

## **Firm Brochure**

(Part 2A and Part 2B of Form ADV)

### **The Abernathy Group II LLC**

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This brochure provides information about the qualifications and business practices of The Abernathy Group II LLC. If you have any questions about the contents of this brochure, please contact us at: 212-293-3469, or by email at: [sabernathy@abbygroup.com](mailto:sabernathy@abbygroup.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 The Abernathy Group II LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

March 15, 2012

## Material Changes

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### Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### Material Changes since the Last Update

Since its last ADV Annual Amendment filing on April 1, 2011, the Abernathy Group II LLC's ownership has changed. Buxton Capital Partners is no longer an owner or controlling interest in the firm. Thurgood Marshall Memorial Holding LLC is now the sole owner of Abernathy Group II LLC.

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### Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 212-293-3469 or by email at: [sabernathy@abbygroup.com](mailto:sabernathy@abbygroup.com)

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# Advisory Business

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## Firm Description

The Abernathy Group II LLC, was founded in 2009.

The Abernathy Group II LLC provides access to experienced investment professionals who have owned and run businesses for many years. We offer confidential Family Office Services in concert with these experts, independent of The Abernathy Group II LLC, which include practice management, financial advice, and investment management among other services, primarily for medical doctors and their families. A full list of services offered is located on our website at [www.PhysicianFamilyOffice.org](http://www.PhysicianFamilyOffice.org). We may also work with a limited number of other individuals, pension and profit sharing plans, trusts, estates, and charitable organizations.

The Family Office advice is provided through private consultation with the family and may include: medical practice integration counseling, medical practice management, marketing, and valuation. We will help our families:

Legally protect their assets from litigation,

Create financial objectives and build financial plans to meet those objectives,

Gain access to some of the nation's leading asset management firms,

Identify solutions for financial problems,

Coordinate practice management, practice integration, practice marketing and practice valuation with proven experts,

Optimize cash flow management,

Adopt strategies to legally reduce taxes,

Organize financial affairs to save time each month,

Review insurance policy coverage,

Create education funding for family members and philanthropy,

Create complete retirement planning strategies, and

Coordinate estate planning services with attorneys who specialize in estate planning to effectively manage their family's wealth across generations

We will also integrate a Family Office member's current providers to insure legal, accounting, estate planning, practice management and investment management are all working together for the family's best interests, allowing the medical doctor to spend more time with their practice and family and improve their quality of life.

The Abernathy Group II LLC is strictly a fee-only financial planning and investment management firm. The firm DOES NOT SELL any financial, legal, accounting or medical product. This includes annuities, insurance, stocks,

bonds, mutual funds, limited partnerships, or any other commissioned products. No commissions in any form are accepted. No finder's fees are accepted. We work expressly for the physician and their family. Our actions and advice are strictly focused on the best solutions for the specific family we are working for, regardless of its source. Our goal is to provide safety of principal first, then conservatively grow assets and help the family manage their wealth across generations, although each family may have slightly different short and long-term objectives.

Each family receives a written evaluation of their financial status, often in the form of a net worth statement. Each family also receives a family website which aggregates all accounts able to be viewed online, into one website which updates all values each day, thus allowing the family to always know what they are worth and reducing the need to go to each website each day to determine account values. Periodic reviews provide reminders of the specific courses of action that need to be taken. More frequent reviews occur but are not necessarily communicated to the family unless immediate changes are recommended.

The Abernathy Group II LLC does not act as a custodian of a family's assets. The family always maintains control of their assets. The Abernathy Group II LLC may place trades for families under a limited power of attorney and/or with a Discretionary Agreement at the family's request, in an effort to implement their Investment Strategy.

The initial meeting, usually takes place in person and provides the most helpful relationship, yet which may be by telephone, is free of charge and is considered an exploratory interview. The goal is to determine the extent to which a coordinated, Family Office environment, which includes access to various aspects of medical practice management, financial planning and investment management, among others, may be beneficial to the family.

The Abernathy Group II LLC also manages a private investment partnership (The Abernathy Group II Growth Fund LP) dedicated to value investing and income generation for its co-investors. This private investment partnership is separate and distinct from the Family Office offering and has a separate fee structure.

The Abernathy Group II LLC also offers Separately Managed Accounts. The Abernathy Group II LLC Separately Managed Accounts are fully diversified alternatives to mutual funds and are customized for each family's specific needs and time horizon. Separately Managed Accounts may be integrated into the Family Office relationship, or may be offered as a stand-alone financial alternative. This Separately Managed Account offering is included in the fee structure (outlined below) for the Family Office, and has its own separate fee structure for investors who are not a part of the Family Office.

Conflicts of interest will be disclosed to the family in the unlikely event they should occur.

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**Principal Owners**

Thurgood Marshall Memorial Holdings LLC holds a 100% membership interest in The Abernathy Group II LLC.

Steven Abernathy holds a 90% membership interest in Thurgood Marshall Memorial Holdings LLC and Brian Luster holds a 10% membership interest in Thurgood Marshall Memorial Holdings LLC.

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**Types of Advisory Services**

The Abernathy Group II LLC provides access to professional investors with many years of audited experience, and many years experience running businesses both regulated by the Securities industry and non regulated businesses. These professionals can offer their insights and years of experience in many categories of investment supervisory services, also known as asset management services; management of private partnerships for accredited investors (The Abernathy Group II Growth Fund LP (**See** Affiliated Private Fund disclosure below) and its many predecessors); selection of, and access to, highly regarded investment management firms which may at times be closed to new investors; management of Separately Managed Accounts on a stand-alone basis, or as part of the Family Office structure; dissemination of a weekly investment summary paper titled “This Week In The Capital Markets”; coordination of investment advice with experts in estate planning, accounting, legal asset protection, medical practice management, medical practice integration, medical practice valuation, medical practice marketing, and medical practice financing; issuance of special reports about securities or investment opportunities which may be unavailable to the public; and may issue, charts, graphs, formulas, or other data which families may use to evaluate securities or investment opportunities.

On more than an occasional basis, The Abernathy Group II LLC may furnish advice to families on matters not involving securities, such as family financial education and expectations counseling, legal asset protection structures, financial planning matters, retirement planning, cash flow analysis, taxation issues, and trust services that often include estate planning. In instances where The Abernathy Group II LLC does not have valuable advice to offer, we will call in noted experts, who operate independently, with no affiliation to The Abernathy Group II LLC. In these instances, The Abernathy Group II LLC will not share in any compensation agreed to between the family requesting access to the specific expert, and the expert or their firm. It is The Abernathy Group II LLC’s explicit goal to avoid conflicts of interest whenever possible.

As of December 31<sup>st</sup>, 2011, The Abernathy Group II LLC advises approximately \$25,000,000 in discretionary assets and approximately \$50,000,000 in non-discretionary assets.



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## **Tailored Relationships**

The goals and objectives for each family are documented in our family Investment Policy Statement which is created at the beginning stages of the relationship. Investment Policy Statements are created to reflect the stated goals and objectives of each family, list the assets covered under the advisory agreement and provide restrictions, if any, the family would like to enforce. Families may impose restrictions on investing in certain securities or types of securities. Families may also own assets which are not under the direction of The Abernathy Group II LLC's direction and accordingly, will not be billed for.

Investment Policy Statements are built exclusively for each family in collaboration with each family head. Investment Policy Statement agreements may not be assigned to any other person or firm without family consent, and are not discussed with anyone outside of The Abernathy Group II LLC without the family's explicit consent.

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## **Types of Agreements**

The following agreements define the typical family relationships.

The Abernathy Group II LLC Physician Family Office offers most typical Family Office services, with the additional aspect of matters including practice management, integration, marketing and valuation, which may be referred to experts not affiliated with The Abernathy Group II LLC. All services and information regarding a family and its financial goals and ownership structure are confidential and are hallmarks of our organization.

The Abernathy Group II LLC manages The Abernathy Group Growth Fund LP, a private Limited Partnership which is available to accredited investors only. Families which become members of The Abernathy Group II Physician Family Office first, are most often not investors in The Abernathy Group Growth Fund. However, some co-investors in The Abernathy Group Growth Fund LP for many years are also members of The Abernathy Group Physician Family Office. In this case, the Physician Family Office members pay the management and incentive fees from The Abernathy Group Growth Fund LP and DO NOT pay Physician Family Office fees on those assets, and do not receive advisory services on those assets.

The Abernathy Group II LLC may also manage Separately Managed Accounts for Families which are members of the Physician Family Office, and clients who are not members of the Physician Family Office. For those investors who are members of the Physician Family Office, the Separately Managed Account is included in the annual fee. Those investors who are not members of the Physician Family Office are charged standard fees which are listed in the sections below.

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## **Financial Planning Agreement**

A financial plan is designed to help the family with all aspects of financial planning and estate management across generations with ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement, a cash flow statement and an income statement. This allows each family to be well organized and enables well-informed decisions to be made regarding future investment policies. Next, we will help the family create reasonable goals for the family's assets matched with a time frame to allow each family to gauge progress as frequently as they choose. The financial plan also includes a review of investments in all accounts, including reviewing asset allocation and providing repositioning recommendations, including continuously rebalancing the family's assets to conform with the Investment Policy Statement; strategic tax planning; a review of retirement accounts which might include several possible retirement scenarios and plans including recommendations for actions which are likely to help each family achieve their personal goals with the least amount of risk for those scenarios; a review of insurance policies and recommendations for changes, if necessary; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations are provided at the family's request as part of a financial plan. Implementation of the suggested recommendations is at the discretion of the family. The Abernathy Group II LLC will implement as little or as much of the strategy as the family directs.

The fee for becoming a member of the Physician Family Office is 0.89% per year on assets under advisement. The minimum account size is \$5,000,000, although the management of The Abernathy Group II LLC may choose to accept a lesser amount under certain circumstances.

Financial planning is a discovery process. Situations may occur where the family is unaware of certain financial exposures or predicaments. If a family's financial circumstances are substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The family must approve the change of scope in advance of the work being performed when a fee increase is necessary.

After delivery of a financial plan, future face-to-face meetings may continue as necessary. Unlimited access to our firm's personnel is included in the fee schedule, while experts brought in for special projects such as creating trust agreements, specific issues regarding practice management, marketing, integration, and valuation, preparing family or corporate tax returns, or planning family vacation travel are examples of instances where our personnel will coordinate and oversee the work, yet will pass along all expenses to the family benefitting from the work. The Abernathy Group II LLC will not accept any portion of the fees charged by outside experts, and will avoid any conflict of interest when possible.

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## **Advisory Service Agreement**

Most families choose to have The Abernathy Group II LLC manage their assets in order to obtain ongoing in-depth advice and life planning. All aspects of the family's financial affairs are reviewed, including those of their children. Realistic and measurable goals are set and objectives to reach those goals are defined. As goals and objectives change over time, suggestions are made and implemented with the client's prior approval, on an ongoing basis. It is important to note - the head of the family, or the family collaboratively, makes all policy decisions regarding risk parameters, and specific financial goals. The Abernathy Group II LLC will supply research, advice, business experience, and the scenario analysis needed to enable the family to make well informed decisions. The Abernathy Group II LLC does not make the final decision regarding Investment Policy. That is up to the family. However, we will perform as much, or as little specific investment implementation as requested by the family which should allow the family head, and its members, to spend time with other activities.

The scope of work and fee for an Advisory Service Agreement is provided to the family in writing prior to the start of the relationship. An Advisory Service Agreement includes: the creation of a balance sheet, an income statement, and a cash flow statement (the balance sheet is updated daily, while the income statement and cash flow statement are each updated over time when material changes have taken place); an insurance review; investment consulting and at times specific investment implementation (including performance reporting); education planning; working with families to educate members on matters involving finance, and lifestyle expectations set by the senior family members. We may review retirement planning, estate planning, and may suggest tax strategy alternatives to be discussed with their accountant, as well as the implementation of recommendations within each area. We may also manage and coordinate with other financial, practice management and legal advisors to the family when it will save time, increasing the probability that more well-informed decisions are made, or when requested by the family.

The annual Advisory Service Agreement fee is based on a percentage of the assets under advisement according to the following schedule:

- 0.89% of assets under advisement, minimum \$5,000,000 account

Current family relationships may exist where the fees are higher or lower than the fee schedule above.

Although the Advisory Service Agreement is an ongoing agreement and constant adjustments are required, the length of service to the family is at both the family's discretion and the discretion of The Abernathy Group II LLC. The family or the investment manager may terminate an Agreement by written notice to the other party, at the end of a calendar quarter, with 45 days written notice.

The portfolio value at the end of the prior calendar quarter is used as the basis for the fee computation each quarter, and is paid in advance, on the first day of the month of the calendar quarter.

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**Retainer Agreement**

There is no retainer agreement charged to any family.

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**Investment Management Agreement**

An *Investment Management Agreement* may be executed when financial planning is not provided as part of the relationship.

The annual fee for a Separately Managed Account is 0.5% per quarter. With an incentive fee of 20% of the profits over and above an 8% preferential return each year for the investor.

The fees and structure for Separately Managed Accounts are flexible and are often designed to meet certain specific goals, to supply principal preservation and solid returns for a fixed amount of time, or to fund a specific capital expenditure in the future. Consequently, the fees charged for a Separately Managed Account are negotiable depending upon the objectives of the account.

If an investor with a Separately Managed Account becomes a member of the Physician Family Office, the Separately Managed Account assets are not charged the standard 0.89% fee each year, typically paid by the Physician Family Office members.

The Abernathy Group II LLC is the Investment Advisor for The Abernathy Group Growth Fund LP. The Abernathy Group Growth Fund LP charges a 2% management fee and 20% of profits each year for all investors. The management of the fund may choose to charge certain investors less, depending upon the amount of money invested in the fund, and length of time in the fund among other things. Additionally, for accounts invested in The Abernathy Group Growth Fund LP with less than the \$1,000,000 minimum, there is a one-time, 1% front end load paid to the registered representative responsible for introducing the account.

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**Tax Preparation Agreement**

The Abernathy Group II LLC does not offer tax preparation internally. Our preference is to suggest independent experts and/or oversee currently trusted experts to prepare all tax returns. Any fees charged for this work specific to the family member at The Abernathy Group II Physician Family Office will be passed on to the family directly. The Abernathy Group II LLC will not accept any portion of the fees charged by outside experts.

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## Hourly Planning Engagements

The Abernathy Group II LLC offers unlimited access to all employees. There is no hourly planning fee for any Physician Family Office member.

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## Asset Management

Assets managed by The Abernathy Group II LLC may be invested in no-load or low-load mutual funds and exchange-traded funds, usually through discount brokers or fund companies chosen by the family. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds. These fees are the responsibility of the family owning the assets being invested.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm may charge a fee for stock and bond trades. These fees charged (commissions, SEC fees and all transactional fees), if any, will be billed to the family's account if it is a member of the Physician Family Office, and to the asset management client's account if it is in a Separately Managed Account. The Abernathy Group II LLC Physician Family Office does not receive any compensation, in any form, from fund companies or brokerage firms. Steven Abernathy owns a majority position in a registered Broker/Dealer. As such, no transactions will be performed at this Broker/Dealer.

Investments may include: equities (stocks), warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable life insurance, variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Initial public offerings (IPOs) are not typically available through The Abernathy Group II LLC. However, if a family requests an interest in a specific IPO, and if we are able to secure access to the IPO, The Abernathy Group II LLC will provide the access we are able to secure to the family.

**Affiliated Private Fund.** As discussed above, The Abernathy Group II LLC serves as the investment adviser of, and provides discretionary investment management services to The Abernathy Group Growth Fund LP (the "Affiliated Fund"). The terms and conditions for participation in the Affiliated Fund including management and incentive fees, conflicts of interest, and risk factors, are set forth in the fund's offering documents. When directing transactions to certain firms, as long as they can obtain the best price and are able to execute our orders in a timely manner, The Abernathy Group II LLC may benefit from the a partial rebate of the commissions charged to the account. These rebates, if any, will be used for the benefit of the fund, yet may also benefit those in Separately Managed Accounts, and the Physician Family Office, as the research, data, and tools obtained from those commission rebates may be used as the basis for an investment theme or

strategy in The Abernathy Group Growth Fund, and potentially in the Separately Managed Accounts, and at the Physician Family Office.

The Abernathy Group II LLC does use the services of APB Financial, among other firms, of which Steven Abernathy is a majority owner, for the execution of orders for The Abernathy Group Growth Fund LP only. APB Financial provides confidentiality, timely executions, research, and excellent insight as to what is taking place in the markets at the time of the orders, all of which The Abernathy Group II LLC believes add value to the investment process. APB Financial also offers the lowest priced execution among all of the major Broker/Dealers offering research and corporate access. However, there is a conflict of interest when The Abernathy Group Growth Fund LP asks APB Financial to execute trades for the fund, as Steven Abernathy is a majority owner.

There is no conflict of interest between APB Financial and members of The Abernathy Group II Physician Family Office.

**Please Note:** Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each investor for review and consideration. Unlike other liquid investments that an investor may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective investor will be required to complete a Subscription Agreement, pursuant to which the investor shall establish that he/she/it is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

**Please Also Note: Conflict Of Interest.** Because The Abernathy Group II LLC earns compensation from the Affiliated Fund, the recommendation that an individual or institution become an investor in the Affiliated Fund presents a **conflict of interest**.

**Please Also Note: Valuation.** In the event that The Abernathy Group II LLC references private investment funds owned by the investor on any supplemental account reports prepared by The Abernathy Group II LLC, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be **significantly more or less** than the original purchase price.

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**Termination of Agreement**

A Family may terminate any of the aforementioned agreements at any time by notifying The Abernathy Group II LLC in writing. The withdrawal dates are specified in the Service Agreement and allow termination of the agreement at the end of each calendar quarter, with 45 days advance written notice. Both the family owning the Service Agreement and The Abernathy Group II LLC are unilaterally able to cancel an agreement with 45 days written notice. This notice, should give both parties a sufficient amount of time to wind down any positions, and to insure a timely and well planned transfer to a new relationship.

## **Fees and Compensation**

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**Description**

The Abernathy Group II LLC Physician Family Office bases its fees on a percentage of assets under advisement. This is the only fee or compensation The Abernathy Group II LLC receives. This insures there are no conflicts of interest, and that The Abernathy Group II Physician Family Office is always in a position to recommend and advise the best solution, regardless of its origin.

The fees charged on assets under advisement are 0.89% per year, paid at 0.2225% quarterly, in advance, based on the ending balance on the last day of the calendar quarter, preceding each new calendar quarter.

The Abernathy Group II LLC is the General Partner and Investment Advisor for the Affiliated Fund, and is only open to accredited investors. The Affiliated Fund charges a 2% yearly management fee paid at 0.5% per quarter based on the ending balance on the last day of the preceding calendar quarter.

There is also an incentive fee of 20% of profits, calculated quarterly relative to an annual high water mark. If there are no profits generated relative to the annual high water mark, there will be no incentive fees charged. For accounts under \$1,000,000 there may also be a 1% front end load payable to the salesperson responsible for referring the account to the Affiliated Fund.

The Abernathy Group II LLC may also manage Separately Managed Accounts for families which are members of the Physician Family Office, and clients who are not members of the Physician Family Office. For those investors who are members of the Physician Family Office, the Separately Managed Account is included in the annual fee described above. For Clients who are not part of the Physician Family Office, the Separately Managed Accounts are charged 0.5% per quarter (2% per year) in management fees, and 20% of profits over and above an 8% preferred investor return each year.

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**Fee Billing**

Investment management fees are billed quarterly, in advance, meaning that we invoice you on the first day of the three-month billing period. Payment in

full is expected upon invoice presentation. Fees are usually deducted from a designated family account to facilitate billing. The family must consent in advance to direct debiting of their investment account.

Fees for The Abernathy Group II LLC Physician Family Office are billed 0.2225% per quarter in advance.

Management fees for The Abernathy Group Growth Fund LP are billed each calendar quarter in advance. Incentive fees are billed at the end of each quarter if any are due. Management fees and incentive fees, if any, are deducted directly from the fund and are attributed to each investor by the fund administrator, and are audited each year, at the end of the year by a separate, independent auditing firm.

Separately managed accounts are billed each calendar quarter in advance. Incentive fees are billed at the end of each quarter if any are due. Management fees and incentive fees, if any, are deducted directly from the investors account. The management fee, and/or the incentive fee, if any, will be documented each quarter by the monthly statements generated by the independent custodian, the client chooses to hold the securities for the account. The Abernathy Group II LLC will send the custodian a letter describing the fee deduction process, which must be signed by the account owner when the account is set up. Each quarter, at the beginning of the quarter for management fees, and at the end of the quarter for the incentive fee, if any is due, The Abernathy Group II LLC will send a letter directly to the custodian, to pay a certain management fee and/or incentive fee due. The Abernathy Group II LLC will always check their billing calculations. We are available to go over the billing calculations with the owner of the account as often as they are interested. The owner must check the billing to insure the amount is correct.

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### **Other Fees**

As discussed below, unless the client directs otherwise or an individual client's circumstances require, The Abernathy Group II LLC shall generally recommend that Charles Schwab and Co., Inc., (*Schwab*), TD Ameritrade (*Ameritrade*), Fidelity National (*Fidelity*), and Pershing/Bank of New York (*Pershing*), amongst others serve as the broker-dealer/custodian for client investment management assets. Broker-dealers such as *Schwab*, *Ameritrade*, *Fidelity* and *Pershing* charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). In addition to The Abernathy Group II LLC's investment management fee, brokerage commissions and/or transaction fees, clients will also incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees and other fund expenses).



Additionally, exchanges and federal and local governments may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are the responsibility of the investor or the owner of the account. These “other fees” are usually small and incidental to the purchase or sale of a security.

The Abernathy Group II LLC has no control over “other fees” described above, and does not participate in any of these fees or charges. Further, The Abernathy Group II LLC will do its best to minimize these and all transaction charges and fees. The Abernathy Group II LLC in its sole discretion, may waive its minimum fee and/or charge a lesser investment advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with families, etc.).

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### **Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to The Abernathy Group II LLC.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted.

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### **Past Due Accounts and Termination of Agreement**

The Abernathy Group II LLC reserves the right to stop work on any account that is more than 10 days overdue. In addition, The Abernathy Group II LLC reserves the right to terminate any financial planning engagement where a family has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in The Abernathy Group II LLC’s judgment, to providing proper financial advice.

## **Performance-Based Fees**

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### **Incentive Fees**

The Abernathy Group II LLC Physician Family Office does not charge an incentive fee for their Advisory Service.

The Abernathy Group II LLC Separately Managed accounts do charge an incentive fee based on returns over and above an 8% preferred investor return each year.

The Abernathy Group II LLC is the general partner and investment advisor of The Abernathy Group Growth Fund LP. The Abernathy Group Growth Fund LP has an incentive fee of 20% of profits over a high water mark each year

after all expenses are taken into account. In each case, management at The Abernathy Group II LLC believes the combination of the firm's management investing a considerable amount of their investable net-worth beside the firm's co-investors provides an incentive to consider risks as a primary factor in the investment process, and the incentive fee provides the motivation to insure the investment management process is focused on specific investments which provide a reasonable risk/reward tradeoff.

Rule 205-3 of the Investment Advisers Act of 1940 permits a registered investment adviser to enter into a performance fee agreement with certain sophisticated clients who have the capacity to bear the potential additional risks of such a fee arrangement. An adviser can rely on Rule 205-3 only if the performance fee agreement is with "eligible" clients. Eligible clients are defined in the Rule as natural persons and companies that have *either* at least \$1,000,000 under management with The Abernathy Group II LLC immediately after entering into a performance fee agreement *or* a net worth at the time the agreement is entered into in excess of \$2,000,000 (i.e. a natural person's net worth may include assets held jointly with a spouse).

Consistent with the parameters of Rule 205-3 of the Investment Advisers Act of 1940 (to the extent Rule 205-3 is applicable), The Abernathy Group II LLC (and/or The Abernathy Group II LLC's affiliated entities) may also receive, from its *affiliated private investment funds*, incentive or performance fee compensation on a fully disclosed written basis. Because The Abernathy Group II LLC and its representatives manage client accounts that charge both an asset-based fee and/or a performance based fee, this arrangement creates a **conflict of interest**, as The Abernathy Group II LLC and its representatives have an incentive to favor investments where Registrant receives both an asset-based fee and a performance fee.

## Types of Families and Clients

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### Description

The Abernathy Group II LLC Physician Family Office generally provides investment advice to accredited physicians and their families. We may also work with a very limited number of other accredited individuals, pension and profit sharing plans, trusts, estates, corporations or business entities and charitable organizations.

Family relationships vary in scope and length of service.

The Abernathy Group II LLC Separately Managed accounts are offered to the public in general, as well as to members of the Physician Family Office.

The Abernathy Group Growth Fund LP accepts accredited investors only, who have a prior substantive relationship with The Abernathy Group II LLC or with the introducing representative.

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### **Account Minimums**

The Abernathy Group II LLC Physician Family Office has a stated account minimum of \$5,000,000 of assets under advisement. The management reserves the ability to modify this account size based on specific variables they believe to be important. For instance, if the management believes it can add value to a family's decision-making process, and the assets under management are slightly below our minimum account size, we may choose to invite the family to join the Physician Family Office. On the other hand, if we do not believe we will be able to add value to a physician family's decision-making process, or improve the family's investment returns, or reduce the risk they are taking, and we conclude they are generally well cared for, we may not invite them to become members of the Physician Family Office.

The Abernathy Group II LLC has the discretion to waive the account minimum. Accounts of less than \$5,000,000 may be set up when the family and the advisor anticipate the family will add additional funds to the accounts bringing the total to \$5,000,000 within a reasonable time. Other exceptions will apply to employees of The Abernathy Group II LLC and their relatives, or relatives of existing families.

The Abernathy Group II LLC Separately Managed accounts have a minimum account size of \$100,000. The Abernathy Group II LLC management may decide to accept a smaller account provided they believe the account will meet the minimum size over the course of the next year.

The Abernathy Group Growth Fund LP only accepts accredited investors and has a minimum account size of \$1,000,000. The Abernathy Group II LLC management may accept lesser amounts if they believe it is in the client's best interest to become a co-investor in The Abernathy Group Growth Fund LP.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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### **Methods of Analysis**

Security analysis methods may include themes-based analysis, fundamental analysis of specific companies equity and debt securities, technical analysis, and cyclical analysis. We often visit with management of target companies and their competitors.

The main sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases among other sources of data.

The Abernathy Group II LLC may use information from Bloomberg, and information published by most of the major firms on Wall Street, along with

conference participation and meetings with other sophisticated investors in the US and Europe.

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### **Investment Strategies**

The primary investment strategy used at The Abernathy Group II LLC Physician Family Office is strategic asset allocation utilizing a core and satellite approach, yet other strategies will be used if a physician's family goals are not best served with this strategy. Since the management team at The Abernathy Group II LLC Physician Family Office has extensive experience in professional investing and portfolio management, customized investment strategies may be implemented when appropriate.

When appropriate, we use passively-managed index and exchange-traded funds as the core investments, as they offer the lowest cost access to market-based performance, while we may add actively-managed funds where there are greater opportunities to make a difference. Portfolios will be globally diversified to control the risk associated with traditional markets when this strategy is appropriate.

The investment strategy for a specific family is based upon the objectives stated by the family during consultations with the family's head, as well as with other family members when they are available and when the consultations are appropriate. The family may change investment objectives at any time, yet we caution that investment objectives should change infrequently and should seldom include reactions to sudden market events. When appropriate, each family will have an Investment Policy Statement which will document their objectives and their desired investment strategy, as well as any specific securities or sectors to avoid, or assets which are not liquid.

Other strategies employed to achieve a family's goals may include long-term purchases, short-term purchases, trading, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies among others).

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### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. However, regardless of how diligent The Abernathy Group II LLC remains, investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of

risk may be caused by external factors independent of the fund's specific investments as well as due to the fund's specific investments. Additionally, each security's price will fluctuate based on market movement and emotion, which may, or may not be due to the security's operations or changes in its true value. For example, political, economic and social conditions may trigger market events which are temporarily negative, or temporarily positive.

- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation. We believe this is one of the most significant risks for investors between 2010 and 2020.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk. When the dollar falls in value, US citizens buying power will be reduced, thus increasing the probability of inflation in the future. When the dollar rises in value, US citizens buying power may increase.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity regardless of the economic environment.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## Disciplinary Information

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### Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment families.

## Other Financial Industry Activities and Affiliations

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### Financial Industry Activities

The Abernathy Group II LLC is registered as a Registered Investment Advisor.

### Affiliations

The Abernathy Group II LLC has arrangements that are material to its advisory and/or its families with related persons who own a partial interest of APB Financial LLC, an affiliated Broker/Dealer. This affiliation is not material to The Abernathy Group II LLC Physician Family Office, as no transactions are performed at APB Financial LLC and no assets are held in custody at APB Financial LLC. The Abernathy Group II LLC uses only unaffiliated independent qualified custodians when the choice is up to The Abernathy Group II LLC management. Otherwise, The Abernathy Group II LLC will follow the directions of the account's owner regarding the location of the assets custody and transactions.

The Abernathy Group II LLC Separately Managed Accounts may have transactions performed at APB Financial for a minimum ticket charge when accounts are held in custody at NFS (a division of Fidelity Investments) or at Wedbush Securities who respectively act as the independent qualified custodians and clearing brokers for APB Financial. For Separately Managed Accounts held in custody at other qualified custodians, there is no conflict of interest, and transactions will be executed at the custodian, provided the qualified custodian has the ability to deliver competitively priced executions on a timely basis. To minimize any potential conflict, the owner of the account will choose where to have assets held in custody, and where to perform transactions. It is not the goal or intent for The Abernathy Group II LLC, or any of its managers or employees to benefit in any way other than the stated fees charged directly to the owner of the Separately Managed account.

The Abernathy Group II LLC is the General Partner and Investment Advisor for The Abernathy Group Growth Fund LP. Two of the partial owners of The Abernathy Group II LLC are also partial owners of APB Financial LLC, which has executed transactions for The Abernathy Group Growth Fund LP since 1996 and is likely to continue to execute transactions for The Abernathy Group Growth Fund LP. The Abernathy Group II LLC attempts to operate The Abernathy Group Growth Fund LP as efficiently as possible, and as such, will often require any firm performing transactions for The Abernathy Group

Growth Fund LP to offer services which benefit the fund in various ways, as well as refunding a portion of the transaction costs (commissions), to the fund for the benefit of paying operational costs. To the extent these commission rebates benefit The Abernathy Group II LLC there is a conflict of interest at The Abernathy Group Growth Fund LP and is discussed thoroughly in The Abernathy Group Growth Fund LP's Private Placement Memorandum and Limited Partnership Agreement.

## **Code of Ethics, Participation or Interest in Family Transactions and Personal Trading**

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### **Code of Ethics**

#### **The Abernathy Group II LLC's Code of Ethics**

##### **A. Introduction**

Rule 204A-1 of the Advisers Act requires the Company to establish a written Code of Ethics (the "Code"). This Code of Ethics must be read and adhered to by all supervised persons at the Company, which includes all employees, directors, officers and members of the Company. Each supervised person must execute a written certification that they have read and reviewed the provisions of the Code and agree to abide by all of the provisions of the Code. It is the responsibility of all supervised persons to ensure that the Company conducts its business with the highest level of ethical standards and in keeping with the Code, as well as all applicable laws, rules and regulations. It is each supervised person's responsibility to read the Compliance Manual and this Code of Ethics and to adhere to the policies and procedures set forth in the Compliance Manual and the Code of Ethics.

##### **B. Standard of Business Conduct and Fiduciary Duties**

The Company and all supervised persons have a duty to act in the best interests of the Company's clients at all times. Simply put, this means supervised persons may not engage in conduct that puts their interests or the interests of the Company ahead of the interests of the Company's clients in any way. The Company and its supervised persons must place the interests of the Company's clients first and must refrain from having outside interests that conflict with the interests of the Company's clients. The Company must avoid any circumstances that might adversely affect or appear to affect its duty of complete loyalty to its clients. The Company and all of its supervised persons are required to act with honesty, integrity and diligence at all times. The Company and all of its supervised persons are required to avoid activities, interest and relationships that interfere with making decisions in the best interests of the Company's clients.

##### **C. Compliance With Securities Laws**

The Company and all of its supervised persons must comply with all applicable securities laws at all times. The Advisers Act is the primary securities law that governs the conduct of the Company and its supervised

persons. The Company has created a Compliance Manual that contains explanations of the provisions of the Advisers Act and many of the procedures the Company uses to implement the provisions of the Advisers Act. Many of the sections found in the Compliance Manual are incorporated in this Code, including:

- Fiduciary Obligations
- Suitability
- Cross Transactions
- Prohibited Trading Transactions
- Personal Securities Transactions
- Insider Trading

The Company and all of its supervised persons shall abide by the provisions above in all ways and at all times. In addition, the Chief Compliance Officer maintains a copy of the Advisers Act as well as its implementing regulations. Supervised persons must direct all questions regarding the applicability of securities laws to the Chief Compliance Officer.

#### **D. Conflicts of Interest**

The Company has a duty to disclose potential and actual conflicts of interest to its clients. All supervised persons have a duty to report potential and actual conflicts of interest to the Company.

#### **E. Gifts**

No supervised person shall accept directly or indirectly anything of value, including gifts and gratuities, in excess of \$200 from any person or entity that does business with the Company or is seeking to do business with the Company. This restriction does not include occasional meals or tickets to theater or sporting events or other similar entertainment.

#### **F. Use of Disclaimers**

The Company shall not attempt to limit liability for willful misconduct or gross negligence through the use of disclaimers. Such disclaimers would be inconsistent with the Company's fiduciary obligation to its clients.

#### **G. Duty to Supervise**

Pursuant to Section 203(e)(5) of the Advisers Act, the Company is responsible for ensuring adequate supervision over the activities of all persons who act on its behalf. Specific duties include, but are not limited to:

1. Establishing procedures that could reasonably be expected to prevent and detect violations of the law by its advisory personnel (e.g., periodic review of soft dollar practices);
2. Analyzing its operations and creating a system of controls to ensure compliance with applicable securities and other laws;
3. Ensuring that all supervised persons fully understand the Company's policies and procedures; and
4. Establishing a review system designed to provide reasonable assurance that the Company's policies and procedures are effective and being followed (e.g., periodic meetings to discuss various compliance issues).

#### **H. Confidentiality**



Information (1) provided by any of the limited partners of a client, or any prospective limited partner of a client; (2) obtained by the Company in connection with verifying information provided by a limited partner or client; and (3) information regarding a transaction with the limited partner or client, is confidential and supervised persons shall not disclose such information to non-affiliated third persons, except as necessary to establish and manage the client's account, to demonstrate compliance with federal or state securities laws or as otherwise directed in writing by the client or the limited partner. The confidentiality policy is set forth in more detail in the Compliance Manual.

#### **I. Restricted Access**

The Company has implemented a system by which material non-public information about the Company's securities recommendations and the client's securities holdings and transactions is accessible only by those supervised persons who need such information to perform their duties. No supervised person shall have access to, or use such information, unless the information is necessary to perform their duties.

#### **J. Reporting Violations of the Code**

Each supervised person must promptly report all violations of this Code or the Compliance Manual to the Chief Compliance Officer.

#### **K. Sanctions For Violating Code**

If it is confirmed that a violation of the Code of Ethics has been committed, the Company may impose sanctions and take other actions as it deems appropriate, including a letter of caution or warning, suspension of personal trading privileges, fine, suspension or termination of employment, civil referral to the SEC and, in certain cases, criminal referral. The Company also may require the reversal of the trades in question, forfeit of any profit or absorption of any loss derived there from; and such forfeiture shall be disposed of in a manner that shall be determined by the Company in its sole discretion.

#### **L. Personal Securities Trading**

##### **1. Introduction**

The Company's policies and procedures regarding personal securities trading set forth in this section apply to transactions involving all equity and debt equity or debt securities, or any derivative instruments relating to any such securities, including options, warrants and futures, or any interest in a partnership or other entity that invest in any covered securities (but excluding redeemable securities of a diversified investment company registered under the Investment Company Act).

The Company prohibits its access persons from engaging in certain types of securities transactions. An access person is any employee of the Company who has access to nonpublic information regarding any clients' purchase or sale of securities, or who is involved in making securities recommendations to clients, or who has access to such recommendations that are nonpublic. All directors, officers, members and partners of the Company are also considered Access Persons.

##### **2. Personal Securities Trading Accounts**

All Supervised persons are required to notify the Company of all “Personal Securities Trading Accounts” (defined below in this section) by promptly (within 10 days of initiating employment), completing the attached Personal Securities Trading Accounts Acknowledgment and Disclosure Form, and returning it to the Compliance Officer.

Personal Securities Trading Accounts include the following types of accounts through which securities may be traded (but do not include accounts opened or maintained with a diversified investment company registered under the Investment Company Act, i.e., mutual funds or 529 plans):

- a. Accounts in the Access Person’s name;
- b. Accounts in the name of the Access Person’s spouse, unless it can be shown to the satisfaction of the Company that the spouse’s account is completely independent of the Access Person (e.g., by a separately documented agreement);
- c. Accounts in the name of minor children, the Access Person’s mother, father, siblings or other individuals living with the Access Person;
- d. Accounts in which the Access Person directly or indirectly controls, (such as trustee or custodial accounts) participates in, or has the right to control or to participate in, investment decisions.

All Access Persons are required to notify the Compliance Officer in writing promptly of any change in the information provided in the Personal Security Accounts Acknowledgment and Disclosure form. In this regard, Access Persons must inform and obtain approval from the Compliance Officer prior to the opening of a new Personal Securities Trading Account of the Access Person. Promptly after opening a new Personal Securities Trading Account, Access Persons must provide the Compliance Officer with duplicate copies of all new account documentation.

### 3. Providing Holdings Reports and Transaction Reports to the Company

All Access Persons must deliver to the Compliance Officer, within 10 days of becoming an Access Person, the Personal Securities Trading Accounts Acknowledgment and Disclosure Form, which shall include a holdings report for each Personal Securities Trading Account as defined below. The holdings report shall contain the title and exchange ticker symbol or CUSIP number, type of security, number of shares and principal amount (if applicable) of each reportable security in which the Access Person has any direct or indirect beneficial ownership, the name of any broker, dealer or bank with which the Access Person maintains an account in which any securities are held for the Access Person’s direct or indirect benefit and the date the Access Person submits the report.

All Access Persons must submit updated versions of the aforementioned holdings reports to the Compliance Officer on the first day of February of each year. The information in the holdings reports must be current as of December 15th of the previous year. All Access Persons must submit transaction reports to the Compliance Officer within 30 days of the end of each calendar quarter. Each transaction report must contain the following information about each reportable security: (1) the date of the transaction, the title and

exchange ticker symbol or CUSIP number, the interest rate and maturity date (if applicable), the number of shares and the principal amount (if applicable) of each reportable security involved; (2) the nature of the transaction; (3) the price of the security at which the transaction was effected; the name of the broker, dealer or bank with or through which the transaction was effected; and the date the

Access Person submits the report.

#### 4. Personal Securities Transactions

The Company has the right to impose restrictions on trading by the Company's Access Persons at the expense of the Access Person, or a member of his Family or a Personal Securities Trading Account. Such restrictions might take the form of, among other things, causing the Access Person to reverse, cancel, liquidate or freeze a transaction or position, or to require written approval of the Compliance Officer before trading is permitted. The imposition of any such restriction is highly confidential and should not be disclosed outside the Company, or inside the Company except to the extent necessary to effectuate the restriction and, in such case, only with the prior approval of the Compliance Officer. Access Persons should avoid speculation as to the reasons for the imposition of any restriction. In addition, to ensure that no Access Person engages in "front-running" client orders, the Compliance Officer will periodically review Access Persons' transaction reports. As discussed above, if the Compliance Officer determines that an Access Person has violated this policy, sanctions will be imposed and may include termination. In addition, Access Persons are prohibited from purchasing any security in the initial public offering of the security or a limited offering, without the express written approval of the Compliance Officer.

#### 5. Record Retention

The Company shall maintain copies of all holdings reports, transaction reports, Personal Securities Trading Accounts Acknowledgment and Disclosure Forms for five years.

#### 6. Review of Personal Trading Documentation

The Company shall monitor compliance with the aforementioned policies by periodically checking that all Access Persons are submitting the aforementioned reports and reviewing the submitted documentation.

The employees of THE ABERNATHY GROUP II LLC have committed to the Code of Ethics described above. The firm will provide a copy of the Code of Ethics to any family or prospective family upon request.

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### **Participation or Interest in Family Transactions**

The Abernathy Group II LLC and its employees may buy or sell securities that are also held by members of The Abernathy Group II LLC Physician Family Office, The Abernathy Group II LLC Separately Managed Accounts, and The Abernathy Group Growth Fund LP.

Employees may not trade their own securities ahead of The Abernathy Group II Physician Family Office, Separately Managed Accounts, or The Abernathy

Group Growth Fund LP. If an employee purchases or sells a security on the same day or at the same time as The Abernathy Group Physician Family Office, Separately Managed Accounts, or The Abernathy Group Growth Fund LP, the employee must get the same price or a higher price if purchasing a security, and must get the same price or a lower price when selling a security. All employees must comply with the provisions of The Abernathy Group II LLC *Compliance Manual*.

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### **Personal Trading**

The Chief Compliance Officer of The Abernathy Group II LLC is Edward C. Coyle. He reviews all employee trades each quarter. His trades are reviewed Steven Abernathy, a licensed Security Principal at APB Financial. The personal trading reviews ensure the personal trading of employees does not affect the markets, and that family members of The Abernathy Group II LLC Physician Family Office, The Abernathy Group II LLC Separately Managed accounts, and The Abernathy Group Growth Fund LP receive preferential or equal treatment when compared to any and all employee transactions. Since most employee trades are small and often border on being insignificant, we do not expect their trades to affect the securities markets in any meaningful way.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

The Abernathy Group II LLC does not have any affiliation with product sales firms, however two of the partial owners of The Abernathy Group II LLC are partial owners of APB Financial LLC, a registered Broker/Dealer who may be involved in transactions for Separately Managed Accounts at the clients specific request, and will also be involved in some transactions for the benefit of The Abernathy Group Growth Fund LP. Specific custodian recommendations may be made to Families based on their need for such services. The Abernathy Group II LLC recommends independent qualified custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

The Abernathy Group II LLC recommends discount brokerage firms and trust companies (qualified custodians), such as Charles Schwab, TD Ameritrade, Fidelity National, and Pershing/Bank of New York, amongst others.

The Abernathy Group II LLC does not receive fees or commissions from any of these arrangements.

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### **Best Execution**

The Abernathy Group II LLC reviews the execution of trades at each custodian each quarter. The review is documented in The Abernathy Group II LLC *Compliance Manual*. Trading fees charged by the custodians are also

reviewed on a quarterly basis, however it is the account owner's responsibility to insure fees and expenses are being billed properly. The Abernathy Group II LLC does not receive any portion of the trading fees.

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**Soft Dollars**

The Abernathy Group II LLC Physician Family Office does not participate in any soft dollar rebates.

The Abernathy Group II LLC Separately Managed Accounts do not participate in any soft dollar rebates.

The Abernathy Group II LLC also manages The Abernathy Group Growth Fund LP, and this fund does participate in soft dollar structures by receiving partial rebates of transaction-based commissions. The Abernathy Group Growth Fund LP uses these rebates to pay for research and other services outlined in the Offering Memorandum and Limited Partnership Agreement.

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**Order Aggregation**

Most trades are aggregated for execution when management has the ability to include multiple families, multiple Separately Managed Account's, and multiple transactions for The Abernathy Group Growth Fund LP. We do not believe that order aggregation gives any family, Separately Managed Account, or The Abernathy Group Growth Fund LP advantageous pricing as order aggregation gives us the ability to give everyone an average price for the transaction.

## **Review of Accounts**

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**Periodic Reviews**

Account reviews are performed quarterly or semi-annually by advisors Steven Abernathy and Brian Luster, depending upon the owners preference, and may be reviewed by others in our firm. In reality, the accounts may be reviewed more often. Account reviews are performed more frequently when market conditions dictate, or when account owners request a review.

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**Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a family's own situation including any request from the family for a review.

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**Regular Reports**

Account reviewers are Steven Abernathy and Brian Luster, among others, and they may be members of the firm's Investment Committee. All account reviewers are instructed to consider the account owners benefits first, and to structure current security positions and the likelihood that the performance of

each security, or all securities as a whole, will contribute to the investment objectives of the family.

Families receive periodic communications on at least a quarterly basis, and much more frequently if requested. Each family member of The Abernathy Group II LLC Physician Family Office has unlimited access to Steven Abernathy Brian Luster and other members of the firm. Most families will have their Balance Sheet updated each day, and have access to this re-valued Balance Sheet at all times, anywhere in the world, via the internet. Written updates are provided at least yearly or more frequently if requested. The written updates may include a net worth statement, portfolio performance statement, and a summary of objectives and progress towards meeting those objectives.

## **Family Referrals and Other Compensation**

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### **Incoming Referrals**

The Abernathy Group II LLC has been fortunate to receive many family referrals, and many client referrals over the years. The referrals may have come from current families, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The Abernathy Group II LLC generally does not compensate entities not employed at The Abernathy Group II LLC. However The Abernathy Group II LLC may have compensated and may compensate referring brokers, marketing agents (both employed at The Abernathy Group II LLC and independently employed), among others for referrals in the future. If The Abernathy Group II LLC does decide to compensate any referring entity, it will not affect the service the Physician Family Office family member, Separately Managed Account client, or The Abernathy Group Growth Fund LP co-investor receives, or the fees paid to The Abernathy Group II LLC. The Abernathy Group II LLC will bear the full cost of any referral, if any is paid.

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### **Referrals Out**

The Abernathy Group II LLC does not accept referral fees or any form of remuneration from other professionals when a prospect or family is referred to them. It is important to insure The Abernathy Group II LLC's referrals, if any are made, are free of conflicts and are based on the family's or client's best interests.

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### **Other Compensation**

The Abernathy Group II LLC does not receive any other compensation, other than that outlined above.

## Custody

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### Account Statements

All assets are held at qualified independent custodians, which means the custodians provide account statements directly to families at their address of record, in most cases monthly, yet in all cases at least quarterly unless another special agreement is made specifically with the qualified independent custodian.

Since The Abernathy Group II LLC does not generate any account statements and is not the custodian for any assets, the family or client must be responsible for all client statements, and in most cases, should ask the custodian generating the statements to include us as an interested party.

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### Performance Reports

Families are urged to compare the account statements received directly from their custodians to the performance report statements provided by The Abernathy Group II LLC.

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### Net Worth Statements

Families are frequently provided net worth statements and net worth graphs that are generated from our family website, built for each family member of the Physician Family Office. These statements are most often updated each and every day based on the prior day's changes in securities owned if any change was made. Net worth statements used in account reviews often contain approximations of bank account balances provided by the family, as well as the value of land and hard-to-price real estate. The net worth statements are used for long-term financial planning where the exact values of assets are not material to the financial planning tasks.

We believe our ability to provide a net worth statement which is updated daily and available from any location with an internet connection is a competitive advantage offered by The Abernathy Group II LLC.

## Investment Discretion

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### Discretionary Authority for Trading

The Abernathy Group II LLC accepts discretionary authority to manage securities accounts on behalf of families who are members of The Abernathy Group II LLC Physician Family Office, and The Abernathy Group II LLC Separately Managed Accounts. If discretionary authority is given to The Abernathy Group II LLC, we will have the authority to determine, without obtaining specific family consent, the securities to be bought or sold, the amount of the securities to be bought or sold, and the timing of the securities to be bought or sold. However, The Abernathy Group II LLC consults with the

family prior to each trade to obtain concurrence if a blanket trading authorization has not been given.

The family chooses the custodian to be used and the commission rates paid to the custodian. The Abernathy Group II LLC does not receive any portion of the fees or commissions paid by the family member to the custodian.

Similarly, The Abernathy Group II LLC does not receive any portion of the fees or commissions paid by the client to the custodian for The Abernathy Group II LLC Separately Managed Account.

Discretionary trading authority facilitates placing trades in a clients account on their behalf so that we may promptly implement the investment policy that they have approved in writing. Also – often, family members of The Abernathy Group II LLC Physician Family Office will also give The Abernathy Group II LLC limited power of attorney, when the family member feels it is helpful for The Abernathy Group II LLC to have limited power of attorney.

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### **Limited Power of Attorney**

A limited power of attorney is a trading authorization for this purpose. Family members of The Abernathy Group II LLC Physician Family Office may sign a limited power of attorney so that we may execute the trades and actions clients have asked us to implement.

## **Voting Family Securities**

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### **Proxy Votes**

The Abernathy Group II LLC may vote all proxies on securities when we have discretionary authority or limited power of attorney on behalf of the family members of The Abernathy Group II LLC Physician Family Office, and The Abernathy Group II LLC Separately Managed Account. The Abernathy Group Growth Fund LP will vote proxies for securities in the fund.

Unless the family designates otherwise, The Abernathy Group II LLC may vote for securities over which it maintains discretionary authority consistent with its proxy voting policy.

However, there may be instances when The Abernathy Group II LLC Physician Family Office, The Abernathy Group II LLC Separately Managed Account, or The Abernathy Group Growth Fund LP decides not to vote the proxy, or does not receive the proxy in time to submit our vote.

A copy of The Abernathy Group II LLC's proxy voting policy is available upon request.



## Financial Information

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### Financial Condition

The Abernathy Group II LLC does not have any financial impairment that will preclude the firm from meeting contractual commitments to family members of The Abernathy Group II LLC Physician Family Office, The Abernathy Group II LLC Separately Managed Account, and The Abernathy Group Growth Fund LP.

A balance sheet is not required to be provided because The Abernathy Group II LLC does not serve as a custodian for family funds or securities, and does not require prepayment of fees of more than \$1,200 per family, and six months or more in advance.

## Business Continuity Plan

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### General

The Abernathy Group II LLC has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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### Disasters

The Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan covers man-made disasters such as loss of electrical power, loss of water pressure, fire, bomb threat, nuclear emergency, chemical event, biological event, T-1 communications line outage, Internet outage, railway accident and aircraft accident. Electronic files are backed up daily and archived offsite.

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### Alternate Offices

Alternate offices are identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all families within five days of a disaster that dictates moving our office to an alternate location.

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### Loss of Key Personnel

Not Applicable

## Information Security Program

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### Information Security

The Abernathy Group II LLC maintains an information security program to reduce the risk that your personal and confidential information may be breached.

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**Privacy Notice**

The Abernathy Group II LLC is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The categories of nonpublic information we collect from you may include information about your personal finances, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties, and less frequently, information from consumer reporting agencies, e.g., credit reports. We plan to use this information to help you meet your personal financial goals only.

With your permission, we disclose limited information to attorneys, accountants, and mortgage lenders with whom you have established a relationship. You may opt out from our sharing information with these nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf.

We maintain a secure office to ensure your information is not placed at unreasonable risk. We employ a firewall barrier, secure data encryption techniques and authentication procedures in our computer environment.

We never provide your personal information to mailing list vendors or solicitors. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors. Federal and state securities regulators may review our Company records and your personal records as permitted by law.

Personally identifiable information about you will be maintained while you are a family office member, have a Separately Managed Account client and a co-investor in The Abernathy Group Growth Fund LP. This information will be held for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change.

## Brochure Supplement (Part 2B of Form ADV)

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### Education and Business Standards

The Abernathy Group II LLC requires advisors in its employ have a bachelor's degree and/or further coursework demonstrating knowledge of financial planning and tax planning and/or extensive experience as an accomplished investor and/or experience actually managing the operations of a business.

Examples of acceptable coursework include: an MBA, a CFP®, a CFA, a ChFC, JD, CTFA, EA or CPA, as well as series 7, 63, 29, 65, 24 licenses among others.

Additionally, advisors must have work experience that demonstrates their aptitude for understanding a value-based investment process and first-hand experience as a professional investor, and/or financial planning, and/or investment management, and the firsthand management of an operating business. Without the firsthand knowledge of actually managing a business, and actually being a professional investor, we believe it is difficult to provide advice to others on life's significant decisions.

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### Professional Certifications

Employees have earned certifications and credentials that are required to be explained in further detail.

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### Steven Holt Abernathy, Certifications

Educational Background:

- Date of birth: 12-18-1956
- Institution: Fordham University 1979. Bachelor of Science degree.

Business Experience:

Mr. Abernathy was recruited by Shearson American Express in 1982 and joined its training program in 1983, eventually becoming Senior Vice President of Portfolio Management.

In 1989, Mr. Abernathy joined Cowen & Co., a research and trading boutique specializing in healthcare and technology, as a Special Limited Partner and Director of its Executive Services Division. While at Cowen, Mr. Abernathy developed The Abernathy Group, a group of investment professionals specializing in asset management for experts in healthcare and technology. Mr. Abernathy trademarked this collaboration between investment

professional and client-expert as the Collaborative Investing® style of portfolio management. This group was committed to furthering Mr. Abernathy's goal of marrying the Collaborative Investing® style with value investing. The collaborative effort forged between Mr. Abernathy's financial knowledge and the technology and healthcare expertise of his clients has produced exceptional results.

In 1996, Mr. Abernathy co-founded The Abernathy Technology Research Institute, formerly known as The Abernathy Leet Institute for Financial Research, a registered broker-dealer.

Mr. Abernathy is a member of the CFA Institute and the New York Society of Security Analysts. He holds series 7, 63, 27, licenses and is a managing member of The Abernathy Group II LLC. Mr. Abernathy earned a full football scholarship and a Bachelor of Science Degree as a pre-med student from Fordham University in New York in 1979. In addition to studying Biology, he completed extensive studies in music theory.

Mr. Abernathy has been featured in many publications, including Fortune, Forbes, American Medical News, Nelsons Worlds Best Money Managers, Barron's, Medical Economics, Physicians Money Digest, Ophthalmology Management, Orthopedics Today, The Physicians Personal Advisory, The Financial Times, Money Manager Review, Podiatry Management, Anesthesiology News, Hedge Mar, CPA Wealth Advisor, Business Week, Journal of Financial Planning, American Way, Journal of Practical Estate Planning, Biotechnology Investing, Wealth and Retirement Planner, Financial Advisor Magazine, Advisor Today, Journal of Retirement Planning and the cover of Money Magazine, among others, and on various television programs, including CBS MarketWatch, CNN, MSN and Bloomberg.

Other Business Activities: APB financial, majority owner and Chairman of the Board of Members

Additional Compensation: Licensed Broker at APB Financial

Supervision:

Steven Abernathy is supervised by Edward C. Coyle, Chief Operating Officer at The Abernathy Group II LLC, and President APB Financial. He reviews Steven Abernathy's work through frequent office interactions and written communications.

Edward Coyle's contact information:

Edward Coyle

212-293-3410

ecoyle@abbygroup.com

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None

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### **Brian Luster, Certifications**

- Date of birth: 8-22-1980
- Institutions: New York University - Stern School of Business. Bachelor of Science degree in Finance and Economics, 2002.

#### **Business Experience:**

Brian Luster is a principal and co-portfolio manager of the The Abernathy Group II LLC. Mr. Luster joined the firm in 2000 as an equity analyst and has served on the investment committee since 2002. During his tenure, he developed “Quantimental Analysis” - a process combining quantitative and fundamental value investing –and Clinical Investing® - a rigorous and systematic catalyst driven investment process focusing on value based fundamental analysis modeled after the FDA’s famously stringent drug approval process. These innovations have improved volatility and lowered the overall correlation of portfolios to indices while reducing Capital at Risk.

Mr. Luster has contributed to articles in Physician’s Money Digest, The American Association of Individual Investors and The Bottom Line. He attended NYU’s Stern School of Business, earning a Bachelor of Science degree in both Finance and Economics, and has completed post baccalaureate studies in the pre-medical sciences. He holds series 7, 66, 86, and 87 licenses.

Mr. Luster has been named Best Investment Advisor for Doctors by Medical Economics in 2010 and 2011, and by Dental Practice Magazine in 2011 and 2012.

Other Business Activities: None

Additional Compensation: None

#### **Supervision:**

Brian Luster is supervised by Edward C. Coyle, Chief Operating Officer at The Abernathy Group II LLC, and President APB Financial. He reviews Brian Luster’s work through frequent office interactions and written communications.

Edward Coyle’s contact information:

Edward Coyle

212-293-3410

ecoyle@abbygroup.com

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None

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**Edward F. Coyle, Certifications**

- Date of birth: 11-13-1956
- Institutions: Power Memorial Academy- 1974

**Business Experience:**

Mr. Edward Coyle has served as the firm's Compliance Officer since 1996. Mr. Coyle has also served as the Chief Compliance Officer of APB Financial Group since 1996 and oversees the day-to-day activities, operations management, administration, regulatory/ compliance issues and is involved in the firm's strategic planning process. Mr. Coyle has more than 25 years of compliance and operations experience in the financial services industry. Prior to joining the firm, Mr. Coyle held numerous positions at Shearson including Options Compliance Auditor and Compliance Manager. He holds FINRA Series 4, 7, 8, 15, 24, 53, 55, 63, and 79 licenses.

Other Business Activities: APB Financial Group, LLC

Additional Compensation: 100,000

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None