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Darrow shall not receive any additional compensation or remuneration as a result of the aggregation. In the event that Darrow determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, Darrow may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist Darrow in its investment decision-making process. Such research generally will be used to service all of Darrow's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Darrow does not have to produce or pay for the products or services.

Software and Support Provided by Financial Institutions

Darrow may receive from *Fidelity*, *Schwab*, and/or *National Advisors Trust*, without cost to Darrow, computer software and related systems support, which allow Darrow to better monitor client accounts maintained at *Fidelity*, *Schwab*, and/or *National Advisors Trust*. Darrow may receive the software and related support without cost because Darrow renders investment management services to clients that maintain assets at *FBD*. The software and related systems support may benefit Darrow, but not its clients directly. In fulfilling its duties to its clients, Darrow endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Darrow's receipt of economic benefits from a broker-dealer

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creates a conflict of interest since these benefits may influence Darrow's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, Darrow may receive the following benefits from *Fidelity* through the Fidelity Institutional Wealth Services division and/or *Schwab* through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services Institutional Wealth Services participants and/or Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

Item 13. Review of Accounts

For those clients to whom Darrow provides investment management services, Darrow monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom Darrow provides financial modeling and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of Darrow’s investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Darrow and to keep Darrow informed of any changes thereto. Darrow shall contact ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom Darrow provides investment advisory services will also receive a report from Darrow that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance from time to time. Clients should compare the account statements they receive from their custodian with those they receive from Darrow.

Those clients to whom Darrow provides financial modeling and/or consulting services will receive reports from Darrow summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by Darrow.

Item 14. Client Referrals and Other Compensation

Darrow is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. In addition, Darrow is required to disclose any direct or indirect compensation that it provides for client referrals.

Darrow is a member of the Paladin Registry and WiserAdviser. Though neither the Paladin Registry nor WiserAdviser act as a solicitor under Rule 206(4)-3 of the Advisers Act, each does provide investors with information regarding investment advisors. Darrow pays a fixed membership fee to participate in the Paladin Registry, and both a fixed membership fee and fee per referral to participate in WiserAdviser.

Darrow may also receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

Item 15. Custody

Darrow's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize Darrow through such *Financial Institution* to debit the client's account for the amount of Darrow's fee and to directly remit that management fee to Darrow in accordance with applicable custody rules.

The *Financial Institutions* recommended by Darrow have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to Darrow. In addition, as discussed in Item 13, Darrow also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from Darrow.

Item 16. Investment Discretion

Darrow is given the authority to exercise discretion on behalf of clients. Darrow is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. Darrow is given this authority through a power-of-attorney included in the agreement between Darrow and the client. Clients may request a limitation on this authority (such as requesting that certain securities not to be bought or sold). Darrow takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made;
- The *Financial Institutions* to be utilized; and
- The *Independent Managers* to be hired or fired.

Item 17. Voting Client Securities

Darrow may vote client securities (proxies) on behalf of its clients. When Darrow accepts such responsibility, it only casts proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully described in Darrow's Proxy Voting Policies and Procedures, all proxies are voted in a manner consistent with the guidelines established and described in Darrow's Proxy Voting Policies and Procedures, which may be amended from time-to-time. Clients may contact Darrow to request information about how Darrow voted proxies for that client's securities or to get a copy of Darrow's Proxy Voting Policies and Procedures.

Darrow has engaged the services of Institutional Shareholder Services Company ("ISS") from RiskMetrics Group to provide and implement its proxy voting guidelines and to vote client proxies. ISS does extensive research on all proxy questions and vote clients' proxies according to Darrow's proxy voting guidelines. The relationship with ISS is designed to help ensure Darrow's proxy voting decisions are made in the best interest of clients, even in the rare occasion that there may be a conflict of interest in the voting of proxies due to business or personal relationships that Darrow maintains with persons having an interest in the outcome of certain votes.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that Darrow maintains with persons having an interest in the outcome of certain votes, Darrow takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

Item 18. Financial Information

Darrow does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, Darrow is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. Darrow has no disclosures pursuant to this Item.

The Darrow Company, Inc.

a Registered Investment Adviser

801 Main Street
Concord, MA 01742

(978) 369-5144

www.darrowwealthmanagement.com

Prepared by:



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The Adviser's Advisor®