



**OLD NORTH STATE TRUST, LLC**

**Firm Brochure**

(Part 2A of Form ADV)

**March 31, 2017**

**Old North State Trust, LLC  
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This brochure provides information about the qualifications and business practices of Old North State Trust, LLC. If you have any questions about the contents of this brochure, please contact us at: 336-272-9944, or by email at: [info@oldnorthstatetrust.com](mailto:info@oldnorthstatetrust.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority.

Additional information about Old North State Trust, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



OLD NORTH STATE TRUST, LLC

## Material Changes

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### Annual Update

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

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### Material Changes since the Last Update

In August, 2016, Old North State Trust, LLC acquired trust assets of approximately \$100 million from Newbridge Bank Corp.

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### Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 336-272-9944 or by email at [info@oldnorthstatetrust.com](mailto:info@oldnorthstatetrust.com).

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OLD NORTH STATE TRUST, LLC

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## Advisory Business

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### Firm Description

Old North State Trust, LLC (ONST) was founded in 1994 as a Registered Investment Advisor and received its charter from the NC Commissioner of Banks and began operating as a trust company in February of 2004.

ONST provides comprehensive trust and wealth management services to individuals, business and family groups, endowments and foundations. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

ONST is strictly a fee based administrative and wealth management firm. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities.

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### Principal Owners

Denis R. de St. Aubin, founder and Chairman of ONST has ownership of more than 25%. All other members have less than 25%.

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### Types of Advisory Services

ONST provides investment services, also known as asset management services; manages investment advisory accounts; furnishes investment advice through consultations; furnishes guidance to clients on matters not involving securities, such as financial planning matters, taxation issues, and trust services that often include estate planning.

ONST manages client assets through its various investment advisory services and its trust services. As of 12/31/2016, ONST managed approximately \$236 million in assets on a discretionary basis. The registered investment adviser provides investment services to clients of the Trust Division of Old North State Trust, LLC.



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### **Tailored Relationships**

The goals and objectives for each client are documented in our client files. Investment policy statements are created that reflect the stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

## **Fees and Compensation**

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### **Description of Fee Billing for Investment Management Accounts**

ONST offers continuous investment advice to clients based on individual goals and objectives as a primary part of its business. ONST bills its investment advisory clients in advance for certain services. With respect to such advance payments, ONST provides in its management agreements with clients that the clients may terminate the relationship at any time, subject to written notification, and upon termination, the prorated portion of any prepaid fees will be returned to the client.

The description below discloses the various fees that ONST generally charges for its investment advisory services. [However, ONST's fees may vary from the applicable schedules below due to the particular circumstances of the client or as otherwise negotiated with particular clients.]

The annual management fees listed below are normally payable quarterly in advance and are based on a percentage of the ending market value of account assets (including cash equivalents) from the prior quarter. There are breakpoints in the fee structure, so that additional assets are billed at progressively lower rates. ONST does not have a minimum account size, but does have a minimum annual fee of \$1,500.00 which is negotiable. These fees are exclusive of trust billings.

#### **Annual Management Fees:**

<u>Assets</u>	<u>Applicable Rate</u>
Up to \$250,000	1.20% of Assets
Next \$750,000	0.80% of Assets
Next \$1,000,000	0.70% of Assets
Next \$1,000,000	0.60% of Assets
Over \$3,000,000	Negotiated

Payment in full is expected upon invoice presentation. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of his or her investment account.



Fees for Trust Services are payable monthly, in arrears, based on a percentage of the value of all client's assets under ONST's investment supervision as of the last trading day of the prior month. ONST does not have a minimum account size for most accounts, the exception being Special Needs Trust accounts, but does have a minimum annual fee of which is negotiable.

Annual Trust Service Fees and Minimums:

- Irrevocable Trust Accounts

<u>Assets</u>	<u>Applicable Rate</u>
First \$1,000,000	1.40% of Assets
Over \$1,000,000	1.10% of Assets

Minimum Annual Fee of \$4,000

- Revocable Trust Accounts

<u>Assets</u>	<u>Applicable Rate</u>
First \$1,000,000	1.30% of Assets
Over \$1,000,000	1.00% of Assets

Minimum Annual Fee of \$3,500

- Agency Accounts

<u>Assets</u>	<u>Applicable Rate</u>
First \$1,000,000	1.30% of Assets
Over \$1,000,000	1.00% of Assets

Minimum Annual Fee of \$3,500

- Individual Retirement Arrangement Accounts

<u>Assets</u>	<u>Applicable Rate</u>
First \$1,000,000	1.40% of Assets
Over \$1,000,000	1.10% of Assets

Minimum Annual Fee of \$4,000

- Special Needs Trust Accounts

<u>Assets</u>	<u>Applicable Rate</u>
First \$1,000,000	1.50% of Assets
Next \$1,000,000	1.00% of Assets
Over \$2,000,000	.80% of Assets





Minimum Annual Fee of \$7,500  
Minimum Account Size \$500,000

- Trustee Only Accounts  
Annual Fee .60% of Assets  
Minimum Annual Fee of \$3,000
- Self-Directed IRA Accounts  
Annual Fee .60% of Assets  
Minimum Annual Fee of \$2,000
- Irrevocable Life Insurance Trust Accounts (Unfunded)  
Annual Fee of \$2,750
- Estate Administration Services (Market Value of Assets are based on gross estate)

<u>Assets</u>	<u>Applicable Rate</u>
First \$2,000,000	3.00% of Assets
Next \$3,000,000	2.00% of Assets
Over \$5,000,000	1.00% of Assets

Minimum Annual Fee of \$7,000

- Unique Assets  
Managed – 1.00% annually  
Beneficiary Occupied Real Estate - \$500/year flat fee  
Sale of Asset - If no agent involved 6.00% - If agent involved 3.00%  
Rental Property – If no property manager involved 7.00% of annual income – If property manager involved 2.00% of annual income  
Oil/Gas Leases – 1.00% annual gross revenue  
Leases – Negotiation without broker 4.00% of income –  
Negotiation with broker 2.00% of income  
Closely Held assets negotiated on an individual basis

Where special services are rendered, including consulting services regarding tax, real estate, closely held business interests, financial planning matters or other trust or financial related matters or for extraordinary services provided in the course of account administration, a fee of \$150 per hour plus out of pocket expenses will apply.



For significant involvement in bill paying which exceeds 10 checks per month there will be a charge of \$10 per check for those in excess of 10 per month.

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### **Other Fees**

Custodians (Charles Schwab & Company and Fifth Third Bank) may charge transaction fees, if applicable, on purchases or sales of certain mutual funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for such trades.

ONST, in its sole discretion, may waive its minimum fee and/or charge a lesser investment management fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, negotiations with clients, etc.).

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### **Mutual Fund Expense Ratios**

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

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

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### **Termination of Agreement**

A client may terminate the management agreement at any time by notifying ONST in writing and paying the rate for the time spent on the investment advisory engagement prior to notification of termination. If the client made an advance payment, ONST will refund any unearned portion of the advance payment.

ONST may terminate the management agreement at any time by notifying the client in writing. If the client made an advance payment, ONST will refund any unearned portion of the advance payment.



## Types of Clients

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### Description

ONST generally provides investment advice to individuals, business and family groups, endowments, foundations, pension and profit sharing plans, trusts, estates, and charitable organizations.

Client relationships vary in scope and length of service.

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### Account Minimums

ONST does not have a minimum account size, but does have a minimum annual fee of \$1,500.00 for investment advisory services and \$2,000.00 to \$7,500.00 for trust services which are negotiable.

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

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### Methods of Analysis

Security analysis methods primarily consist of fundamental analysis but may include charting, technical analysis, and cyclical analysis.

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

Other sources of information that ONST may use include, but are not limited to, Morningstar Advisor Workstation & Informa Investment Solutions which provide portfolio optimization and investment research for mutual funds, ETFs, stocks and indices, Value Line for stock information, and Schwab Institutional which provides ONST access to equity research produced by Standard & Poor's, Ned Davis, Argus, and Credit Suisse.

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### Investment Strategies

The primary investment strategy for client accounts is long-term strategic asset allocation which utilizes mutual funds, both actively managed and of the index variety, exchange-traded funds, stocks and bonds. Diversification across various asset classes and regions is considered where it may be appropriate to limit a client's concentration in a single asset class and region.

The investment strategy for a specific client is based upon the objectives stated by the client during consultations. The client may change these objectives at any time. Each client executes an Investment Policy Statement



that documents his or her objectives and his or her desired investment strategy.

Other strategies may include long and short-term purchases, short sales, margin transactions, and option writing (including covered options, uncovered options or spreading strategies).

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### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular fundamental factors. For example, political, economic, and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar did yesteryear, because purchasing power is eroding at the rate of inflation. As a result, investments whose returns are more fixed in nature become less attractive in an inflationary environment.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies operating in an environment vulnerable to sudden price swings depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from



a steady stream of customers who buy electricity under almost any circumstances.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a firm's operations increases the risk of less profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

## **Disciplinary Information**

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### **Legal and Disciplinary**

There are no legal or disciplinary actions to report for the last ten years.

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

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### **Financial Industry Activities**

ONST's primary business is providing trust services, which incorporates financial advice and discretionary investment management. As a state chartered trust company, ONST is supervised by the NC Commissioner of Banks. ONST is audited annually with its recent audit occurring in March 2016.

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### **Affiliations**

ONST has no financial arrangements that are material to its advisory/trust business or its clients with a related person who is a broker-dealer, investment company, other investment advisor, financial planning firm, commodity pool operator, commodity trading adviser or futures commission merchant, banking or thrift institution, accounting firm, law firm, insurance company or agency, pension consultant, real estate broker or dealer, or an entity that creates or packages limited partnerships.



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

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### **Code of Ethics**

The employees of ONST have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. The firm will also provide a copy of the Code of Ethics to any client or prospective client upon request.

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

ONST and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of ONST's Policy & Procedure Manual as well as having oversight by the NC Commissioner of Banks.

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### **Personal Trading**

The Chief Compliance Officer of ONST reviews all employee and Board member trades each quarter. The personal trading reviews ensure that the personal trading of employees and Board members do not affect the markets, and that clients of the firm receive preferential treatment relative to ONST employees. Since most employee and Board member trades are small in nature, the trades do not affect the securities markets.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

ONST recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

ONST recommends brokerage firms (qualified custodians), such as Charles Schwab & Company and Fifth Third Bank.

Currently ONST requires that investment advisory clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. (Schwab)—a registered broker-dealer, member SIPC—to maintain custody of clients' assets and to effect trades for their accounts. ONST is independently owned and operated, and not affiliated with Schwab. Schwab provides ONST with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services are generally available to independent investment advisers on an unsolicited basis at no charge to them, so long as at least \$10 million of the adviser's clients' assets is maintained in accounts at Schwab Institutional, and is not otherwise



contingent upon ONST committing to Schwab any specific amount of business (assets in custody or trading). Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise available only to institutional investors, or would require a significantly higher minimum initial investment. For client accounts maintained in ONST's custody, Schwab usually does not charge separately for custody, but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

For trust services, ONST utilizes Fifth Third Bank for custodial services via an omnibus relationship. This relationship provides access to securities trading. The relationship with Fifth Third Bank is reviewed periodically.

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### **Best Execution**

ONST reviews the execution of trades of the custodian annually. Trading fees charged by the custodian are also reviewed on an annual basis.

Moreover, ONST is always seeking the highest quality executions possible. The quality is determined by execution price, speed and access to liquidity.

In reference to commissions, many of our clients are invested in mutual funds and to reduce the cost of investing, Schwab and Fifth Third Bank provide a no-transaction mutual fund platform. Also, their commission rates for securities are neither the lowest nor the highest, but on average are very competitive.

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### **Soft Dollars**

Schwab makes available products and services that benefit ONST, but may not directly benefit its clients' accounts. Some of these products and services assist ONST in managing and administering clients' accounts, which include: software and other technology that provide access to client account data (such as trade confirmations and account statements); facilitating trade execution (and allocation of aggregated trade orders for multiple client accounts); providing research, pricing information and other market data; facilitating payment of ONST's fees from its clients' accounts; and assistance with back-office functions, recordkeeping and client reporting. Many of these services may be used to service all or a substantial number of ONST's accounts. Schwab Institutional also makes available to ONST other services intended to help ONST manage and further develop its business enterprise. These services may include consulting, publications, and conferences on practice management; information technology; business succession; regulatory compliance and marketing. In addition, Schwab may make available, arrange, and/or pay for these types of services rendered to ONST





by independent third-parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to ONST. ONST requires that clients maintain their assets in accounts at Schwab based, in part, on the availability of some of the foregoing products and services, and not solely on the nature, cost, or quality of custody and brokerage services provided by Schwab. While as a fiduciary, ONST endeavors to act in its clients' best interests, a potential conflict of interest may arise.

In selecting Fifth Third Bank, ONST considered the value of research and additional brokerage products and services that Fifth Third Bank can and will provide to our clients as well as to ourselves. Receipt of these additional brokerage products and services are considered to have been paid for with 'soft dollars.' Because such services could be considered to provide a benefit to our firm, ONST may have a conflict of interest in directing client brokerage business. Also, ONST could receive benefits by selecting Fifth Third Bank to execute client transactions, and the transaction compensation charged by Fifth Third Bank might not be the lowest compensation ONST might otherwise be able to negotiate.

The products and services ONST receives from Fifth Third Bank will generally be used in servicing all of our clients' accounts. Our use of these products and services will not be limited to the accounts that paid commissions to Fifth Third Bank for such products and services. In addition, ONST may not allocate soft dollar benefits to client accounts proportionately to the soft dollar credits the accounts generate. As part of our fiduciary duties to the client, ONST endeavors at all times to put our client's interests first. However, clients should be aware that the receipt of economic benefits by ONST is considered to create a conflict of interest.

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### **Order Aggregation**

Most trades involve mutual funds where trade aggregation does not garner any client benefit.

## **Review of Accounts**

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### **Periodic Reviews**

For investment advisory accounts, reviews are performed annually by the advisor and Chief Investment Officer or compliance officer. For trust accounts, reviews are performed annually by the Chief Investment Officer or compliance officer. Account reviews can be performed more frequently when market conditions dictate.





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### **Review Triggers**

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

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### **Regular Reports**

For investment advisory accounts, clients receive monthly position statements describing positions, transactions and valuations for the previous calendar month from Schwab, the custodian of all investment advisory assets. In addition, our quarterly newsletter is emailed to all advisory and trust clients. The newsletter includes market commentary for the previous quarter as well as other relative investment, tax, trust and estate articles.

For trust accounts, clients receive periodic account statements at the interval of their choosing, but at least annually. Statements provide information regarding asset holdings, cost basis, market value, transactions, realized gain/(loss) summary and fees. Clients may also obtain account information via online access. Certain clients, by request, receive reports on estimated income, yields, summaries on gains/losses for taxes, and consolidated reports on multiple portfolios. Client meetings are held at the client's preference—typically annually—on performance, strategy and the status of the client's goals and objectives for the portfolio.

## **Client Referrals and Other Compensation**

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### **Incoming Referrals**

ONST has been fortunate to receive many client referrals over the years. The referrals came from current clients, estate planning attorneys, accountants, employees, personal friends of employees and other similar sources. The firm in most cases does not compensate referring parties for these referrals.

However, ONST may compensate unrelated third parties for client referrals in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940. The compensation paid to any such third party will be equivalent to 50% of the net quarterly advisory fee paid to ONST by the client referred by third party for the first quarter following referral.

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### **Referrals Out**

ONST does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.



## Custody

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### Account Statements

All assets are held at qualified custodians. For investment advisory clients, the custodian (Schwab) provides account statements directly to clients at their address of record monthly.

For trust clients, assets are held in nominee form at the custodian (Fifth Third Bank) at the omnibus level. Therefore, account statements are provided by ONST.

However, it's important to note that ONST does serve as a custodian for those clients holding securities that represent small privately held companies that do not trade on any exchanges.

## Investment Discretion

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### Discretionary Authority for Trading

ONST accepts discretionary authority to manage securities accounts on behalf of clients. ONST under such an agreement has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, if a blanket trading authorization has not been given, ONST will consult with the client prior to each trade to obtain concurrence.

Discretionary trading authority also facilitates the placing of trades in client accounts so that ONST may promptly implement on the client's behalf the investment policy that had been agreed upon by ONST and the client.

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### Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. Investment advisory clients sign a limited power of attorney so that ONST may execute the trades that the clients have approved.

## Voting Client Securities

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### Proxy Votes

Investment Advisory clients are expected to vote their own proxies.

When assistance on voting proxies is requested, ONST will provide recommendations to the client. If a conflict of interest exists, it will be disclosed to the client.



For trust clients, securities may be voted by ONST, depending on the account type. The client may also be provided the option to vote the security directly or have ONST vote on their behalf.

## Financial Information

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### Financial Condition

ONST does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is required to be provided to the NC Commissioner of Banks because ONST does serve as a custodian for client securities/assets. However, it is important to note that these securities represent small privately held companies that do not trade on any exchange and are held in custody by the Trust Division which is regulated by the NC Commissioner of Banks.

Also, ONST does not require prepayment of fees of more than \$1,200 per client, nor does ONST require prepayments to be made six months or more in advance.

## Business Continuity Plan

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### General

ONST has a Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people. ONST employees are required to familiarize themselves with the plan and to acknowledge as such.

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### Disasters

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

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### Alternate Offices

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



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**Loss of Key Personnel**

ONST has a succession plan in place to deal with such a loss. Also, ONST has a Board of Directors that would, if needed, create a search committee to find a suitable replacement.

## **Information Security Program**

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**Information Security**

ONST maintains an information security program to reduce the risk that a client's personal and confidential information may be breached.

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**Privacy Notice**

ONST is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to ONST.

ONST takes seriously our responsibility to keep the information provided to us in the strictest confidence. Federal privacy laws regulate what investment advisors and trust officers are allowed to do with the confidential personal information that they collect in connection with their financial service activities. Our standards have always been in the interest of protecting our clients' confidentiality.

ONST may obtain nonpublic personal information about clients' family and business, assets, income and expenditures, risk tolerance, estate, insurance coverage or other personal information in the course of providing the advisory and trust services for which clients have engaged the firm.

This information may come from account forms, investor profiles, tax or legal documents that clients provide to ONST or authorize ONST to obtain from others. Information may also come from discussions with clients or with others that clients authorize. ONST only collects information which is necessary to manage clients' accounts, abide by all laws and regulations, and review and develop new services and products that may be of benefit to the clients.

ONST uses the information responsibly so that the client's privacy is protected. ONST does not disclose any nonpublic personal information about its current or former clients to anyone, except as required by law or per the client's authorization. ONST does not participate in releasing this nonpublic information to other entities for independent telemarketing, direct mail or any other purpose.



Access to nonpublic personal information about ONST clients is restricted to those professionals and staffs who need to know such data in order to provide financial services on that account. Strict internal company policies and an employee conduct code ensure that clients' personal and financial information will be protected. ONST maintains physical, electronic and procedural safeguards to comply with federal regulations and professional requirements in order to preserve the confidentiality of the client's personal information.

In order to help fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. What this means for clients: when a client opens an account, ONST will ask for the client's name, address, date of birth and other information that will allow ONST to identify the client. ONST may also ask to see the client's driver's license or other identifying document.

We, ONST, will notify clients in advance if our privacy policy is expected to change. We are also required by law to deliver this *Privacy Notice* at the time of account inception with client acknowledgment.