

# Evermay Wealth Management, LLC

## Part 2A of Form ADV

### Firm Brochure

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This brochure provides information about the qualifications and business practices of Evermay Wealth Management, LLC (“Evermay”). If you have any questions about the contents of this brochure, please call us at (703) 822-5696. 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. Registration as an investment advisor does not imply any certain level of skill or training.

Additional information about Evermay is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Material Changes**

Evermay's last update to the Firm Brochure was made in January 2015. The Firm Brochure has been updated. The "Methods of Analysis, Investment Strategies and Risk of Loss" section has been amended to reflect additional risks. This section includes only a summary of material changes. Evermay encourages all clients to review the entire Firm Brochure.

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## Advisory Business

Evermay Wealth Management, LLC (“Evermay”, “we”, “us” or “our”) provides investment supervisory services on both a discretionary and non-discretionary basis to its clients, which include: individuals, high net worth individuals, corporations, pension and profit sharing plans, and trusts and estates. Generally, Evermay assists its client in determining the client’s needs and risk tolerance through the use of asset optimization models for asset allocation. Evermay may invest in equities, mutual funds, bonds, cash-equivalents, and other instruments and/or third-party investment managers. Clients may be provided the opportunity to place reasonable restrictions on the types of investments that may be recommended by Evermay.

Additional information about third-party investment advisors, investment strategies, advisory fees and other pertinent information is available and provided in the Form ADV Part 2A Firm Brochure or other disclosure brochure of the third party investment advisor.

Evermay was founded in December of 2008 and is majority owned by William Pitt.

As of December 31, 2014 Evermay managed \$365,900,000 on a discretionary basis and \$35,900,000 on a non-discretionary basis.

## Fees and Compensation

### A. Fees Charged/ Fee Schedule:

The written agreement between Evermay and its clients describes our fees, among other items. Generally, the annual fee for Evermay’s investment management services, based on the quarterly market value of the client’s account, is typically as follows:

Assets Under Management	Annual Fee
First \$5,000,000	1.00%
Next \$5,000,000	.60%
Next \$15,000,000	.50%
Next \$25,000,000	.40%
Thereafter	.30%

While there is no required minimum account size, client accounts are subject to a minimum annual fee of \$5,000. This means combined accounts with a small balance may pay a higher fee on a percentage basis than they would otherwise according to the standard fee schedule. Evermay has the discretion to waive the minimum fee.

The fee range stated is a guide. Fees are negotiable and may be higher or lower than this range based on the nature of the account. Factors affecting fee percentages include the size of the account, complexity of asset structures, and other factors. Evermay, at its sole discretion, may consider a fixed fee in lieu of an asset based management fee. Investment advisory services begin with the effective date of the Investment Advisory Agreement (the “Agreement”), which is the date the client signs the Agreement.

#### B. Fee Payment

Fees will be debited directly from each client's account. The advisory fee is billed in advance at the beginning of each calendar quarter, and the value used for the fee calculation will be determined using the account value as of the last day of the previous quarter. Any contributions and/or withdrawals made during a calendar quarter may cause an adjustment to the advisory fee. Generally, any contributions and/or withdrawals intra quarter which result in a prorated quarterly fee adjustment of over one hundred dollars is charged or credited to the client.

Clients whose fees are directly debited will provide written authorization to debit advisory fees from their accounts held by a qualified custodian chosen by the client. Each quarter, clients may receive a bill from Evermay itemizing the fees to be debited, including the formula used to calculate the fee, the amount of assets on which the fee is based, and the time period covered by the fee. The invoice may additionally state that the fee was not independently calculated by the custodian. The client should also receive a statement from their account custodian showing all transactions in their account, including the fee.

Clients should be aware of their responsibility to verify the accuracy of the fee calculation submitted to the custodian by Evermay, as the custodian will not determine whether the fee has been properly calculated. Evermay may provide the client with a separate copy of each invoice, setting forth the basis for the calculation.

#### C. Other Fees

Advisory fees charged by Evermay are separate and distinct from fees and expenses charged by mutual funds, private funds and/or investment managers which have their own fee structures, including investment advisory fees. Descriptions of these fees and expenses are available in each fund's prospectus or in management agreements. Evermay's fees are for advisory services only and do not include other costs that the client may incur such as, but not limited to; transaction fees, commissions, or other management fees charged by non-affiliated third parties including investment managers that are recommended to clients. Clients may incur certain charges imposed by custodians, brokers, third party investments and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which should be disclosed in a funds' prospectus. Such charges, fees and commissions are exclusive of and in addition to Evermay's fee. Evermay does not independently value any private securities held in client accounts or in the hedge funds it recommends. The quarterly financial information provided by the private funds themselves will be used as the basis for client reporting and fee billing (where a client pays an asset-based fee). This valuation is determined independent of Evermay. For marketable securities, the prices provided by custodians are used for client reporting and fee billing.

#### D. Pro-rata Fees

If you become a client at any time other than the beginning of a quarter, you will pay a management fee for the number of days left in that quarter. If you terminate our relationship at any time other than the beginning of a quarter, you will be refunded the portion of the prepaid management fee for the remainder of the quarter. Either Evermay or the client may terminate the Agreement for any

reason upon written notice. The client can cancel the Agreement without penalty within the first five business days after the signing of the Agreement. Once your notice of termination is received, we will refund the unearned fees to you in whatever way you direct (check, wire transfer back to your account).

## **Performance Based Fees and Side-by-Side Management**

Evermay does not charge performance fees.

## **Types of Clients**

Evermay primarily provides customized investment supervisory services to individuals, high net worth individuals and associated trusts, estates, charitable organizations, pension and profit sharing plans, and other corporations or business entities.

Evermay assesses a minimum annual fee of \$5,000 to accounts receiving ongoing asset management services. Thus accounts with a small balance may pay a higher fee on a percentage basis than they would otherwise according to the standard fee schedule. Evermay has the discretion to waive the minimum fee.

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

It is important for you to know and remember that all investments carry risks. **Investing in securities involves risk of loss that clients should be prepared to bear.**

### *Investment Allocations & Investment Programs*

Each client's portfolio will be invested according to that client's investment objectives. We determine these objectives by interviewing the client and/or asking the client to put these objectives in writing. Once we ascertain your objectives for each account, we will develop a set of asset allocation guidelines, and then in most cases place the assets in one of our five investment programs, each with a different asset allocation strategy. An asset allocation strategy is a percentage-based allocation to different investment types, or types of managers. For example, an asset allocation strategy may call for 40-60% of the portfolio to be invested in equity securities, with the remaining balance in fixed income. Another program may have an asset allocation of 50-60% in fixed income securities, 20% in equities, and the remainder in cash or a personal business.

The investment programs are not investment products. Clients may have different needs than others within the same investment program. Accordingly, not all clients in each investment program will have the exact same percentages of each underlying investment.

The investment programs that we recommend are based on the needs of the client, current market conditions, the client's current financial situation (including assets that may be managed by another advisor), financial goals, and the timeline to meet those goals. Because we develop an investment strategy based on your personal situation and financial goals, your asset allocation guidelines may be similar to or different from another client.

We may periodically recommend changes to the investment programs and client portfolios to meet the guidelines of the asset allocation for the program or an individual client's objectives. It is important to remember that because market conditions can vary greatly, your asset allocation guidelines are not necessarily strict rules. Rather, we review accounts individually, and may deviate from the guidelines as we believe necessary.

When Evermay makes changes to an investment program, these changes may not be made simultaneously. Rather, some accounts may be modified before others. This may result in accounts being traded earlier inadvertently having an advantage over accounts traded later.

The investment programs utilized include:

Conservative; Diversified Growth and Income: This program calls for an allocation to equities (which may include individual equities or equities in a mutual fund or ETF) and an allocation to fixed income (bonds, bond funds or ETFs) that is designed to create income and some growth opportunity, while attempting to minimize volatility.

Moderate; Diversified Growth and Income: This program calls for a larger allocation to equities than the Conservative program described above. It can be best described as having the same goals as the Conservative strategy described above, but with more of a focus on growth and slightly less focus on income and minimizing volatility.

Diversified Growth and Income: While still attempting to minimize volatility, this investment program is predominantly for the purpose of driving growth and income.

Aggressive Diversified Growth and Income: This investment program is for long term investors only, as its driving goal is to generate growth and income. Its allocation to asset classes that may mitigate losses during equity downturns is limited in favor of a greater opportunity for growth during upwardly trending markets.

Diversified Equity: This investment program is for long term investors only, and is designed for the purpose of achieving growth over a long investment horizon. There are generally no mitigating asset allocations in this investment program. Accordingly, this investment program is only for long term investors.

### *Strategies and Methods of Analysis*

As in-house portfolio managers, we employ both top-down and bottom-up techniques in constructing client portfolios. Our top-down approach includes the analysis of macroeconomic, geopolitical and capital market conditions, business regulations and industry developments. With this data in mind, we select equities based on their long-term total return potential and ability to pass our fundamental and technical analyses. Once we invest in a company, we continuously monitor its business fundamentals and stock valuation.

Evermay selects fixed income investments based on their investment grade, liquidity, duration and yield to maturity. We primarily choose investment-grade securities issued by financially sound corporations, and by the U.S. government or its agencies. If a client is subject to high income tax rates, as many of our clients are, we often utilize high grade, tax-exempt state and local bonds.

### *Third Party Managers*

At times we may recommend that significant portions of a client's portfolio be managed by independent third-party managers or recommend direct investment with independent third-party managers, typically if those managers demonstrate knowledge and expertise in a particular investment strategy. Fees charged by independent third-party managers are in addition to fees charged by Evermay.

The experience, expertise, investment philosophies and past performance of independent third-party investment managers are examined in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We monitor the manager's underlying holdings, strategies, concentration, and leverage as part of our overall periodic risk assessment.

Based on a client's individual circumstances and needs, we may determine which selected money manager's portfolio management style is appropriate for that client. Factors considered in making this determination include account size, risk tolerance and the investment philosophy of the selected money manager. We encourage clients to review managers selected by us and each third-party manager's disclosure document regarding the particular characteristics of any program.

We regularly and continuously monitor the performance of the selected money managers. If we determine that a particular selected money manager is not providing sufficient management services to the client, or is not managing the client's portfolio in a manner consistent with the client's investment objectives, we may remove the client's assets from that selected money manager and place the client's assets with another money manager at our discretion and without prior consent from the client.

Evermay may obtain appropriate due diligence on independent third-party managers, making reasonable inquiries into their performance calculations, policies and procedures, code of ethics policies and other operational and compliance matters to account for performance and risk management. In attempting to determine which managers have the best chance to outperform, it is not enough to focus solely on quantitative risk and return measurements. Qualitative analysis is necessary as well, in order to determine:

- If there were true factors leading to out-performance, as opposed to just "luck"; and,
- If the factors leading to previous out-performance are identifiable and repeatable.

Qualitative screening includes a review of each firm's organizational history and stability, depth/experience of investment team and research group, investment process and strategy, and legitimacy of track record, among other characteristics. Other qualitative screens include a fund's



or manager's expense ratio, assets under management, manager tenure, length of track record, and minimum initial investment.

Our due diligence does not stop once we select a manager. We meet or speak with managers on a periodic, ongoing basis, and factors we analyzed before recommending that manager are reviewed and scrutinized.

### *Important Risks*

There are always risks to investing. It is impossible to name all possible types of risks. Among the risks are the following:

- **Political Risks.** Most investments have a global component, even domestic stocks. Political events anywhere in the world may have unforeseen consequences to markets around the world.
- **General Market Risks.** Markets can, as a whole, go up or down on various news releases or for no understandable reason at all. This sometimes means that the price of specific securities could go up or down without real reason, and may take some time to recover any lost value. Adding additional securities does not help to minimize this risk since all securities may be affected by market fluctuations.
- **Currency Risk.** When investing in another country using another currency, the changes in the value of the currency can change the value of the securities in your portfolio.
- **Regulatory Risk.** Changes in laws and regulations from any government can change the value of a given company and its accompanying securities. Certain industries are more susceptible to government regulation. Changes in zoning, tax structure or laws impact the return on these investments.
- **Tax Risks Related to Short Term Trading.** Clients should note that Evermay may engage in short-term trading transactions. These transactions may result in short term gains or losses for federal and state tax purposes, which may be taxed at a higher rate than long term strategies. Evermay endeavors to invest client assets in a tax efficient manner, but all clients are advised to consult with their tax professionals regarding the transactions in client accounts.
- **Purchasing Power Risk.** Purchasing power risk is the risk that your investment's value will decline as the price of goods rises (inflation). The investment's value itself does not decline, but its relative value does, which is the same thing. Inflation can happen for a variety of complex reasons, including a growing economy and a rising money supply.
- **Business Risk.** This can be thought of as certainty or uncertainty of income. Management comes under business risk. Cyclical companies (like automobile companies) have more business risk because of the less steady income stream. On the other hand, fast food chains tend to have steadier income streams and therefore, less business risk.
- **Financial Risk.** The amount of debt or leverage determines the financial risk of a company.
- **Default Risk.** This risk pertains to the ability of a company to service their debt. Ratings provided by several rating services help to identify those companies with more risk. Obligations of the U.S. government are said to be free of default risk.
- **Risks specific to sub-advisors and other managers.** If we invest some of your assets with another advisor, including a private placement, there are additional risks. These include risks

that the other manager is not as qualified as we believe them to be, that the investments they use are not as liquid as we would normally use in your portfolio, or that their risk management guidelines are more liberal than we would normally employ. The other manager may have had historical success, but such success does not guarantee any future success. In addition, as we do not select the underlying investments that may be used by such other manager, one or more other managers used by the firm to manage the client's assets may purchase the same security, increasing the risk to the client if that security were to fall in value. Clients should review the other managers' disclosure documents for the investment risks for those managers and the underlying investments.

- **Options.** The use of options transactions as an investment strategy involves a high level of inherent risk. Although the intent of many of the options-related transactions implemented by Evermay is to hedge against principal risk, certain options-related strategies (i.e., straddles, short positions, etc.), may in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept the enhanced volatility and principal risks associated with such strategies. In light of these enhanced risks, a client may direct Evermay, in writing, not to employ any or all such strategies for his/her/their/its accounts. Clients participating in the Options Strategy should *carefully* consider all information regarding the strategy and its risks prior to participating.
- **Margin Risk.** "Margin" is a tool used to maximize returns on a given investment by using securities in a client account as collateral for a loan from the custodian to the client. The proceeds of that loan are then used to buy more securities. In a positive result, the additional securities provide additional return on the same initial investment. In a negative result, the additional securities provide additional losses. Margin therefore carries a higher degree of risk than investing without margin. Evermay utilizes margin on a very limited basis for clients with higher risk tolerances.
- **Information Risk.** All investment professionals rely on research in order to draw conclusions about investment options. This research is always a mix of both internal (proprietary) and external (provided by third-parties) data and analyses. Even an advisor who says they rely solely on proprietary research must still collect data from third-parties. This data, or outside research is chosen for its perceived reliability, but there is no guarantee that the data or research will be completely accurate. Failure in data accuracy or research will translate to a compromised ability by the advisor to reach satisfactory investment conclusions.
- **Small Companies.** Some investment opportunities in the marketplace involve smaller issuers. These companies may be starting up, or are historically small. While these companies sometimes have potential for outsized returns, they also have the potential for losses because the reasons the company is small are also risks to the company's future. For example, a company's management may lack experience, or the company's capital for growth may be restricted. These small companies also tend to trade less frequently than larger companies, which can add to the risks associated with their securities because the ability to sell them at an appropriate price may be limited as compared to the markets as a whole. Not only do these companies have investment risk, if a client is invested in such small companies and requests immediate or short term liquidity, these securities may require a significant discount to value in order to be sold in a shorter time frame.
- **Concentration Risk.** While Evermay selects individual securities, including mutual funds, for client portfolios based on an individualized assessment of each security, this evaluation

comes without an overlay of general economic or sector specific issue analysis. This means that a client's equity portfolio may be concentrated in a specific sector, geography, or sub-sector (among other types of potential concentrations), so that if an unexpected event occurs that affects that specific sector or geography, for example, the client's equity portfolio may be affected negatively, including significant losses.

- **Transition risk.** As assets are transitioned from a client's prior advisors to Evermay there may be securities and other investments that do not fit within the asset allocation strategy selected for the client. Accordingly, these investments will need to be sold in order to reposition the portfolio into the asset allocation strategy selected by Evermay. However, this transition process may take some time to accomplish. Some investments may not be unwound for a lengthy period of time for a variety of reasons that may include unwarranted low share prices, restrictions on trading, tax consequences, contractual restrictions on liquidity, or market-related liquidity concerns. In some cases, there may be securities or investments that are never able to be sold. The inability to transition a client's holdings into recommendations of Evermay may adversely affect the client's account values, as Evermay's recommendations may not be able to be fully implemented.
- **Restriction Risk.** Clients may at all times place reasonable restrictions on the management of their accounts. However, placing these restrictions may make managing the accounts more difficult, thus lowering the potential for returns.
- **Risks Related to Investment Term & Liquidity.** Securities do not follow a straight line up in value. All securities will have periods of time when the current price of the security is not an accurate measure of its value. If you require us to liquidate your portfolio during one of these periods, you will not realize as much value as you would have, had the investment had the opportunity to regain its value. Further, some investments are made with the intention of the investment appreciating over an extended period of time. Liquidating these investments prior to their intended time horizon may result in losses.

**Exchange Traded Funds (ETFs):** ETFs are typically investment companies that are legally classified as open end mutual funds or UITs. However, they differ from traditional mutual funds, in particular, in that ETF shares are listed on a securities exchange. Shares can be bought and sold throughout the trading day like shares of other publicly-traded companies and the market price for a share of an ETF may fluctuate from the value of its underlying securities. Consequently, ETF shares may trade at a discount or premium to their net asset value. This difference between the bid price and the ask price is often referred to as the "spread", which generally varies based on the ETF's trading volume and market liquidity. Although many ETFs are registered as an investment company under the Investment Company Act of 1940, some ETFs, in particular those that invest in commodities, are not registered as an investment company.

- **Leveraged and Inverse ETFs, ETNs and Mutual Funds Risk:** Leveraged ETFs, ETNs and mutual funds, sometimes labeled "ultra" or "2x" for example, are designed to provide a multiple of the underlying index's return, typically on a daily basis. Inverse products are designed to provide the opposite of the return of the underlying index, typically on a daily basis. These products are different from and can be riskier than traditional ETFs, ETNs and mutual funds. Although these products are designed to provide returns that generally correspond to the underlying index, they may not be able to exactly replicate the performance of the index because of fund expenses and other factors. This is referred to as tracking error. Continual resetting of returns within the product may add to the underlying

costs and increase the tracking error. As a result, this may prevent these products from achieving their investment objective. In addition, compounding of the returns can produce a divergence from the underlying index over time, in particular for leveraged products. In highly volatile markets with large positive and negative swings, return distortions are magnified over time. Because of these distortions, these products should be actively monitored, as frequently as daily, and may not be appropriate as an intermediate or long term holding. To accomplish their objectives, these products use a range of strategies, including swaps, futures contracts and other derivatives. These products may not be diversified and can be based on commodities or currencies. These products may have higher expense ratios and be less tax efficient than more traditional ETFs, ETNs and mutual funds.

- **REITs:** Evermay may recommend that significant portions of client portfolios be allocated to real estate investment trusts, otherwise known as “REITs”. A REIT is an entity, typically a trust or corporation, that accepts investments from a number of investors, pools the money, and then uses that money to invest in real estate through either actual property purchases or mortgage loans. While there are some benefits to owning REITs, which include potential tax benefits, income and the relatively low barrier to invest in real estate as compared to directly investing in real estate, REITs also have some increased risks as compared to more traditional investments such as stocks, bonds, and mutual funds. First, real estate investing can be highly volatile. Second, the specific REIT chosen may have a focus such as commercial real estate or real estate in a given location. Such investment focus can be beneficial if the properties are successful, but lose significant principal if the properties are not successful. REITs may also employ significant leverage for the purpose of purchasing more investments with fewer investment dollars, which can enhance returns but also enhances the risk of loss. The success of a REIT is highly dependent upon the manager of the REIT. Clients should ensure they understand the role of the REIT in their portfolio.
- **MLPs:** Evermay may recommend that significant portions of client portfolios be allocated to master limited partnerships, otherwise known as “MLPs”. An MLP is a publicly traded entity that is designed to provide tax benefits for the investor. In order to preserve these benefits, the MLP must derive most, if not all, of its income from real estate, natural resources and commodities. While MLPs may add diversification and tax favored treatment to a client’s portfolio, they also carry significant risks beyond more traditional investments such as stocks, bonds and mutual funds. One such risk is management risk-the success of the MLP is dependent upon the manager’s experience and judgment in selecting investments for the MLP. Another risk is the governance structure, which means the rules under which the entity is run. The investors are the limited partners of the MLP, with an affiliate of the manager typically the general partner. This means the manager has all of the control in running the entity, as opposed to an equity investment where shareholders vote on such matters as board composition. There is also a significant amount of risk with the underlying real estate, resources or commodities investments. Clients should ask Evermay any questions regarding the role of MLPs in their portfolio.

## Disciplinary Information

Evermay has had no legal or disciplinary events that would be material to a client or prospective client’s evaluation of Evermay.

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

Evermay does not have other financial industry activities or affiliations.

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

Evermay and its employees may also buy and sell the same securities that may be recommended to clients. To avoid any potential conflicts of interest involving personal trades, Evermay has adopted a Code of Ethics (“COE”), which includes personal trade reporting, review policies and procedures, and insider trading policies and procedures. Evermay’s COE requires, among other things, that employees:

- Place the interests of clients foremost, above one’s own personal interests and the interests of Evermay;
- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Adhere to the fundamental standard that you should not take inappropriate advantage of your position;
- Avoid any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with this policy;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice, and encourage others to practice, in a professional and ethical manner that will reflect credit on yourself and the profession;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve professional competence and strive to maintain and improve the competence of other investment professionals; and,
- Comply with applicable provisions of the federal securities laws.

Evermay’s COE also requires Employees to: 1) pre-clear certain personal securities transactions; 2) report personal securities transactions on at least a quarterly basis; and 3) provide Evermay with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually thereafter) over which such Employees have a direct or indirect beneficial interest.

A copy of Evermay’s COE shall be provided to any client or prospective client upon request.

## **Brokerage Practices**

### **A. Recommendation of Broker-Dealer**

Evermay recommends that investment accounts be held in custody by Schwab Advisor Services (“Schwab”). Schwab offers enhanced services to independent investment advisors. These services include custody of securities, trade execution platforms, and access to research not available to the

general public. It is expected that most, if not all transactions in a given client account may be cleared through the custodian of that account in its capacity as a broker-dealer.

Evermay seeks to obtain best execution for client transactions which is not necessarily the lowest commission but the best overall qualitative execution under the particular circumstances. Evermay recommends broker-dealers or custodians such as Schwab to its clients based on a variety of factors. These include, but are not limited to commission costs. Schwab has what can be considered discounted commission rates. However, in choosing a broker-dealer or custodian to recommend, we are most concerned with the value the client receives for the cost paid, not just the cost. Other factors that may be considered in determining overall value include speed and accuracy of execution, financial strength, knowledge and experience of staff, and research and service. Schwab also has arrangements with many mutual funds that enable us to purchase these mutual funds for client accounts at reduced transaction charges. Evermay re-evaluates the use of Schwab at least annually to determine if they are still the best value for our clients.

Schwab provides us with some non-cash benefits (which are not available to retail customers) in return for placing client assets with them or executing trades through them. Such non-cash benefits are referred to as “soft dollars”. Currently, these benefits come in the form of investment research and sponsored attendance at various investment seminars. We may also receive such items as investment software, books and research reports. These products, services, or educational seminars are items that may play a role in determining how to invest client accounts. If there is any item that has a multi-use aspect, mixed between investment and non-investment purposes, Evermay may determine a reasonable allocation of investment to non-investment use, and soft dollars may be allocated only to the investment portion of the product (and we may pay the remaining cost). Evermay receives a benefit from these services, as otherwise we would be compiling the same research ourselves. This may cause us, or another advisor, to want to place more client accounts with a broker-dealer/custodian such as Schwab, solely because of these added benefits. However, the value of these benefits to all of our clients is included in our evaluation of custodians. Products and services received via soft dollars will generally be used for the benefit of all clients. However, it is possible that a given client’s trades will generate soft dollars that acquire products and/or services that are not ultimately utilized for that same client’s account. Soft dollars provide additional value, and are accordingly considered in determining which broker-dealer or custodian to utilize as part of our best execution analysis. A portion of Evermay’s Bloomberg subscription fee was paid for with soft dollars in the past fiscal year. The Bloomberg subscription provides market data, market research, securities research and communications.

We do not consider whether Schwab or any other broker-dealer/custodian, refers clients to Evermay as part of our evaluation of these broker-dealers.

Some clients may come to Evermay with accounts held at other broker-dealers. Evermay does not require that clients hold their assets at Schwab. A client’s direction of brokerage to other broker-dealers can limit or eliminate Evermay’s ability to negotiate commissions (which could result in higher commission costs) and otherwise obtain most favorable execution of client transactions. In addition, Evermay may be unable to aggregate orders to reduce transaction costs. If the client directs brokerage, the client will negotiate terms and arrangements for the account with that broker-dealer, and Evermay will not seek better execution services or prices from other broker-dealers. As a result, the client may pay higher commissions or other transaction costs or incur greater spreads, or receive

less favorable net prices, on transactions for the account than would otherwise be the case. In other words, directing brokerage may cost a client more money. Further, because Evermay's access to information may differ from access to information for clients whose assets are held at Schwab, there may be delays in meeting client needs.

#### **B. Aggregating Trades**

Commission costs per client may be lower on a particular trade if all clients' accounts in which the trades are to be made are executed at the same time. This is called aggregating trades. Instead of placing a number of trades for the same security for each account, we may, when appropriate, execute one trade for all accounts and then allocate the trades to each account after execution. If an aggregate trade is not fully executed, the securities may be allocated to client accounts on a *pro rata* basis, except where doing so would create an unintended adverse consequence (For example,  $\frac{1}{4}$  of a share, or a position in the account of less than 1%).

### **Review of Accounts**

Client accounts generally are periodically reviewed by Elizabeth S. Larson, Principal, William C. Pitt, IV, Principal, Damon A. White, Principal, and Biljana McKinley, Principal. These reviews are designed to monitor and analyze client transactions, positions, and investment levels. Particular attention is given to material changes in a client's financial situation, changes in a money manager's management team or advisory fee, as well as industry outlook, market outlook, and price levels.

Clients may receive a formal report on a quarterly basis in addition to interim reports. This report details the client's positions and purchases and sales. Certain other reports are made available upon the client's request. Any such report is provided as an accommodation only. Clients are urged to compare custodial statements with any reports provided by Evermay and rely solely on the reports issued by the broker-dealer/ custodian of the assets.

### **Client Referrals and Other Compensation**

Clients may be introduced to Evermay Wealth Management via other third parties. In the event that Evermay Wealth Management compensates any party for the referral of a client to Evermay Wealth Management, any such compensation will be paid by Evermay Wealth Management, and not the client. If the client is introduced to Evermay Wealth Management by an unaffiliated third party, that third party will disclose the referral arrangement with Evermay Wealth Management, including the compensation for the referral, and provide the client a copy of Evermay Wealth Management's ADV Part 2A and 2B. The referral source will also provide a written disclosure to the client regarding the relationship between Evermay Wealth Management and the referral source, including the fact that referral fees will be paid.

### **Custody**

All client accounts are held in custody by unaffiliated broker/dealers or banks; however, Evermay can access many client accounts through its ability to debit advisory fees. For this reason Evermay is considered to have custody of client assets. Account custodians should send statements directly to the account owners on at least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by Evermay and rely solely on the reports issued by the broker-dealer/ custodian of the assets.

On occasion, at the request of clients, Evermay's related persons may serve in the capacity of trustee or co-trustee. As a result of working with clients in this capacity, Evermay's related persons are considered to have custody of client assets. Therefore, on an annual basis, for these clients Evermay is required to undergo a surprise examination of client funds and securities, by an independent public accountant.

## **Investment Discretion**

When a client agrees to discretionary management, Evermay may be responsible for asset allocation and selecting investment managers. When given discretionary management authority, Evermay will be authorized to determine the securities to be bought or sold for the client's account(s), the amount of securities to be brought or sold, the timing of securities transactions and the broker or dealer to be used to execute client securities transactions. The only limitations on the investment authority may be those limitations imposed in writing by the client.

If we retain an investment manager for the client, we reserve discretion to hire and fire money managers on our client's behalf. The only limitations on the investment authority may be those limitations imposed in writing by the client. For the investment managers that we select to manage client assets, clients should review their disclosure document(s) for more information on their policy with regard to investment or brokerage discretion.

## **Voting Client Securities**

Notwithstanding Evermay's discretionary authority to make investment decisions on behalf of clients, Evermay will not exercise proxy voting authority over securities held in client accounts. Clients should instruct each custodian of the assets to forward to the clients, copies of all proxies and shareholder communications relating to the clients holdings. The obligation to vote client proxies shall at all times, rest with the client. Evermay shall not be deemed to have proxy voting authority solely as a result of providing advice or information about a particular proxy vote to a client. In addition, clients maintain exclusive responsibility for making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings, class or mass actions, legal proceedings or other events pertaining to the securities held in client accounts.

## **Financial Information**

Evermay is not aware of any financial condition that is reasonably likely to impair the ability of the firm to meet contractual commitments to clients.