

## Part 2A of Form ADV: Firm Brochure

Item 1      Cover Page

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Firm Brochure Dated March 22, 2017

S.E.C. File Number 801-136120  
CRD Number 106076

Our Normal Business Hours are:  
Monday – Friday  
8:30 AM – 4:30 PM

This Brochure provides information about the qualifications and business practices of the Townsend Group Investments, Inc. If you have any questions about the contents of this Brochure, please contact:

Elaine J. Marsalis, our Office Manager  
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or via eMail to [elaine@townsendgroupinvestments.com](mailto:elaine@townsendgroupinvestments.com)

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

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.

The title "Registered Investment Advisor" does not imply any level of skill has been attained or any special training has been completed.

## Item 2      Material Changes

There have been no material changes to our form ADV which was filed March 16, 2016

As usual, we have updated all references to Assets Under Management to reflect Regulatory Assets Under Management as of December 31, 2016

Also all information relating to numbers of clients and portfolios has been updated to reflect data as of December 31, 2016

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## Item 4      Advisory Business

### A.      An Overview Of Our Firm

The Townsend Group Investments, Inc. is a SEC registered investment advisor incorporated in California in 1978 with a fiscal year ending in December.

We have 3 employees, 2 of which perform investment advisory functions. We are not a broker-dealer and none of our employees are registered representatives of a broker dealer. Our services do not include financial, estate or tax planning.

No one solicits advisory clients on our behalf and we do not have any subsidiaries or branch offices.

We are privately owned by the following individuals:

- 50%    David Randall Butterworth
- 50%    Thomas Brook Townsend, IV

Mr. Butterworth, born in 1955, holds a BA from Occidental College and an MBA from the College of William and Mary. He has been a Research Analyst since 1989 and a Portfolio Manager for the Townsend Group since 1994. He is President, Chairman of the Board and Secretary of the Townsend Group. Additionally he is the firm's Chief Compliance Officer.

Mr. Townsend, IV, born in 1963, has been a Restaurateur, Entrepreneur and Consultant since 1991. He joined the Townsend Group as a Research Analyst in 2008 and is currently a Vice President and the Director of Business Development for the firm.

We manage around \$113 million and approximately 58% of the capital is related to the Townsend family. While some may perceive a conflict of interest, we view this as a major positive that sets us apart from other advisor firms.

- Each of our owners, officers and employees invests along side of you.
- Trades which are entered as "block" orders may include our accounts and those of our families and employees.
- We do not give preferential treatment to our accounts when allocating these trades, or any others.
- We believe our direct involvement as clients tends to promote clear-eyed investment analysis. Every action we take is designed to grow the capital base at an acceptable risk. What we personally have at stake, meaning the percent of our own assets and our families' assets at risk, likely will be much greater than what our clients have at risk. This results in an excellent alignment of client interests and our own.

Potential clients should have a serious discussion with us regarding the appropriateness of investing with the Townsend Group. Generally speaking:

1. A person should invest with us only that portion of their capital that they can set aside for growth over a long period and not worry.
2. We do not tailor our services to the individual needs of clients and we do not allow clients to impose restriction on investing in certain securities or types of securities. That said, we understand client goals and objectives may change over time and occasionally unforeseen circumstances may require a deviation from our strategy – for that client only - to accommodate those needs.
3. We accept portfolio volatility as a cost in achieving our results. Not everyone will be comfortable with what we believe is a cost of achieving those results. If volatile results will make you unhappy, then there are likely better investment alternatives for you.
4. We seldom call clients, but clients are more than welcome to call us.
5. We send a client letter after each quarter detailing our thinking. This includes a detailed report of:
  - a) Portfolio composition and valuation as of quarter end
  - b) Year-to-quarter end account performance
  - c) Year-to-quarter end realized capital gains/losses
  - d) Year-to-quarter end income and expenses
  - e) Year-to-quarter end capital flow report
  - f) Year-to-quarter end transaction ledger of basis adjustments, if any
  - g) Billing statement showing how our management fee has been computed

## B. Our Advisory Services and Investment Strategy

The Townsend Group's investment strategy focuses on long-term growth through investments in common stocks.

Our investment portfolio is generally comprised of approximately 8-12 companies, usually names not familiar to the general public. Potential investments are researched internally or in cooperation with an informal group of contacts, which includes other money managers, independent analysts, and small boutique brokers. Generally, we do not use published research from large brokerage firms. The research process can take some time so you may see uninvested cash sitting in your account for some period of time.

Occasionally a client will come to us with a portfolio which includes mutual funds, warrants, corporate bonds, municipal bonds and/or United States government securities. These types of investments are not part of our investment strategy and we gradually liquidate them using the cash to invest in those stocks which make up our investment portfolio.

When a client is new to us, we do not necessarily buy "our stocks" for that client right away. We consider the current value of those stocks, both intrinsic and perceived, and their current contribution to the achievement of our goals. It may take some months before new clients are fully invested. We do not see this as a conflict of interest among clients. We see this as prudent management of funds entrusted to us.

### Additional Key Points Which Describe Our Methods –

- Portfolio Concentration.

The number of investments we own corresponds to the number of good ideas we have. The result is often an 8-12 stock portfolio, which is far fewer holdings than the average manager. We like this, because it puts a premium on stock selection and allows our results to differ from the indexes and other managers.

- Oversized single investments.

We allow winning investments to grow within the portfolio. We do not sell off or pare down our most successful investments to maintain diversification. We do not view this as an increased risk. In our view, letting our winners “ride” enhances our clients’ wealth.

- Limited trading.

Since our goal is to buy and hold dynamic great companies over the long term, the turnover of the portfolio is very low.

- We measure risk differently.

In the investment business risk is measured as the volatility of a stock’s price. We measure risk as the likelihood of a company seriously failing to measure up to its potential or going out of business. Price volatility over the short-term is risky only if it scares an investor into making bad decisions. Over longer time horizons earnings growth is much more determinate of a company’s valuation than the fads and trends which tend to move stocks over shorter periods like a single year. Superior results sometimes require that a price be paid by investors in terms of accepting some volatility and having patience measured in years, not months.

C. The Townsend Group:

- Do not tailor its services to individual client needs.
- Does not allow clients to impose restrictions on investing in certain securities or types of securities.
- Does not sell short or use leverage.
- Does not buy securities for itself or sell securities it owns to any client.
- Does not act as a broker or agent in effecting any securities transactions.

D. The Townsend Group does not participate in, sponsor or act as a portfolio manager to wrap fee programs.

E. The majority of client assets under our management are on a discretionary basis.

As of 12/31/2016 this translates to \$113,800,562 regulatory assets under management.

\$110,850,631 (94.4%) is discretionary                      \$2,949,931 (2.6%) is non discretionary.

## Item 5      Fees and Compensation

A.      The Townsend Group Investments is compensated on a fee only basis.

Our Management Fees are based on a percentage of assets under management as computed on a quarterly basis according to the following schedule.

Client's Account Balance	Percent per Annum Fee
Up to \$500,000	2.00%
\$500,000 to \$1 million	1.75%
\$1 million to \$2 million	1.50%
Above \$2 million	1.25%

Our fees are negotiable for accounts greater than \$2 million.

Each client is aware that the Townsend Group's advisory fees may be higher than fees charged by other advisors.

For computation of our fees, the securities in the client's account are valued based on the closing market prices as of the last business day of each calendar quarter. This value, plus the amount of cash and cash equivalents, is the basis on which our advisor fee (aka management fee) for the following quarter is calculated.

If a client has more than one account, or if the client has immediate family members who also have accounts under our management, the values of all of those accounts are combined to determine the basis for calculating our management fee.

For example:

Client	Account Value	
Single Account	\$ 260,000	
IRA Account	\$ 175,000	
<u>Joint Account</u>	<u>\$ 740,000</u>	
Combined Accounts	\$1,175,000	
	\$500,000 @ 2.00%	\$2,500.00
	<u>\$675,000 @ 1.75%</u>	<u>\$2,953.13</u>
	Total Fee	\$5,453.13
Fee is billed:	Single Account	22.13% of Total      Fee = \$1,206.65
	IRA Account	14.89% of Total      Fee = \$ 812.17
	Joint Account	62.98% of Total      Fee = \$3,434.31

All accounts are billed with the exception of 5 clients and the accounts of Townsend Group employees and their immediate families.

B. Fees are computed and payable in advance on a quarterly basis.

Unless otherwise agreed to in advance, the management fee is deducted on a quarterly basis from the client's account. A copy of our fee computation is included as part of the client's quarterly report and is sent to the brokerage firm or bank that holds the client's assets in conjunction with our deduction request.

C. The Townsend Group does not charge any other types of fees or expenses in connection with our advisory services.

Additionally, we consider the following securities which may be in a client's account as "Non-Billable" assets. This means we do not factor their value into the account valuation used for computing our management fee:

- Fixed Income Securities (e.g.: bonds)
- Mutual Funds
- Privately held securities
- Venture capital investments and limited partnerships.

This includes those limited partnerships/LLCs discussed below and in Item 10 of this Brochure.

These exclusions from account values for fee calculation purposes prevent any fee conflicts or issues which may arise from the valuation of illiquid securities or from fees which may be charged by mutual funds.

For those clients with retirement accounts like IRAs we do not charge any fee other than our usual management fee. However, the custodian or plan administrator may charge their own fee for maintaining those types of accounts. While the Townsend Group may have given advice to the client in the selection of a retirement account custodian it has no control over fees charged by that custodian. Additionally, we do not adjust our fees to compensate for any fees that custodian might levy.

Each client is aware that they will incur brokerage and other transaction costs related to the purchases and/or sales of securities in their portfolio.

Please refer to Item 12 – Brokerage Practices for additional details.

D. As mentioned earlier, our fees are computed and payable in advance on a quarterly basis.

For new clients, the initial fee is payable on acceptance of the Management Agreement and is based on the closing market prices of the assets in the account (excluding those "non-billable" assets noted above) on the date of acceptance, plus cash, and prorated to the end of the current calendar quarter. This fee is deducted from the client's account following the same procedure as that for existing clients. Based on the time remaining in the quarter we may elect to forego the initial partial quarter fee and begin regular billing as of the next calendar quarter.



If a client closes his/her account the unused portion of our management fee is refunded.

This refund is calculated by determining

1. The daily rate for the fee  $\frac{\text{Full Quarter's Fee}}{\text{Number of Days in the Quarter}}$
2. The number of days the account was open during the quarter
3. The pro-rated fee amount  $\text{Daily Rate} \times \text{Number of Days Account Open}$
4. Refund Amount  $\text{Full Fee} - \text{Pro-Rated Fee}$

E. The Townsend Group does not:

- Receive compensation in connection with the purchase or sale of securities.
- Adjust our fees to compensate for any brokerage or transactions costs.
- Have a minimum account size or a minimum fee.
- Base its fees on appreciation of capital gains.
- Receive cash or any other economic benefit (including commissions, equipment or non research services from anyone in connection with giving advice to clients.
- Directly or indirectly compensate any person for client referrals.

Both David Butterworth and T. Brook Townsend, IV, our owners/executive officers, are Managing Members/General Partners on the partnerships detailed in Item 10 of this Brochure. Both of these partnerships are fully funded and invested. They currently receive no compensation for these positions or for the duties they entail. However the clients are aware that they may receive fees upon the dissolution/liquidation of these venture capital opportunities.

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

The Townsend Group Investments does not charge or receive:

- Performance-based-fees – that is, fees based on a share of capital gains on or capital appreciation of client assets.
- Hourly or flat fees
- Asset-based fees

## Item 7      Types of Clients

As of 12/31/2016 the Townsend Group had \$113,800,562 regulatory assets under management,  
\$110,850,631 on a fully discretionary basis  
\$2,949,931 on a non-discretionary basis

Approximately 58% of this capital is related to the Townsend family, and each of our owners (control or related persons) has an account under management by the firm. Regular clients of the Townsend Group Investments are either individuals or their trusts or estates and many have multiple accounts under our management.

While we do not have minimum account size we recommend a minimum of \$250,000.  
We do not accept accounts that want check writing or debit card features attached.  
Also, we do not accept “margin accounts”.

We currently have 59 clients with the following general breakdown (including accounts of employees and control persons):

- 55% are individuals (other than high net worth individuals)
- 43.3% are high net worth individuals
- 1.7% is from a private charitable organization
  
- 59 Clients
  - 58 Discretionary clients which constitutes 97.4% of assets under management
  - 1 Non-Discretionary client which constitutes 2.6% of assets under management
- 107Accounts
  - 80 Are billed based on the management fee schedule detailed in Item 5 above
  - 27 Are non-billed

Accounts for the “non-billed” discretionary clients, may become “billed” at a future date. Accounts of employees, control or related persons and their immediate families are not billed. While we provide continuous and regular supervisory or management services to our non-discretionary client’s accounts, we do not bill them and there are no plans to bill them in the future.

All non-billed accounts are treated the same as those that pay. As for the accounts of employees and control or related persons, we invest along side of you and may include our accounts in trades which are entered as “block” orders. We do not give preferential treatment to our accounts when allocating these trades, or any others.

In our view any conflict of interest (whether actual or potential) due to our direct involvement as clients is avoided because every action we take is designed to grow the capital base at an acceptable risk. What we personally have at stake, meaning the percent of our own assets and

those of our families' at risk, will likely be much greater than what our clients have at risk. We feel this results in an excellent alignment of client interests and our own.

None of our clients are:

- Banking or thrift institutions
- Investment companies
- Business development companies
- Pension and Profit Sharing Plans
- Pooled investment vehicles
- Corporations or other businesses
- State, municipal or federal government entities
- Other investment advisers.

We have only one portfolio which is a private charitable organization.

We do not participate, sponsor or act as a portfolio manager to a wrap fee program.

Our clients will generally see a portfolio comprised of approximately 8-12 common stocks. A new client may come to us with a portfolio which includes mutual funds, warrants, corporate bonds, municipal bonds and/or United States government securities. These types of investments are not part of our investment strategy and will gradually be liquidated. Until then we consider them to be "Non-Billable" assets. This means we do not factor their value into the account valuation used for computing our management fee.

Occasionally we will provide advice on Venture Capital opportunities to select clients who are "Accredited Investors" (as defined in Regulation D of the Securities Act of 1933) and who have expressed an interest in such opportunities. These opportunities have included, but were not limited to, LLCs/LPs of which David Butterworth, our Chairman and President, and T. Brook Townsend, IV, our Vice President and Director of Business Development, are Managing Members. Details on these LLCs/LPs can be found under Item 10 of this Brochure.

When a client makes us aware of holdings in privately held securities, venture capital investments and limited partnership investments we enter this information into their records for accounting and record keeping purposes only.

We do not consider these to be assets under management.

We do not factor their value into the account valuation used for computing our management fee.

This pertains to those LLCs/LPs detailed in Item 10 as well.

These exclusions from account values for fee calculation purposes prevent any fee conflicts or issues which may arise from the valuation of illiquid securities or from fees which may be charged by mutual funds.

To summarize. Our clients:

- Are individuals who can set aside a portion of their capital for growth over a long period.
- Are aware that we do not tailor our services to individual client needs.

- Are not allowed to impose restrictions on investing in certain securities or types of securities.
- Understand that we accept portfolio volatility as a cost in achieving our results.

We send our clients a Quarterly Report which includes a detailed breakdown of:

- a) Portfolio composition and valuation as of quarter end
- b) Year-to-quarter end account performance
- c) Year-to-quarter end realized capital gains/losses
- d) Year-to-quarter end income and expenses
- e) Year-to-quarter end capital flow report
- f) Year-to-quarter end transaction ledger showing basis adjustment(s) if any
- g) Billing statement showing how our management fee has been computed

For those clients who have multiple accounts, whether individual or family/related, we also include “Group Reports” which treat all those accounts as one. These reports show:

- a) Portfolio composition and valuation for the group
- b) Year-to quarter end performance for the group.

Additionally, our clients receive statements directly from their custodian bank/brokerage firm no less than quarterly. We encourage our clients to compare our reports and those from their bank/brokerage firm to verify the accuracy of both.

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

### A. Method of Analysis

Potential investments are researched internally or in cooperation with an informal group of contacts, which includes other money managers, independent analysts, and small boutique brokers. Generally, we do not use published research from large brokerage firms. We have no soft dollar arrangements with anyone. However, we direct transactions to the broker who brought the idea to us whenever possible. We may simply trade our ideas for others' ideas, or we may receive ideas from friends requiring no specific quid pro quo.

### B. Investment Strategies

Our goal is to grow capital materially in excess of broad stock market performance. To achieve this we place all of the capital into 8-12 public companies, many not particularly well known to the general public. We think we can find better pricing (better values) in companies that are less known and less followed. We concentrate funds into those few excellent companies that we think can generate the strongest returns. It is the number of good ideas we have that determines the number of companies we own rather than picking some number and then searching for that number of ideas. Owning so few stocks means that we can spend much more time per stock than can a traditional investment manager. We do not dilute the portfolio with second tier ideas. We don't have 50 good current investment ideas nor do we believe does anyone else.

While we have no size constraints, our growth goals often result in us owning companies with an initial market value of under \$1 billion and occasionally under \$100 million. We are long-term investors. Turnover is low, usually well under 20% per year. Low turnover tends to result in lower overall trading expenses. Our goal is to add one or two new good ideas per year though this can vary.

### C. Risk of Loss

- Owning common stocks always entails the risk of loss of capital.
- Owning fewer stocks as we do means that a negative event for one of our companies would have a greater impact on the portfolio than if we owned many more stocks. A portfolio of 8-12 companies is considered highly concentrated in our business. We think that's a good thing. However greater concentration means that our portfolios could be more volatile than a more diversified portfolio.
- Owning smaller companies can make a portfolio more volatile particularly during economic upheaval as demand for these types of companies sometimes dries up.

- Our style is appropriate for those who can leave their funds with us for a significant amount of time measured in years not months. It would be counter to the strategy and potentially detrimental to the client if the client were to need their funds immediately to handle some near-term problem. We manage only that portion of a person's assets that can be set aside for the long term. Of course a client always has access to their funds, but our strategy works best if they follow our advice on this.

## Item 9      Disciplinary Information

The Townsend Group Investments' "Management Persons"<sup>1</sup> are:

David R. Butterworth      CRD #1639259

Direct Owner  
Chairman of the Board  
President  
Chief Financial Officer  
Secretary  
Chief Compliance Officer

Thomas Brook Townsend, IV      CRD #5192070

Vice President  
Director of Business Development

Neither the firm nor any of our management persons have ever been:

1. Involved in, convicted of, or pled guilty or nolo contendere ("no contest") to a criminal or civil action in a domestic, foreign or military court of competent jurisdiction relating to:
  - a) Any felony;
  - b) A misdemeanor that involved investments or an investment-related business, fraud, false statements or omission, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion;
  - c) A conspiracy to commit any of these offenses;
2. Named as subject of a pending criminal proceeding that involves an investment-related business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;
3. Found to have been involved in a violation of an investment-related statute or regulation; or
4. The subject of any order, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, our firm or a management person from engaging in any investment-related activity, or from violating any investment-related statute, rule or order.

<sup>1</sup> Management Person is briefly defined as anyone with the power to exercise, directly or indirectly, a controlling influence over our firm's management or policies, or to determine the general investment advice given to the clients of our firm.



Additionally, neither the firm nor any of our management persons have ever been:

1. Involved in, an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which our firm or a management person:
  - a) Was found to have caused an investment-related business to lose its authorization to do business; or
  - b) Was found to have been involved in a violation of an investment-related statute or regulation and was the subject of an order by the agency or authority
    - (1) Denying, suspending, or revoking the authorization of our firm or a management person to act in an investment-related business;
    - (2) Barring or suspending our firm's or a management person's association with an investment related business;
    - (3) Otherwise significantly limiting our firm's or a management person's investment-related activities; or
    - (4) Imposing a civil money penalty of more than \$2,500 on our firm or a management person.
2. Involved in a self-regulatory organization (SRO) proceeding in which our firm or a management person
  - a) Was found to have caused an investment-related business to lose its authorization to do business; or
  - b) Was found to have been involved in a violation of the SRO's rules and was;
    - (1) Barred or suspended from membership or from association with other members, or was expelled from membership;
    - (2) Otherwise significantly limited from investment-related activities; or
    - (3) Fined more than \$2,500.

## Item 10 Other Financial Industry Activities and Affiliations

It is appropriate to begin this section with a brief description of our “Related Persons”<sup>2</sup> David R. Butterworth and T. Brook Townsend IV’s activities as General Partners/Managing Members to 2 limited partnerships/limited liability corporations. They receive no compensation for these duties at this time. However there is the possibility upon the dissolution/liquidation of either of these entities that Mr. Butterworth and/or Mr. Townsend may receive a fee, based on the capital commitments of non-manager members. All investors in both entities, and especially those who are also clients of the Townsend Group Investments, were made aware of this possible conflict before they invested.

The first of these entities is RR Group Investments, LLC which was formed for the purpose of engaging in the business of investing in privately held companies. This LLC is fully funded and invested. Additionally, all investors have received a cash payment in excess of 100% of their invested capital. Therefore, additional capital contributions are not and will not be solicited now or at any time in the future. Mr. Butterworth is one of the 2 Managing Members.

The second entity, BST Investment Management, LLC, was formed for the sole purpose of acting as General Partner for BST Investors, LP. No capital contributions have been or will be accepted from anyone other than the Managing Members (Mr. Butterworth and Mr. Townsend are 2 of 3). BST Investors, LP (which is fully funded and invested with no additional capital contribution being solicited now or at any time in the future) was formed for the purpose investing in Specialists On Call, Inc. (formerly Brain Saving Technologies, Inc.) a privately held company in the Health Care Services industry

Several of the Townsend Group clients are investors in either RR Group Investments and/or BST Investors, LP. These are treated as a non-billable asset for purposes of computing our management fee (refer to details in Item 5 of this Brochure). Many have also participated in subsequent private financings by Specialists on Call. These purchases were made directly with the Company and the Townsend Group was not involved in the transaction(s) other than to provide contact information to those clients requesting it.

With respect to the financial industry activities and affiliations of the Townsend Group Investments, you should know that the Townsend Group and its management persons

- A. Are not registered as and do not have applications pending as:
  - A broker-dealer or a registered representative of a broker-dealer.
  - A futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

<sup>2</sup> *Related Person is defined as any advisory affiliate and any person that is under common control with our firm.*

- B. Are not registered as and do not have applications pending as:
- A future commission merchant;
  - A commodity pool operator;
  - A commodity trading advisor; or
  - An associated person of the foregoing entities.
- C. None of our related persons are:
- A broker-dealer, municipal securities dealer, or government securities dealer or broker;
  - An investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund”, and offshore fund);
  - An other investment adviser or financial planner;
  - A futures commission merchant, commodity pool operator, or commodity trading advisor;
  - A banking or thrift institution;
  - An accountant or accounting firm;
  - A lawyer or law firm;
  - An insurance company or agency;
  - A pension consultant;
  - A real estate broker or dealer;
  - A sponsor or syndicator of limited partnerships.
- D. We do not recommend or select other investment advisers for our clients. We do not have any business relationship or arrangement with other advisers. Thus, there is no conflict of interest material to our advisory business or to our clients.

## Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

### A. Code of Ethics

The Townsend Group Investments has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. It applies to all employees and sets forth the minimum standard of business conduct required by the Townsend Group. Standards are set forth for compliance with Federal and State securities laws, protection of material nonpublic information and personal securities trading by our employees.

Upon hiring and no less than annually thereafter each employee is provided with a copy of this Code of Ethics and any amendments thereto. They must sign an acknowledgement of receipt which includes certification that they have read and understood the Code.

A copy of this Code of Ethics is sent to all new clients as part of their new account paperwork. Additionally, we send a copy to every client along with their first Quarterly Report each year and a copy is provided to any prospective client upon request.

### B. Participation or Interest In Client Transactions

The Townsend Group has sole discretion to buy and sell securities and to determine the amount of securities to be bought or sold.

As already mentioned in Item 7 of this Brochure:

- We invest along side of our clients, meaning that we may include the accounts of employees and control or related persons in trades which are entered as "block" orders.
- We do not give preferential treatment to our accounts when allocating these trades, or any others.
- In our view any conflict of interest (whether actual or potential) due to our direct involvement as clients is avoided because every action we take is designed to grow the capital base at an acceptable risk. We feel this results in an excellent alignment of client interests and our own.

Item 16 of this Brochure provides details regarding our investment discretion and trade allocation procedures which are only briefly touched on this section.

We do not:

- Maintain any security positions for our own account.
- Engage in principal transactions.
- Engage in or execute agency cross transactions.
- Recommend securities to clients in which the Townsend Group or any of our related persons have a financial interest.

In the past Mr. Butterworth and/or our past president Mr. T. Brook Townsend, III, Deceased, presented opportunities for investment in venture capital operations, including those detailed in Item 10 above, to select clients who are “Accredited Investors” (as defined in Regulation D of the Securities Act of 1933) who had expressed an interest in such opportunities. These clients were and are aware a management fee based on the capital commitments of non-manager members may be paid to either Mr. Butterworth or Mr. Townsend.

C. Personal Trading

Our clients understand that other clients’ accounts and/or accounts of our related persons and employees may maintain a position in the same securities that are being bought or sold for their account. Our clients also understand that we invest along side of them.

That said, in the occurrence where a transaction is processed in several lots on one day, rather than treated as one order executed at an average price, every attempt is made to insure that client accounts receive the best execution price.

Additionally, the Townsend Group Investments forbids any officer or employee from trading, either personally or on behalf of others, on material nonpublic information or communicating material nonpublic information to others in violation of the law. This conduct is frequently referred to as “insider trading.” This policy applies to every officer and employee and extends to activities within and outside their duties at The Townsend Group Investments. Every officer and employee acknowledges annual receipt of this policy statement and must retain it in their files.

## Item 12 Brokerage Practices

The Townsend Group:

- Does not sell short or use leverage.
- Does not participate in wrap fee programs.
- Does not buy securities for itself or sell securities it owns to any client.
- Does not act as a broker or agent in effecting any securities transactions.
- Does not engage in cross trading between clients.

A. Townsend Group's policy is to execute securities transactions in such a way that the benefit to the client is the most favorable possible. Our philosophy is to grow capital by owning great companies and prospering over time as they prosper. This buy-and-hold strategy reduces trading costs by trading less. Of course, the most important factor in investment success with a buy-and-hold strategy is the quality of the stock (company) selections. Therefore, the research capability of the brokerage firm is a key consideration when choosing a broker through which to trade.

Refer to Item 16 of this Brochure for further discussion on our selection of broker-dealers for client transactions.

Commissions paid are based upon value added by the broker's research or transaction efficiency. These commissions may be higher than those which would be paid if research were not a factor in selecting a broker. Typically the commissions can range from a few cents per share on situations such as tax loss selling, up to, and sometimes reaching, 1% on positions that have been held many years and have produced a return of many times the original investment.

### 1. Research and Other Soft Dollar Benefits<sup>3</sup>

The Townsend Group does not have soft dollar arrangements with anyone.

We have long-standing relationships with money managers, independent analysts, and small boutique brokers who provide us with investment ideas and related follow-up. This research is provided to us based on our relationship with these brokers and is not predicated upon any transactions being directed their way. That said, whenever possible we direct transactions to the broker who brought the idea to us.

### 2. Brokerage for Client Referrals:

Neither the Townsend Group Investments nor any related person receives client referrals from any broker-dealer or third party. Thus, we have no incentive to select or recommend a broker-dealer based on an interest in receiving client referrals.

<sup>3</sup>Soft dollar benefits are the receipt of research or other products or services (other than execution) from a broker-dealer or a third party in connection with client securities transactions. For example when you use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, you receive a benefit because you do not have to produce or pay for the research, products or services.

### 3. Directed Brokerage.

- a. The Townsend Group does not routinely recommend, request or require that a client direct us to execute transactions through a specified broker-dealer.
- b. The Townsend Group does not permit a client to direct brokerage.

### B. Aggregation of Orders (“Block Trades”)

With the exception of a few clients, all of our accounts are domiciled at Fidelity Investments. This is not required, however it is our preference. Having all of our accounts in one place allows the flexibility to aggregate orders for various client accounts and to take advantage of prime brokerage trading for those accounts who qualify. (To qualify for prime brokerage services an account must exceed and remain above specific values.)

When establishing a new firm-wide position or liquidating an existing one, we enter block orders using prime broker trading whenever possible and direct the trade to whomever we believe to be the best broker for that trade. We negotiate commissions on prime broker orders however Fidelity charges a separate ticket charge to each account participating in the transaction.

For those Fidelity accounts that do not qualify for prime broker trading, all orders must be executed at Fidelity. We may enter a block order with Fidelity’s trading desk or we may elect to enter orders on an account-by-account basis. The security being bought or sold is primarily the deciding factor. Commissions on these trades are not negotiable and are subject to Fidelity’s commission schedule. There is no separate ticket charge levied on these, whether the order is an account-by-account entry or a part of a block trade.

Orders for client accounts which are not domiciled at Fidelity are entered directly with their broker and the use of block trading is not usually an option. While we attempt to negotiate reduced commissions on these trades this is not always possible. The clients are aware that these commissions, and any ticket charges, may be higher than those paid by our “Fidelity” clients.

We determine which clients will be included in block orders and how those orders will be allocated based on the following Trade Allocation Policy.

Once the decision has been made to invest in a company, the Portfolio Manager decides what percentage this investment should be in relation to the overall client accounts (ie: 5% of total assets in a client account). This percentage determines how many shares each account will receive and this, in turn, decides how many total shares we will purchase.

Since many of these securities are thinly traded it may take days to fill our total order. We allocate the shares as fairly as and objectively as possible trying not to favor any set of accounts over another – family versus non-family, large accounts versus small accounts and so forth. Share allocation may also be based on cash availability in the client accounts (ie: accounts with sufficient cash being allocated first).

Fidelity charges the client account a “trade away fee” for every Prime Broker trade, therefore every effort is made to complete the total allocation for each account rather than spreading that account’s trade execution over several days. This is not always possible if the trade allocation guideline noted in the preceding paragraph is strictly adhered to or if the partial fill on the total order is too small to completely fill the client’s allocated portion. In these types of circumstances we may have to skip a client in the numerical list one day in order to prevent partial fills, thus reducing the “trade away fee” charged by Fidelity.

For those client accounts which must be traded at Fidelity and for those clients who have their account with the broker of their choice individual orders must be entered, therefore the allocation process does not apply.



## Item 13      Review of Accounts

A.      The Townsend Group Investments monitors the underlying securities in client accounts on a continuous basis. This includes fundamental analysis as well as evaluation of significant news or price movements (which could signal significant news) which would change the investment outlook of a particular company.

Since our strategy is to buy and hold securities for long periods of time, we conduct reviews of all client accounts no less than monthly.

The client account reviews are conducted by David R. Butterworth, our President, CFO, and Chief Compliance Officer.

Both David R. Butterworth and Thomas Brook Townsend, IV, Vice President, Director of Business Development and Analyst, are responsible for the monitoring of the underlying securities.

B.      Even though all client accounts are reviewed on a regular basis, any significant news or price movement in a specific security or sector might trigger a special review to determine if any security repositioning (buying or selling) might be warranted.

C.      At the end of each calendar quarter we send each client a written letter detailing our thinking. This is accompanied by a detailed report of the client's account which includes their:

1. Portfolio composition and valuation as of quarter end
2. Year-to-quarter end account performance
3. Year-to-quarter end realized capital gains/losses
4. Year-to-quarter end income and expenses
5. Year-to-quarter end capital flow report
6. Year-to-quarter end transaction ledger showing basis adjustment(s) if any
7. Billing statement showing how our management fee has been computed

Additional "Group Reports", already detailed in Item 7 of this brochure, are sent to those clients with multiple accounts whether individual and/or family related.

As part of our quarterly review of all accounts, we ensure fairness among clients with similar investment parameters by testing each account's performance.

## Item 14      Client Referrals and Other Compensation

A.      In the course of providing investment advice or other advisory services to our clients, the Townsend Group Investments does not receive any economic benefit (including commissions, equipment or non-research services) from a non-client.

The only economic benefit we receive is our management fee which is detailed in Item 5 of this Brochure.

We do not receive any compensation for placing clients at Fidelity or at any other broker. We have access to the same tools and research as other advisers having a relationship with Fidelity. Our clients at Fidelity have access to the same tools and research as clients of other advisers with a relationship with Fidelity. Therefore, we do not consider these tools and research to be either direct or indirect compensation.

Basically, the Townsend Group does not:

- Receive any special products or services from brokers, consultants, or vendors;
- Does not receive any 12b-1 fees
- Does not participate in insurance incentive programs
- Does not receive referral fees from other advisers
- Does not participate in any soft dollar arrangement for use of products and services

B.      Neither the Townsend Group nor any related person directly or indirectly compensates any person for client referrals.

## Item 15 Custody

### “Actual” Custody<sup>4</sup>

The Townsend Group Investments does not receive or hold any client cash, securities or assets. These are held in the client’s account at their broker-dealer, bank or qualified custodian and each client receives quarterly, or more frequent, account statements directly from that institution.

The Townsend Group has initiated a policy to periodically verify that clients are actually receiving their account statements. Additionally, our quarterly client reports include a footnote urging the clients to compare our reports and those sent by their custodian as a means to verify accuracy or determine whether account transactions, including deductions to pay advisory fees, are proper.

### “Perceived” Custody<sup>5</sup>

Due to David Butterworth’s (our President/CEO) and T. Brook Townsend, IV’s (our Vice President, Director of Business Development and Analyst) positions as General Partners and Managing Members in the partnerships detailed in Item 10 of this Brochure (and not reiterated here), we have been deemed to have custody over funds for those clients who are both Townsend Group clients and who have invested in either or both of those partnerships.

In accordance with the Custody Rule, the Townsend Group Investments has entered into a written agreement with an independent certified public accountant to conduct an annual financial audit of the firm and a surprise examination of securities.

<sup>4</sup> Receipt of client securities, cash or assets is defined as “Actual” custody.

<sup>5</sup> “Perceived” or “Constructive” custody occurs when an adviser is deemed to have possession of or access to client funds. For example, a General Partner to a Limited Partnership has constructive custody of investor funds since he has control over their disposition.

## Item 16 Investment Discretion

Please refer to Item 12 of this Brochure to augment the information given in this section.

Each client of the Townsend Group Investments signs a Trading Authorization Relating to Purchase and Sale of Securities when they open an account with us. Additionally they must indicate the level of authorization granted to us on the Fidelity Account Application. For those accounts not domiciled at Fidelity, the client must sign that firm's appropriate trading authorization granting us discretionary power to execute trades in their account.

The Townsend Group Investments has:

1. Sole discretion to buy and sell securities in client accounts.

As part of our management of client assets the Townsend Group has full discretion concerning securities to be bought or sold in client accounts. Our clients are not allowed to impose restrictions on investing in certain securities or types of securities. This usually assures that each of our accounts is representative of our investment strategy.

However, a new client account may include securities which are not part of our strategy. In these circumstances we ask the client if he/she has an objection to the sale of any particular security. If so, we carry that position as a non-billable asset. We check with the client periodically to see if these assets may be sold so the account can be better aligned our other clients'. If there is no objection to sale of these securities we liquidate them in a prudent fashion and use the cash to make purchases representative of our investment strategy.

Infrequently, an existing client may ask us to make a specific investment which is outside of our investment parameters. We make a notation in the file of the reason for this purchase and record this investment as both non-managed and non-billable.

2. Sole discretion to determine the amount of securities to be bought or sold.

Clients are not allowed to determine how many shares will be bought or sold in their account. Based on our research and knowledge of the securities in our client accounts, we determine the percentage this investment should be in relation to the overall client accounts (ie: 5% of total assets in a client account). This percentage determines how many shares each account will receive and this, in turn, decides how many total shares we will purchase.

3. Sole discretion regarding brokers to use to execute transactions.

Clients are not allowed to determine which broker is used to execute transactions.

For those accounts who qualify for prime broker trading, we consider the full range and quality of broker services when determining where to place an order, including among other things:

- The value of research services,
- Execution capability,
- Commission rate,

- Financial responsibility, and
- Their responsiveness to the Townsend Group Investments.

As mentioned in Item 12 of this Brochure, our “buy and hold” investment strategy’s success is based on the quality of the stock selections. Therefore, the research capability of the brokerage firm is a key consideration when choosing a broker to trade through.

This brokerage selection process is not applicable for accounts which do not qualify for prime broker trading or which are not domiciled at Fidelity.

4. Sole discretion regarding commissions to be paid.

With the exception of accounts that do not qualify for prime broker trading, or those that are not domiciled at Fidelity, which are subject to those firms’ commission schedules, we determine commissions on all prime broker trades.

## Item 17      Voting Client Securities

Although not specifically addressed in our Management Agreements the issue of proxy voting is a specific item on the account agreement Fidelity requires each client to sign if an adviser relationship exists. If the client designates on those forms that voting power be given to the Advisor that institution forwards all Proxy Statements to us for voting. For our clients who have their accounts domiciled at the brokerage firm of their choice, Proxy Statements are sent directly from the brokerage firm to the client and we are not involved in the voting of those shares.

It is the policy of The Townsend Group Investments to vote all proxies we receive. We treat all proxies as if they are client assets and, therefore, our votes are cast based upon what we consider to be in the best economic interest of our clients. We vote consistently among all clients unless a client gives us specific voting instructions, which has never happened. However, should a client give us these directions we will follow his/her wishes, whether they agree with our assessment of the issues or not.

Our assessment of the issues to be voted upon is made based upon information we receive during our ongoing monitoring of the companies we own. Principals of The Townsend Group Investments or their related family accounts may own shares in the companies in which our clients are invested. Therefore, our voting of the proxies of those companies is consistent with what we consider to be in our best economic interest as an investor as well as an Investment Adviser.

To the best of our recollection we have never had a conflict of interest that might affect our decision on how to vote a client proxy. However, should such a conflict of interest arise, our policy is to contact the client(s) before voting and to inform them of the nature of the conflict and of its possible effect upon our voting decision. If, after notification of the conflict, the client directs us to vote his/her shares in a manner that does not agree with our decision, we will vote that client's shares according to his/her wishes.

The Townsend Group Investments provides a copy of this Policy to all clients in conjunction with the mailing of our year-end Quarterly Reports. Should there be a material change in this policy during the course of the year the clients are informed in writing within a reasonable time period following the change. This notification usually is incorporated in the mailing of the Quarterly Client Report immediately following the change.

It is our policy to retain copies of all proxies for a period of 10 years. Clients may obtain information about how we voted their securities by requesting a copy of the proxy, either verbally, by written request or by emailing the request to us.

## Item 18 Financial Information

A. The Townsend Group Investments does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

B. The Townsend Group Investments has no financial condition that is or would be likely to impair our ability to meet contractual commitments to clients. There have never been and there are not now, any judgments or arbitration awards against us.

C. The Townsend Group Investments has never been the subject of a bankruptcy petition.

Our financials (balance sheet and income statement) are prepared in accordance with generally accepted accounting principles and are audited annually by an independent Certified Public Accountant. Along with our first quarter report, clients receive a notice that our Balance Sheet is available upon request.

To safeguard against any unknown future event we maintain a net capital reserve well in excess of the widely accepted minimum of \$35,000. Thus eliminating to the best of our ability any risk to clients that their assets may not be properly managed or prepaid fees may not be returned.

Item 19      Requirements for State-Registered Advisers

Not Applicable