

J.M. Forbes & Co. LLP

Disclosure Statement

Form ADV Part 2

# Form ADV Part 2A

J.M. Forbes & Co. LLP  
121 Mount Vernon Street, Boston, MA 02108  
617-423-5705

[www.jmforbes.com](http://www.jmforbes.com)

March 26, 2012

This Brochure provides information about the qualifications and business practices of J.M. Forbes & Co. If you have any questions about the contents of this Brochure, please contact us at J.M. Forbes & Co., 121 Mount Vernon Street, Boston, MA 02108 or by calling 617-423-5705. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

J.M. Forbes & Co. is registered as an investment adviser with the SEC, and additional information about the firm also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Brochure Supplements containing information about the experience and training of the Partners and other personnel of J.M. Forbes & Co. who are responsible for investment advice and management for client accounts will be provided with this Brochure. Registration as an investment adviser by itself does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

This section details any material changes which we made to this Brochure since the last annual update on March 30, 2011. The material changes we have made since the last annual update are the following: updating J.M. Forbes & Co. LLP business address as well as updating J.M. Forbes & Co. LLP assets under management to December 31, 2011, in item 4.

Pursuant to SEC rules, we will insure that you will receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Paul M. Kendrigan at 617-316-7029 or [pk@jmforbes.com](mailto:pk@jmforbes.com), also free of charge.

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## **Item 4 – Advisory Business**

### **The Company**

J.M. Forbes & Co. is a Delaware Limited Liability Partnership. The Partners of J.M. Forbes & Co. are Malcolm L. Davidson, David C. Warner and Paul Elias.

J.M. Forbes & Co. was founded in 1838. Its principal place of business is located in Boston, Massachusetts. As of December 31, 2011 J.M. Forbes & Co. has \$472,113,074 in assets under management, of which \$471,630,391 are under discretionary management and \$482,683 are managed on a non-discretionary basis.

### **Portfolio Management**

J.M. Forbes & Co. provides investment advice and portfolio management to individuals, trusts, estates, pension and profit-sharing plans, charitable organizations and corporations. Virtually all of these accounts are managed with J.M. Forbes & Co. having complete investment authority. The balances are managed in consultation with clients.

We employ a core investment style. Screening off a broad universe of equities, a list of approximately 100 names is created from which a core portfolio of about 40 companies is built. This core equity portfolio, along with a blend of fixed income securities such as U.S. Treasury notes, U.S. Agency bonds, and high-grade corporate and municipal bonds, is the foundation on which our portfolios are built. The two primary objectives in all our portfolios are preservation of capital and a strong risk adjusted return. These two objectives are balanced for each account after taking into consideration the specific risk profile, income needs and long term goals of the client. Clients are responsible for informing us of any relevant changes in their circumstances. Upon establishing a trust or entering into a non-trust investment management agreement, clients may impose restrictions on investing in certain securities or types of securities subject to consent of J.M. Forbes & Co. to ensure prudent account management.

### **Other Business Activities**

The Partners of J.M. Forbes & Co. serve as private trustees as well as investment advisers. Other services rendered by the firm include, but are not limited to, estate planning, trust and estate management, financial management, real estate management, advice on and preparation and filing of Federal and State tax returns, and maintenance of records relating to all of these areas. Up to approximately 40% of the firm's time and resources is allocated to these services.

## Privacy Policy

*J.M. Forbes & Co. asks that you provide certain personal information in order for us to provide you with better service.*

In the course of providing our services, we obtain non-public personal information including, but not limited to, such things as a client's name, address, birth date, social security number, account balances, income and securities positions. We may obtain this information directly from clients or from other sources such as banks, other fiduciaries and service providers.

*J.M. Forbes & Co. is committed to your privacy.*

We consider customer privacy to be fundamental to our relationship with clients. We are therefore committed to maintaining the confidentiality, integrity and security of clients' non-public personal information. We do not share or disclose any non-public personal information about our clients or former clients except to facilitate the servicing or management of client accounts or as otherwise permitted by law.

*J.M. Forbes & Co. services are provided in a secure environment.*

We internally safeguard our clients' non-public personal information by restricting access to only those employees who provide services to our clients or those who need to access the information to service our clients' accounts. In addition, we maintain physical, electronic and procedural safeguards intended to meet federal standards to safeguard client information.

We may provide non-public personal information to parties, such as independent trustees and custodians, with whom our clients have established relationships and ask us to interact. In addition, we will from time to time contract with third parties to provide services for our clients or to facilitate the servicing or management of client accounts. In certain instances, performance of these services may provide such third party service providers with access to non-public personal information. We ensure that such service providers understand our privacy policies and agree to protect the confidentiality of client information.

*J.M. Forbes & Co. will notify you of future changes to our privacy policy.*

If the firm makes any substantial changes in the way we use or disseminate personal information, we will notify you.

If you have any questions concerning this Privacy Notice please write to: J.M. Forbes & Co. LLP  
Attn: Compliance Dept., 121 Mount Vernon Street, Boston, MA 02108.

## Item 5 – Fees and Compensation

The primary form of advisory compensation for J.M. Forbes & Co. is a management fee based on the following rates:

Fee on Principal:	<u>Market Value of Account</u>	<u>Annual Rate</u>
	First \$500,000	0.65%
	Next \$1,000,000	0.55%
	Next \$1,000,000	0.45%
	Next \$2,500,000	0.35%
	Over \$5,000,000	0.25%

Fee on Income: 6.85% of the income collected.

For purposes of comparison, the two fees together have added up to a total of between 0.60% and 1.0% of assets under management in recent years, the lower end representing larger accounts, the higher end representing smaller ones.

These fees are generally not negotiable. The firm charges each account directly on the 16<sup>th</sup> of each month. The principal fee is based on the market value at the end of the previous month and the income fee is based on the income collected from the 15<sup>th</sup> of the previous month to the 15<sup>th</sup> of the current month.

The one exception to the above fee schedule is retirement accounts (IRAs or other qualified plans). These accounts are charged a flat 0.85% of assets per annum and the fee is billed to the client in quarterly installments.

Clients may also receive general investment advice, or advice in connection with estate planning, retirement planning, or any other investment or financial concern. Such advice is generally covered within our management fee, but we reserve the right to charge separately if a project requires more than a few hours of time. In such an instance a fee or hourly rate would be agreed in advance with the client. The fee schedules for tax and executor services are available upon request.

Upon termination of an advisory relationship, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable. Similar advisory services may be available from other registered investment advisers for lower fees.

Mutual funds and exchange-traded funds in which client assets are invested also charge management fees and incur expenses, and may impose initial or deferred sales charges, which are disclosed in the fund's prospectus or other offering document, which is available upon request. J.M. Forbes & Co.'s fees are not reduced by the amount of these fees, expenses or charges but the firm selects such funds with care to minimize fee burdens. Fees charged for custody services are paid by J.M. Forbes & Co. and not passed on to clients. J.M. Forbes & Co. fees do not include brokerage commissions and other transaction costs incurred in the management of the accounts. Please see "Brokerage Practices" below for a description of the factors that we consider in selecting or recommending broker-dealers for client transactions. Clients may at times incur other charges imposed by custodians, brokers or other third parties, including but not limited to transfer taxes and wire and electronic fund transfer fees.

We receive no loads, 12b-1 or other account servicing fees from any fund or investment manager, nor any portion of any of the fees and charges referred to above.

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

J.M. Forbes & Co. does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

J.M. Forbes & Co. provides portfolio management services to individual, pension and profit sharing plans, trusts, estates, and charitable organizations and corporations. In many cases, the client is a trust that a J.M. Forbes & Co. Partner serves as trustee.

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

#### **Strategy**

We use a broad array of tools to work towards two basic yet critical objectives: strong risk-adjusted returns and preservation of capital. To meet these goals we employ a core investment strategy adapted to client needs. For some this translates into optimized growth, for others maximized income, conditioned by individual investment goals, time horizon, tax situation, and risk tolerance. In trust accounts with one group of income beneficiaries and another group of remainder beneficiaries our investment approach balances growth of principal and generation of income. Overall, we believe that taking a long time horizon provides us with a strategic advantage: we position portfolios to benefit from major trends rather than short term market movements.

#### **Stock selection**

We screen a broad universe of equities to find companies that should deliver strong long-term price and dividend appreciation. We normally invest in established mid-to-large capitalization companies in the US and abroad with what we believe are strong long-term growth prospects at an attractive valuation; an approach often referred to as Growth at a Reasonable Price, or GARP. Some of the attributes we look for include a strong balance sheet, sound management, competitive products, and a defensible market position. Our screening results in an active list of about 100 companies from which we create a portfolio of 40 to 50 names that are continually monitored and evaluated. Our goal is constant tracking but selective trading: so stock holdings might shift only 10% to 20% in a given year. We may also use mutual funds and exchange-traded funds to invest in a specific asset class where we do not have the expertise or ability to invest directly or where we believe our accounts will benefit from additional diversification.



## **International Investment**

We believe that over the coming years the US will represent a shrinking fraction of the world economy. We position client accounts for this by holding non-US stock positions, holding positions in US companies with major revenues abroad, and through investment in exchange-traded funds that track regional indices to capture growth outside this country.

## **Fixed Income Securities**

We actively manage client bond holdings to produce maximum income within specific risk parameters by working with the variables of duration, credit risk, and return. We include tax-free yield for high-bracket clients, sell positions at times to capture market premiums, and work with outside managers, investing in their bond funds to achieve diversified corporate and international bond yield. As with other assets, we seek to find stable fixed income positions to avoid frequent trading, but will act quickly if underlying factors shift.

## **Portfolio Adjustments**

The forces of the economy, changes in consumer demand, and business innovation along with many other factors result in constant movement in the values of assets in each portfolio. We continually evaluate these factors looking for validation of our strategies or indications of the need for change. We monitor portfolios and intervene to rebalance, raise funds, or adjust holdings as the situation requires and as client needs evolve.

## **Cash Management**

We manage client cash driven both by client needs, by returns in money markets, and by prospects or risks in other asset classes. At times we maintain cash as a buying reserve to permit swift movement in a fluid market. When we receive fresh funds from a client we often will dollar-cost-average our purchases into the markets over a number of months to smooth short-term fluctuations. For daily management of cash we use money market funds from the Federated Funds family.

## **Principal Investment Risks**

*Equity and Fixed Income Security Risk:* Investing in securities involves risk of loss that clients should be prepared to bear. While our focus on preservation of capital in client portfolios is intended to lower these inherent risks, the oscillating nature of securities markets will expose client portfolios to downside as well as upside potential.

*Stock Market Fluctuations:* With a substantial portion of client assets invested in individual stocks, or exchange-traded funds that hold stocks, clients are exposed to the risk of significant declines in value at times as global stock markets fluctuate in response to changes in economic, geo-political,

regulatory and other factors. While we attempt to mitigate these declines by primarily investing in what we believe are high-quality equities with attractive long-term prospects, clients are nonetheless exposed to this inherent equity market volatility. Also, while we maintain a diversified portfolio of securities, individual sectors, industries and stocks can also be exposed to specific risks due to unforeseen events.

*International Investment Risks:* International stocks and bonds have often experienced more volatility than US markets in periods of global market upheaval as a result of factors including currency fluctuations, differing tax, regulatory and accounting practices, less mature or sophisticated markets, or unpredictable international events. While we attempt to mitigate these risks by holding diversified stock and bond funds in addition to individual issues, in periods of increased volatility clients may be exposed to potential losses.

*Volatility in Fixed Income Investments:* Bonds, bond funds and other fixed income investments are sensitive to various factors, including fluctuations in the global bond markets in response to changes in economic, geo-political, regulatory and other factors. In addition, changes in the level of US and global interest rates or the slope of the interest rate curve, as well as the rise and fall of the yield spread between US Treasuries and more risky fixed income securities, can cause fluctuations in underlying bond prices. Specific risks related to the management of a bond fund, or the liquidity of bonds in general during volatile periods in the markets, can also affect bond prices. Further, doubts about the ability of the issuer of the underlying bond to make interest and principal payments, or actual default on such payments, can cause bond prices to fall. While we attempt to mitigate these risks by holding diversified bond funds in addition to what we believe are high quality individual issues, in periods of increased volatility or inflation clients are exposed to potential losses.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the firm or the integrity of the firm's management.

J.M. Forbes & Co. is not aware of any events of this nature, material or otherwise, involving the firm or any of its staff.

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

No J.M. Forbes & Co. Partner or employee is registered as a broker-dealer or a registered representative of a broker-dealer and the firm has no other material financial industry activities or affiliations.

## **Item 11 – Code of Ethics**

### **Participation or Interest in Client Transactions**

Subject to the Code of Ethics described below, J.M. Forbes & Co. and its related persons may buy or sell the same securities for their personal accounts that are purchased for or recommended to clients. The nature and timing of such investment actions may differ from investment actions taken on behalf of clients, depending on their respective circumstances or investment goals and strategies. In general, with respect to relatively liquid securities (that is, securities that are widely held and are traded in institutional markets), the firm and its related parties may trade in the securities held in client accounts even while directing client trades. Considering the types and volumes of securities that we manage we do not believe that such trading could have any appreciable impact upon prices. In those rare cases where the security being traded for a client account is considered illiquid, all client purchases and sales will be executed before any transactions in the same security for the account of J.M. Forbes & Co. or any of its related parties.

In order to comply with its legal and fiduciary duties and to avoid conflicts of interest, it is the policy of J.M. Forbes & Co. that personnel must comply with applicable federal and state law and that neither the firm nor any related person may use confidential information about client accounts in making personal transactions, or take personal advantage of investment opportunities that properly belong to clients; or act on the basis of material, nonpublic (inside) information about the issuer of a security in taking investment action for either client or personal accounts, even if that would benefit the account.

J.M. Forbes & Co. Partners and other advisory representatives are required to disclose personal transactions to the firm. The firm may aggregate trades for itself or its related persons with client trades, provided that the firm's allocation policy is followed and client accounts have priority over personal accounts in the allocation of securities from partially filled orders.

J.M. Forbes & Co. has adopted a Code of Ethics and Insider Trading Policy. This sets forth (i) fundamental standards of conduct for J.M. Forbes & Co. and its personnel, (ii) policies and procedures for the protection of material nonpublic information, and (iii) internal reporting of violations of the Code of Ethics and securities laws. In addition each Partner and employee that is designated as an "Access Person" and must (i) report quarterly on their personal securities transactions and (ii) report annually on their personal securities holdings to J.M. Forbes & Co.'s Chief Compliance Officer or other designated person(s). The Code of Ethics requires the Chief Compliance Officer to review these reports in monitoring trades or patterns of trading by the Adviser's Access Persons.

The Code of Ethics requires that Access Persons obtain approval before investing in an initial public offering or private placement.

J.M. Forbes & Co. periodically provides training and education programs to its Access Persons regarding the Code of Ethics and applicable laws. We periodically review the effectiveness of the Code of Ethics for any apparent conflicts of interest between personal and client matters or between the affairs of different clients. We will provide a copy of its Code of Ethics and Insider Trading Policy to any client or prospective client upon request.

## **Item 12 – Brokerage Practices**

### **Broker Selection and Commissions**

*In General:* Where J.M. Forbes & Co. has discretion to select brokers-dealers and commission rates, the firm will endeavor to select those brokers-dealers that will provide the best services and execution. The firm judges the reasonableness of commissions based on a variety of factors, including those described below. However, because of the firm's philosophy of investment, portfolio turnover is generally low and brokerage costs are typically an insignificant factor in overall results. Thus, the general helpfulness of the brokerage house, the efficiency of its operations and execution, and the quality of the research or ideas it provides to J.M. Forbes & Co. generally determine where business is placed, and all brokerage is placed at comparable rates to those offered by other brokerage houses that could perform like services for the firm. We review U.S. brokers annually and establish targets based on the value provided. We do not allow clients to direct brokerage.

*"Soft Dollar" Credits:* Research services and products may be provided to J.M. Forbes & Co. by broker-dealers in exchange for brokerage commissions generated by client transactions. These may include fundamental research reports, technical and portfolio analyses, pricing services, economic forecasting and interest rate projections, historical database information, news, statistical information, and/or portfolio management and analysis systems that assist the firm's investment management process. Broker-dealers we select may receive a commission paid by the trading client's account that is in excess of the amount another broker-dealer might have charged if, in our judgment, the higher amount is reasonable in relation to the value of the brokerage and research rendered, viewed in terms of a particular transaction or the firm's overall responsibilities to accounts as to which it exercises investment discretion, or is otherwise consistent with best execution.

Research received from broker-dealers may benefit the account for which the trade is executed and/or it may be used for the benefit of any other account also under management by the firm. We do not strictly allocate soft dollar benefits to client accounts proportionately to the soft dollar credits that the accounts generate. Using client brokerage commissions in this manner provides a benefit to J.M. Forbes & Co. because it relieves us of having to produce or pay for this type of research ourselves. This may produce a conflict of interest since it gives us an incentive to select a broker-dealer based on our interest in receiving the research rather than on the client's interest in

receiving most favorable commission. However, we do seek to ensure that all client accounts benefit from this research, and we periodically review the products and services received to evaluate the benefits and value provided to our clients.

J.M. Forbes & Co. has soft dollar arrangements that allow the firm to apply commission dollars to obtain investment research services developed by third-party vendors through FinTech Securities and William O'Neil & Co. The services currently received under agreement with FinTech Securities are equity research from EB Capital, Greenhill Performance Measurement systems, Decision Economics, and the Thomson Financial FirstCall/Thomson One and Baseline analytical products. William O'Neil & Co. provides Wonda research software under a separate soft dollar arrangement.

If we received from broker-dealers any products or services that were used both for investment research and for administrative, marketing, or other non-research purposes, the firm would make a good faith effort to determine the portion of such products or services that should be considered investment research. That portion of the costs of such products or services could be defrayed by J.M. Forbes & Co. in its discretion with soft dollar credits. The portion of such costs attributable to non-research usage of such products or services would be paid by J.M. Forbes & Co.

***Aggregation and Allocation of Trades:*** J.M. Forbes & Co. may aggregate orders to buy or sell the same security for multiple accounts ("block trading"). Block trading can allow the firm to execute equity trades in a more timely and equitable manner and can reduce overall commission charges to clients. Each client or proprietary account that participates in an aggregated order generally receives the weighted average share price for all transactions in a particular security effected to fill such orders on a given business day, with transaction costs shared pro-rata based upon each account's participation in the transaction. Partially-filled orders would generally be allocated pro rata among the participating accounts. Exceptions may be made in good faith compliance with the firm's allocation policy, provided that no account is systematically disadvantaged thereby.

## **Item 13 – Review of Accounts**

### **Regular Reviews**

While the underlying securities held in investment management accounts are continuously monitored, these accounts are formally reviewed at least semi-annually and generally more often, by one or more Partners of J.M. Forbes & Co. and the Investment Department, who share responsibility for reviewing all accounts. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances communicated to the firm, corporate events, or the market, political or economic environment. Reviews focus on account performance and consistency with client investment objectives and cash needs.

## **Regular Reports**

Clients receive quarterly statements from our custodian showing the funds and securities held in their account and setting forth all transactions during the period. This statement should be carefully reviewed. J.M. Forbes & Co. may also provide clients with annual account reports, transaction confirmations and other statements depending on the nature of each account and individual client needs.

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

J.M. Forbes & Co. does not compensate any employee, client or outside party for client referrals or any other economic benefit that arises as a result of the firm's relationship with an employee, client or outside third party.

## **Item 15 – Custody**

All of J.M. Forbes & Co. client funds are held by SEI Private Trust Company, a qualified custodian. SEI sends a quarterly statement, that should be reviewed carefully, to every client of J.M. Forbes & Co.

## **Item 16 – Investment Discretion**

In general, our clients delegate to J.M. Forbes & Co. or its Partners the authority to make investment decisions for their accounts. See Item 4 – Advisory Business above for more information about our management of accounts.

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

### **Proxy Voting Policy**

Unless otherwise agreed with the client, J.M. Forbes & Co. votes proxies with respect to securities held in each client's account in line with the recommendations and guidelines of a third party proxy voting service; Glass Lewis & Co. These guidelines are intended to promote the economic interests of shareholders, and are reviewed annually by J.M. Forbes & Co. A summary of the Glass Lewis & Co. U.S. Proxy Voting Guidelines is available upon request. We believe that this procedure largely eliminates the possibility of any material conflicts of interest between us and our clients with respect to voting securities. However, if any conflict were identified it would be disclosed to the client with the request that the client provide voting direction.

J.M. Forbes & Co. maintains electronic copies of all client proxies and a record of how they were voted so that it may respond to any question clients may have regarding them. Clients may obtain information about how proxies were voted upon request.

## **Item 18 – Financial Information**

J.M. Forbes & Co. is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.