

# **FARR, MILLER & WASHINGTON, LLC**

## **Part 2A of Form ADV: FIRM BROCHURE**

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Form ADV Part 2A, our *"Disclosure Brochure"* or the *"Brochure"*, is required by the Investment Advisors Act of 1940 and is a very important document between Clients and Farr, Miller & Washington, LLC. This brochure provides information about the qualifications, services, and business practices of Farr, Miller & Washington, LLC. If you have any questions about the contents of this brochure, please contact us at 202-530-5606 or by email at [scantus@farmiller.com](mailto:scantus@farmiller.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about Farr, Miller & Washington is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by an identifying number, known as a CRD Number. Our Firm's CRD number is #107553.

## **Item 2 – Summary of Material Changes**

The SEC requires that we disclose any material changes that we have made to this document since our last annual updating amendment.

Farr, Miller & Washington, LLC has changed the date of this Brochure and also has made non-material changes to the disclosures since our last Brochure dated March 30, 2016.

Our Brochure may be requested by contacting Susan W. Cantus, Principal/Chief Compliance Officer at 202-530-5606 or [scantus@farrmiller.com](mailto:scantus@farrmiller.com).

### Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes .....	ii
Item 3 -Table of Contents.....	ii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation.....	2
Item 6 – Performance-Based Fees and Side-By-Side Management .....	4
Item 7 – Types of Clients .....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Item 9 - Disciplinary Information .....	9
Item 10 – Other Financial Industry Activities and Affiliations .....	9
Item 11 – Code of Ethics.....	11
Item 12 – Brokerage Practices .....	12
Item 13 – Review of Accounts .....	14
Item 14 – Client Referrals and Other Compensation .....	15
Item 15 – Custody.....	17
Item 16 – Investment Discretion .....	18
Item 17 – Voting Client Securities .....	18
Item 18 – Financial Information .....	19

## Item 4 – Advisory Business

### **Firm Description:**

Farr, Miller & Washington, LLC was founded in 1996 by Michael K. Farr, Elmon A. Miller and John A. Washington. The firm is a SEC-registered independent investment advisor\* with our principal place of business located in Washington, D.C. We also have offices located in Naples, Florida, Devon, Pennsylvania, and Memphis, Tennessee.

The firm was founded on three guiding principles: to provide analytical and management excellence through a conservative long-term portfolio management process, accessibility and superior client service, and consistent risk-adjusted performance. These principles have guided the firm since inception, and today the expanded investment team manages portfolios for high net worth individuals and institutions. For more information on the types of clients we provide services to, please see *Item 7 – Types of Clients* of this Brochure.

\*Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

### **Principal Owners:**

The firm is wholly owned by the named founders and other key officers actively employed by the firm through FMW Holdings, LLC, which owns 100% of Farr, Miller & Washington LLC (FMW). The principal owner is Michael K. Farr, President. The other owners are as follows: Taylor D. McGowan, CFA (Chief Investment Officer), Susan W. Cantus (CCO), Caroline Savage (Principal), Keith B. Davis, CFA (Portfolio Manager/Analyst), and Michael C. Fox, CPA, CFP®, CFA (Portfolio Manager/Analyst/CFO). Effective April 9, 2013, Elmon A. Miller, Jr. (Former Managing Director Emeritus) and John A. Washington (Managing Director Emeritus) no longer own an interest in FMW Holdings, LLC.

### **Types of Advisory Services:**

FMW provides asset management services to our clients based on their individual needs, in accordance with the methods described in *Item 8 – Investment Strategies and Methods of Analysis* of this Brochure. Through personal discussions with our clients, we identify their goals and objectives based on the client's particular circumstances. We establish a portfolio investment strategy consistent with the client's risk/return objective(s). Therefore, each client portfolio is customized and managed individually based on the client's particular risk tolerance, tax status, existing positions or client imposed restrictions, long term goals and cash flow needs.

Our core investment products are: Large Cap Growth Equity, Fixed Income, Balanced, Small /Mid-Cap Equity, and Growth and Income. FMW also provides discretionary management

of model portfolios investing in Exchange Traded Funds (ETF's). These models, named Wealth Builder Portfolios, are based on the client's risk tolerance and specific goals, and are diversified amongst asset classes both international and domestic. For more information on our products, please see *Item 8 – Investment Strategies* of this Brochure.

FMW manages client accounts on a discretionary and non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., equity (growth), balanced, fixed income, and/or growth and income) as well as tax considerations.

FMW also furnishes investment advice through consultations on a case by case basis. We offer financial consultation regarding strategic decisions for both individual and institutional clients. This may consist of long term legacy and estate planning or significant liquidity events (i.e. refinancing, the potential sale of a company, inheritance, etc).

We also may provide financial planning services to select individuals on a recurring basis for a fee which is described in Item 5.

Farr, Miller & Washington maintains a sub-management agreement with an unaffiliated investment advisor, Envestnet Asset Management Inc, for FMW to provide a large cap equity model portfolio. This program is referred to as a "Third Party Models Program". The investment advisor uses the model investment portfolio created by FMW as the basis for investment products that the third party offers to our clients. FMW creates the model portfolio based on what FMW deems as an appropriate allocation and weighting of securities for each product. The client determines how and when to act upon the recommended changes to the model portfolio. FMW, cannot, in and of itself, place a trade for any investor using the program for which FMW acts as a research provider.

Farr, Miller & Washington also is registered as a Municipal Advisor with the Municipal Securities Rulemaking Board. In this role, FMW provides investment advisory services to tax exempt issuers in need of assistance with defeasance escrows. Please refer to Item 10 for a description of the services.

**Client Assets:**

As of 12/31/2016, FMW was actively managing \$1,241,909,299 of clients' assets on a discretionary basis plus \$ 13,939,833 of clients' assets on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

**Fee Schedule:**

For our services, FMW receives a quarterly investment advisory fee equal to an annual percentage of the market value of assets under management, including cash and cash

equivalents, as of the close of business on the last day of the preceding quarter. The standard fee schedule for our Large Cap Growth Product, Balanced Product, and Growth and Income Product is as follows: 1% per annum for the first \$4 million, 0.80% for the next six million (from \$4,000,001 to \$10,000,000), and 0.60% for 10 million and greater.

The Fee schedule for our Small/Mid-Cap Product is as follows: 1.25% per annum for the first \$1 million, 1% for the next million, and 0.75% for 2 million and greater.

For accounts invested in our Municipal Fixed Income Product, our fee schedule is 0.50% per annum.

For accounts invested in our Wealth Builder Portfolios (ETF Model Portfolios), our fee is 0.75% per annum.

Although FMW has established the aforementioned fee schedule(s), we retain the discretion to negotiate alternative fees for all of our products on a case by case basis. Discounts may be offered to family members and associated persons of our firm. The specific annual fee schedule will be identified in the management contract between the adviser and each client.

#### **Fee Billing:**

All fees are payable quarterly in advance, due at the beginning of each quarter. In limited cases, fees may be paid in arrears by institutional accounts. Clients may elect to be billed for fees or authorize Farr, Miller & Washington to directly debit the fees from client's custodial accounts. A client may terminate their advisory arrangement with FMW at any time, by giving written notice. For those accounts that pay quarterly in advance, fees will be reimbursed to the client on a pro-rata basis for the number of days in the quarter the account was not under management. For those accounts that pay quarterly in arrears, any earned, unpaid fees will be due and payable at the time the account is closed. The amount of fees will be based on the account value on the date the advisory relationship is terminated, pro-rated for the number of days in the quarter the account was open.

FMW may also provide financial consultation services on an hourly basis for a fee of \$750 per hour (or as negotiated), or for a fixed fee. These services are described in *Item 4 - Types of Advisory Services*.

For financial planning services for select clients, FMW charges between 15 – 75 basis points on the total assets upon which we are consulting. The fee will be charged quarterly in advance. Fees may be negotiable.

For our sub-management agreement with Envestnet Asset Management, Inc, Farr, Miller & Washington will be compensated based on a negotiated percentage of the assets invested in that product. The account minimum is \$100,000.

**Other Fees:**

Clients may incur certain charges imposed by custodians, brokers, and other third parties such as brokerage securities transaction fees (commissions), trade-away fees, wire fees and other fees and taxes on brokerage accounts. Mutual funds and exchange traded funds (ETFs) also charge internal management fees, administrative costs and other various operational expenses, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Farr, Miller & Washington's management fee, and we will not receive any portion of these commissions, fees, and costs. Please refer to *Brokerage Practice Services (Item 12)* of this form ADV for additional information.

For our role as Investment Purchase Consultant as a municipal advisor, our fees are detailed in Item 10.

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

Farr, Miller & Washington, LLC and our supervised persons do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

**Item 7 – Types of Clients****Description:**

Farr, Miller & Washington, LLC provides portfolio management services to high net worth individuals, as well as individuals, trusts, estates, corporate pension and profit-sharing plans, Taft-Hartley plans, corporations, charitable institutions, foundations, endowments, state or municipal government entities, and other U.S. institutions.

**Account Minimums:**

Our minimum account size is \$500,000 for accounts opened after September 1, 1999. For our Small/Mid-Cap Product, the minimum account size is \$250,000. The minimum annual fee for our Large Cap product is \$5,000, although exceptions for size and fees may be made on a case by case basis. The minimum account size for our Wealth Builder Portfolios is \$100,000.

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

### **Investment Strategies:**

#### *Large Cap Growth Equity:*

Our core product, the Large Cap Growth Equity portfolio, is a conservative diversified portfolio consisting of 30 to 40 high-quality growth companies. The portfolio employs a buy-to-hold philosophy. The goal is to exceed the performance of the market over a full market cycle (5 to 7 years) without taking on more risk than the overall market. Individual weightings are no greater than 4% of total assets at purchase and the portfolio is fully invested with a target cash position of 5%. Our research analysts seek leading companies in industries with attractive secular growth prospects that have strong management teams, great long-term track records, conservative balance sheets, high returns on capital, and sustainable free cash flow. The firm performs in depth valuation work to determine whether each stock has a reasonable chance of out performing the market over the subsequent 5 years. Investment turnover averages roughly 25% per year and the firm believes that this long-term mindset allows it to ignore short-term noise in favor of long-term fundamentals. The risk/reward proposition must make sense for long-term investors and our focus on valuation provides downside protection and preservation of capital in weak markets.

#### *Small/Mid-Cap:*

Our Small/Mid-Cap Product was established on June 30, 2006. This product invests mainly in common stock of small and mid-capitalization companies. The portfolio consists of 30 to 40 companies with a history of consistent profits, high returns on capital, strong balance sheets, and low reinvestment requirements that trade at reasonable valuations. Stocks in this portfolio typically range from \$1 - \$15 billion in market capitalization. The goal of this product is to outperform the Russell 2500 Index over a full market cycle (3 to 5 years).

#### *Growth & Income:*

Our Growth and Income product's investment objective is to provide current income and capital appreciation through long-term investments. To pursue this goal, the portfolio typically invests the majority of its assets in common stocks and real estate investment trusts (REITs). The portfolio may also invest in preferred stock, foreign common stocks/ADR's, corporate bonds and government Treasury bonds. Our investment universe consists of companies/REITs with total market capitalization ranging from \$1.0 billion and



higher. The investment committee will use best efforts to minimize short and long-term capital gains taxes. The portfolio seeks to reduce risk by diversifying among multiple companies and industries.

### *Fixed Income*

FMW's fixed income portfolios are primarily composed of investment grade corporate bonds, agency bonds, treasury bonds, and municipal bonds. Analysts perform credit analysis on each bond purchased. We build bond portfolios that are designed to act as an anchor during rough markets and to provide income where necessary. Individual bonds are analyzed and bond portfolios are constructed based on each client's risk tolerance, time horizon, income needs, and tax situation. The firm's long-term views on interest rates, inflation, and the economy also play a major role in the construction of bond portfolios.

### *Exchange Traded Funds*

FMW purchases exchange traded funds in situations where a client's investment objectives can not be fully met through the purchase of individual securities or when a client seeks an index portfolio with allocations to numerous asset classes.

### *FMW Wealth Builder Portfolios*

The Wealth Builder Portfolios are model portfolios that use exchange traded funds to implement an investment allocation based on a particular level of risk. Currently, FMW offers the following risk models, balancing equities and fixed income:

20% Equity/ 80% Fixed Income; 40% Equity/ 60% Fixed Income; 50% Equity / 50% Fixed Income; 80% Equity/ 20% Fixed Income; and 100% Equity.

The portfolios typically hold between 8 - 20 exchange traded funds that track well-established indices across equity and fixed income, both domestic and international.

### **Methods of Analysis:**

#### *Large Cap Growth & Small/Mid-Cap*

FMW performs fundamental, bottom-up equity research to identify companies suitable for client portfolios. The investment process starts with quantitative screens that seek to identify high quality companies with the following characteristics: 1) a solid track record, 2) a conservative balance sheet, 3) solid returns on invested capital, and 4) a reasonable valuation. Technical analysis is not utilized in the firm's investment process.

The quantitative screens narrow the list of potential stocks from roughly 2,000 stocks to 100. Value Line and Bloomberg are both used for generating screens. At this point, the research analysts take a quick look at each stock in an effort to cut the list down to a more manageable and select group. At this stage, common reasons for a stock to get rejected would include: a highly cyclical earnings track record, excessive off-balance sheet

liabilities, weak free cash flow, any issues with management, and poor earnings quality. Next, research analysts conduct a full due diligence on the roughly 20 stocks per year that make it into the final round of research. Bloomberg, Value Line, First Call, and Call Street are all used to help the firm build quality portfolios. However, all investment opinions are ultimately internally generated. Research at this stage can take up to two weeks per name and includes:

- 1) Reading SEC filings, management presentations, sell-side equity research, industry reports, conference call transcripts, and related periodicals.
- 2) Building historical and projected models
- 3) Interviewing management, sell-side analysts, and industry contacts.
- 4) Performing extensive valuation work (e.g. discounted cash flow, comparable multiple analysis, etc.).
- 5) Creating investment presentation for the investment committee to consider.

Approximately 5 to 10 new stocks get added to the portfolio each year. The investment committee makes all investment decisions as a group.

Stocks are sold from portfolios for the following 4 reasons:

- 1) Excessive valuation
- 2) Deterioration in fundamentals
- 3) Change in original thesis
- 4) Disingenuous management

#### *Growth and Income Product:*

The portfolio managers employ fundamental, bottom-up research to select companies believed to have good prospects for income generation and capital appreciation over a three-to-five year time period. Significant attention will be paid to the following: 1) Balance sheet strength – companies will not have onerous levels of debt and will have sufficient flexibility to sustain and/or grow the business without accessing the capital markets; 2) Competitive advantages – high barriers to entry, deep-rooted customer relationships, defensible or enduring cost structure advantage, or proprietary technology that allows the company to sustain dividend payments; 3) Dividend coverage – sufficient free cash flow to make dividend payments, 4) Secular growth drivers – long-term growth trends resulting from demand for products and/or services and 5) Absolute and relative valuation – value of the company is attractive both on a stand-alone basis as well as relative to other similar companies.

### *FMW Wealth Builder Portfolios:*

The FMW Investment Committee will determine the allocation of investments for each model portfolio based on their view of appropriate risk. The committee will review the underlying index exchange traded funds as well as the current and strategic allocation of the portfolios. At their discretion, they will rebalance portfolios back to the targets to maintain the intended risk and asset allocations, make adjustments to the strategic allocations and add, remove or replace holdings. These decisions will be based on the committee's research and strategic view of the markets. Rebalances will also be triggered by cash flows. The changes in the selection of the ETFs employed by FMW, may result in the sale of client's existing holdings and may subject clients to additional tax liability.

### **Risk of Loss:**

Investing in all securities involves risk of loss that clients should be prepared to bear.

#### *Risks of Stock investing*

Stocks generally fluctuate in value more than bonds and may decline significantly over short time periods. There is the chance that stock prices overall will decline because stock markets tend to move in cycles, with periods of rising prices and falling prices. The value of a stock in which a fund invests may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry.

FMW controls risk for our Equity products by: 1) building diversified portfolios, 2) limiting positions sizes, 3) focusing on industry-leading companies with solid balance sheets, and 4) putting great emphasis on not overpaying for a stock.

#### *Risks of Bond investing*

Bonds have two main sources of risk. *Interest rate risk* is the risk that a rise in interest rates will cause the price of a debt security held to fall. Securities with longer maturities typically suffer greater declines than those with shorter maturities. Mortgage-backed securities can react somewhat differently to interest rate changes because falling rates can cause losses of principal due to increased mortgage prepayments and rising rates can lead to decreased prepayments and greater volatility. *Credit risk* is the risk that an issuer of a debt security will default (fail to make scheduled interest or principal payments), potentially reducing income distributions and market values. This risk is increased when a security is downgraded or the perceived creditworthiness of the issuer deteriorates.

FMW controls risk for fixed income portfolios by purchasing investment grade bonds with strong credit characteristics and maturity dates of usually fifteen years or less depending on the client objectives.

### *Risks of ETF investing*

ETFs are typically designed to track some group of underlying securities (e.g. domestic stock indices, foreign stock indices, bond indices, commodities, real estate, etc.). Investors in these types of ETFs will make money if the underlying securities rise in value and lose money if the underlying securities decline in value. Buying ETFs reduces the security-specific risk that comes with owning individual stocks and bonds. However, it does not reduce market risk, currency risk, geopolitical risk, or any other risk that could cause the securities underlying the ETF to fall in value.

Our Wealth Builder Portfolios use Exchange Traded Funds which are subject to risks similar to those of other publically traded shares including loss of principal, price volatility, industry pressure, global political and economic development. While index ETFs are designed to provide investment results that generally correspond to the underlying indices, Index ETFs may not be able to exactly replicate the performance of the indices because of the related expenses and other factors.

Foreign based ETF are subject to interest rate, currency, exchange rate, economic and political risks all which are magnified in emerging markets.

## **Item 9 – Disciplinary Information**

Farr, Miller & Washington and our employees have not been involved in any legal or disciplinary events in the past ten years that would be material to a client's evaluation of the company or our personnel.

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

FMW Holdings LLC owns 100% of Farr, Miller & Washington, LLC and also its affiliate, Farr Consulting LLC. This firm is a consulting firm, but currently does not perform any services for any clients.

FMW also has a sub-advisory relationship with Envestnet Asset Management Inc., a third-party unaffiliated investment advisor. FMW only provides an Equity model to the firm and does not have any authority to trade on behalf of the clients enrolled in the program. Therefore, we do not deem there to be a conflict of interest.

Farr, Miller & Washington is registered as a Municipal Advisor. FMW provides investment advisory services to tax exempt issuers in need of assistance with defeasance escrows.

In the role as Investment Purchase Consultant, Farr, Miller & Washington LLC prices defeasance escrows on behalf of municipal issuers. The securities purchased by the municipality are purchased on established securities markets, and the objective of FMW is to assist the municipality in purchasing bonds for the lowest price possible, consistent with best execution requirements. There are no contractual or other agreements with any other party that create conflicts of interests. We also assist on the day of closing by ushering the securities through the delivery process. Per the request of Bond Counsel, FMW also provides a certificate of the process. FMW will charge the following fee structure in its role as Investment Purchase Consultant (on occasions in which Farr, Miller & Washington is placed in competition based upon the quoted fee, we may elect to quote a fee that varies from the schedule):

For Escrows purchasing Municipal Bonds:

Securities totaling a maturing par amounts below \$7,000,000	\$5,000.00
Securities totaling a maturing par amounts ranging from \$7,000,000 to \$13,000,000 in aggregate	\$9,000.00
Securities totaling a maturing par amounts ranging from \$13,000,000 to \$20,000,000 in aggregate	\$15,000.00
Securities totaling a maturing par amounts ranging from \$20,000,000 to \$25,000,000 in aggregate	\$20,000.00
For purchases in excess of \$25,000,000	\$25,000.00

For Defeasance Escrows purchasing Treasuries (Advanced Refundings):

Securities totaling a maturing par amounts less than \$10,000,000	\$5,000.00
securities totaling a maturing par amounts ranging from \$10,000,000 to \$15,000,000 in aggregate	\$9,000.00
For purchases of securities totaling a maturing par amounts ranging from \$15,000,000 to \$20,000,000 in aggregate	\$14,000.00
For purchases in excess of \$20,000,000	\$19,000.00

For Defeasance Escrows purchasing Treasuries (Current Refundings – escrow final maturity inside of 90 days):

\$0 to \$99.999 million	\$5,000.00
\$100 million to \$199.999 million	\$9,000.00
\$200 million or more	\$19,000.00

## Item 11 – Code of Ethics

Farr, Miller & Washington strives to protect, defend and pursue the interests of our clients ahead of all others including our own. Farr, Miller & Washington, LLC adopted a Code of Ethics for all supervised persons of the firm effective February 1, 2005 which is designed to comply with Rule 204-A-1 under the Investment Advisors Act of 1940. All supervised persons employed by Farr, Miller & Washington must agree to abide by the terms of the Code of Ethics initially, or as amended.

Farr, Miller & Washington will provide a copy of the Code of Ethics to any client or prospective client upon request. Requests should be made by calling 800-390-3277/202-530-5600 or sending a request via email to Susan Cantus at [scantus@farrmiller.com](mailto:scantus@farrmiller.com).

The employees of FMW may invest for their personal accounts in securities identical to those recommended to our clients. Because this practice might cause an employee to benefit from trading ahead of clients, our code establishes the policy that no employees may purchase or sell any security prior to a transaction(s) being implemented for an advisory client and requires pre-approval of all employee trades. It is also the practice of the firm that we do not recommend to clients, securities in which the firm or a related person has a material financial interest. FMW employees are also prohibited from engaging in principal transactions as well as agency cross transactions.

Our Code includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's employees. We also have established procedures for the maintenance of all required books and records as well as requirements regarding the reporting of Code of Ethics violations to our senior management.

The Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

Some employees have accounts that are managed by the firm on a discretionary basis. These accounts invest in the same securities as clients and are treated as any other client account. We may aggregate our employee trades if they are with client transactions when possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. For more information on our allocation procedures, please see *Item 12 – Brokerage Practice* of this Brochure.

## **Item 12 – Brokerage Practices**

Except as limited by client instructions, Farr, Miller & Washington exercises discretionary authority to determine through which broker or dealer securities are to be bought or sold and to negotiate the commission rates for securities transactions.

### **Selecting Brokerage/Custodial Firms:**

Absent a client's existing brokerage relationship and at the request of clients, the firm does from time to time recommend brokerage firms to custody the assets with which we have a relationship such as Fidelity Investments. Because of the combination of their integrated back office and administrative on-line services, in addition to their dedicated customer service teams, our clients benefit from significant value-added.

### **Executing Brokers:**

FMW utilizes the most competitive brokerage firms in executing client transactions. In effecting transactions for clients, FMW seeks to obtain overall best net execution. This means that a firm must execute transactions for clients in a manner that the client's total costs or proceeds in each transaction are most favorable under the circumstances.

In evaluating prices and executions, FMW will consider the factors we deem relevant, which include the breadth of the market in the security, the price of the security, the financial condition and execution capability of a broker or dealer and the reasonableness of the commission, if any, for the specific transaction.

### **Research and Soft Dollars:**

FMW will take into consideration not only the items listed above, but also the commission paid research and brokerage services provided by a broker or dealer in connection with the execution of client transactions, also known as "soft dollars". In conducting all of our soft dollar relationships, FMW will seek to take advantage of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended. When FMW uses client brokerage commissions to obtain research or other products or services, this presents a conflict of interest because FMW receives a benefit because we do not have to produce or pay for the research, products or services. These relationships may influence FMW's judgment in allocating brokerage business between firms that provide soft dollar services and firms that do not.

FMW may pay a brokerage commission in excess of what another broker or dealer might charge for effecting the same transaction in recognition of the value of the brokerage, research and other services and soft dollar relationships. In such a case, however, FMW will determine in good faith that such a commission is reasonable in relation to the value of brokerage, research and other services and soft dollar relationships provided by such broker or dealer, viewed in terms of either the specific transaction or FMW's overall responsibilities to the portfolios over which FMW exercises investment authority.

It should be noted that not all accounts may benefit from each soft dollar service and that one account may pay higher brokerage commissions than are otherwise available or may pay more brokerage commissions based on account trading activity. Regardless, the research and other benefits resulting from the brokerage relationship would benefit all FMW accounts.

Research obtained during the last fiscal year includes written reports or computer software that furnishes advice on individual companies/industries, economic data, general market information and that assists FMW in carrying out our responsibilities. Within the last fiscal year, FMW acquired the following research services with client commissions: Bloomberg and other proprietary research from major Wall Street Firms.

FMW currently has a soft-dollar arrangement with UBS Paine Webber Inc. The commissions paid to UBS Paine Webber are reasonable in respect to the research services provided, and are no greater than three cents per share paid to any other Broker-Dealer. Clients are not disadvantaged in any way and most research obtained will benefit all clients on a general basis. UBS Paine Webber is responsible for the payment of Bloomberg.

Research received from brokers or dealers is supplemental to FMW's own research programs. The fees to FMW under our advisory agreements with clients are not increased by reason of its receiving any brokerage and research services.

#### **Directed Brokerage:**

Clients may elect to direct brokerage through a particular broker; however, clients that do so may pay more in brokerage commissions and may not obtain best execution, depending on the commission arrangement between the client and the designated broker. Because commission rates under directed brokerage arrangements typically are not subject to negotiation by FMW, clients who elect to direct brokerage to a particular broker may not benefit from any lower commission rates that FMW negotiates with other brokers. In addition, clients that direct brokerage may not participate in any volume commission discounts negotiated by FMW with brokers other than the broker identified by the client. Clients also should be aware that there may be other disadvantages associated with directing brokerage to a particular broker, including a delay in the timing of execution of transactions. All FMW clients who direct brokerage are required to sign a direction letter and acknowledgment that they may not receive the best execution.

#### **Order Aggregation:**

When advantageous to the client, FMW will aggregate client orders received within a similar time frame. When an aggregate order is executed in parts at different prices or when two or more separate orders for the same security are entered at approximately the same time and are executed at different prices, FMW will, make allocations using the average price at which a security is bought or sold for the clients involved in the



transaction. In the event that an order is not filled, we follow an order rotation policy so that no client is systematically disfavored.

In regards to our trade order rotation for block trades, all of our fully discretionary trades that are eligible to trade away are executed first, followed by fully discretionary trades that are not eligible for Prime Brokerage (less than \$100,000 in market value), and lastly directed trades.

### **Brokerage for Client Referrals:**

Farr, Miller & Washington currently participates in the Fidelity Wealth Advisor Solutions Program, a service designed to help investors find an independent investment advisor. Fidelity is a broker/dealer independent of and unaffiliated with FMW. Clients referred to FMW as a result of this relationship will use Fidelity as the custodian.

There also may be an incentive to select an executing broker-dealer based on our interest in receiving client referrals, rather than the clients' interest in receiving most favorable execution. FMW always strives to achieve best execution, and therefore, trades for client accounts custodied at Fidelity may be executed through a different broker/dealer. We conduct broker reviews based on factors noted above to choose an executing broker. When we trade away, a small processing fee is charged by Fidelity that is in addition to any commissions charged by the executing broker-dealer.

## **Item 13 – Review of Accounts**

Portfolio managers monitor each client account to evaluate the suitability of portfolio investments in light of client objectives. Reviews vary in frequency and may be undertaken due to a multitude of factors, including, but not limited to: market developments, the nature of portfolio holdings, individual client objectives, changes in client objectives or investment instructions and/or the addition or withdrawal of client assets. All client accounts will be reviewed at least on a quarterly basis.

For the Wealth Builder Portfolios, The Investment Committee will review the accounts from a top down, model approach at least on a quarterly basis. Reviews on a more frequent basis are at the discretion of the Investment Committee. On an annual basis, FMW will contact the clients to reconfirm the information on their risk profile to ensure that the client's objective and risk tolerance has not changed.

## **Reports to Clients:**

All clients are notified of all trades in their accounts in writing at the time of the trades by the custodians, and they also receive a monthly brokerage statement from the custodian. Farr, Miller & Washington provides complete written reports of the accounts to our clients quarterly. These reports include portfolio appraisals, performance reporting, a gain/loss summary, and a management fee invoice. Clients will also receive a copy of our quarterly newsletter, *The Farr View*. In addition, at the request of a client, a formal written report and review can be performed at any time.

For the Wealth Builder Portfolios, clients will only receive trading reports and statements directly from the custodian. They will receive an electronic copy of our quarterly newsletter, *The Farr View*, and they may also receive periodic email communications regarding any changes on the specific ETF Models made by the Investment Committee.

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

Farr, Miller & Washington has written agreements with individuals as well as third party firms pursuant to which we will compensate them as Solicitors for referral activities. These solicitors are not affiliated with FMW. In regards to our current agreement with an individual, FMW pays a solicitation fee of twenty-five percent of the management fees collected from the referred client on a quarterly basis.

Farr, Miller & Washington also has a written agreement with a third party firm, Cedar Partners, Ltd. where Cedar historically provided sales and marketing services to the firm, including the introduction of prospective advisory clients to Farr, Miller & Washington. Cedar is not affiliated with and has no relationship with FMW other than a contractual relationship governed by the agreement between Cedar and FMW. Our current agreement with Cedar is to compensate them by the payment of an Annual Retainer equal to \$25,000 and an Account Fee equal to 20% of the investment management fees paid to Farr, Miller & Washington by clients introduced by Cedar. The retainer is paid during the term of the Agreement between Cedar and FMW. The Account Fee is paid for as long as the client's account is managed by Farr, Miller & Washington. FMW has a standard fee schedule and does not charge any additional amounts to clients who were solicited by Cedar to cover the amounts the firm pays to Cedar.

Farr, Miller & Washington, LLC maintains a solicitor's arrangement with KG&L Capital Management, LLC. The representatives under our agreement receive fifty percent of the investment management fees on assets placed under the management of the Advisor for as long as the client account is maintained as a client by FMW. Please note that for this particular agreement, FMW adds a differential to our standard fee schedule to compensate

for any solicitations by KG&L Capital Management. The differential is 0.50% on an annual basis.

Additionally, Farr Miller & Washington participates in the Fidelity Wealth Advisor Solutions Program® (the “WAS Program”), through which FMW receives referrals from Strategic Advisers, Inc. (“SAI”), a registered investment adviser and subsidiary of FMR LLC, the parent company of Fidelity Investments. FMW is independent and not affiliated with SAI or FMR LLC. SAI does not supervise or control FMW, and SAI has no responsibility or oversight for FMW’s provision of investment management or other advisory services.

Under the WAS Program, SAI acts as a solicitor for FMW, and FMW pays referral fees to SAI for each referral received based on FMW’s assets under management attributable to each client referred by SAI or members of each client’s household. The WAS Program is designed to help investors find an independent investment advisor, and any referral from SAI to FMW does not constitute a recommendation or endorsement by SAI of FMW’s particular investment management services or strategies. More specifically, FMW pays the following amounts to SAI for referrals: for referrals made prior to April 1, 2017, an annual percentage of 0.20% of any and all assets in client accounts; for referrals made after April 1, 2017, the sum of (i) an annual percentage of 0.10% of any and all assets in client accounts where such assets are identified as “fixed income” assets by SAI and (ii) an annual percentage of 0.25% of all other assets held in client accounts. For referrals made prior to April 1, 2017, these fees are payable for a maximum of seven years. Fees with respect to referrals made after that date are not subject to the seven year limitation. In addition, FMW has agreed to pay SAI a minimum annual fee amount in connection with its participation in the WAS Program. These referral fees are paid by FMW and not the client.

To receive referrals from the WAS Program, FMW must meet certain minimum participation criteria, but Advisor may have been selected for participation in the WAS Program as a result of its other business relationships with SAI and its affiliates, including Fidelity Brokerage Services, LLC (“FBS”). As a result of its participation in the WAS Program, FMW may have a potential conflict of interest with respect to its decision to use certain affiliates of SAI, including FBS, for execution, custody and clearing for certain client accounts, and Advisor may have a potential incentive to suggest the use of FBS and its affiliates to its advisory clients, whether or not those clients were referred to FMW as part of the WAS Program. Under an agreement with SAI, FMW has agreed that Advisor will not charge clients more than the standard range of advisory fees disclosed in *Item 5 – Fees and Compensation* of this Brochure to cover solicitation fees paid to SAI as part of the WAS Program. Pursuant to these arrangements, FMW has agreed not to solicit clients to transfer their brokerage accounts from affiliates of SAI or establish brokerage accounts at other custodians for referred clients other than when FMW’s fiduciary duties would so require, and FMW has agreed to pay SAI a one-time fee equal to 0.75% of the assets in a client account that is transferred from SAI’s affiliates to another custodian; therefore, FMW may have an incentive to suggest that referred clients and their household members maintain custody of their accounts with affiliates of SAI. However,

participation in the WAS Program does not limit FMW's duty to select brokers on the basis of best execution.

Client referral and solicitation arrangements by nature present an inherent conflict of interest between the adviser and client. As such, FMW complies with Rule 206(4)-3 (the Cash Solicitation Rule) under the Investment Advisers Act of 1940, which requires that among other things, that FMW not compensate any party for client referrals without a written agreement. This rule also requires that prospective clients are provided disclosures by the third party, which clearly describes the solicitation terms and compensation arrangement.

## **Item 15 – Custody**

Farr, Miller & Washington is not a broker-dealer and does not take possession of client assets. Our clients' assets are housed in nationally recognized banks or brokerage firms, otherwise known as custodians. FMW has a limited power of attorney to place trades on the client's behalf. If authorized by the client, FMW may also have the authority to directly debit client accounts for quarterly fees, and therefore is deemed to have Custody. See the Other Financial Industry Activities and Affiliations and the Fee Billing and Direct Debit of Fees of this Brochure.

As part of our billing process, the client's custodian is advised of the amount of fee to be deducted from the client's accounts. At least quarterly, the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets are required to send statements of holdings and transactions to the client. In addition to periodic statements from the custodians, Farr, Miller & Washington, LLC sends reports to our clients on a quarterly basis. We urge you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

In addition to direct fee debiting, FMW is deemed to have custody because a managing director of the firm serves as trustee for certain client accounts, and therefore they have control over and access to these assets. Per the SEC custody rule requirements, Farr, Miller & Washington has retained a third-party certified public accounting firm that is registered with the Public Accounting Oversight Board to conduct a surprise Custody Examination each year.

## **Item 16 – Investment Discretion**

Farr, Miller & Washington provides both discretionary and non-discretionary investment advisory services. FMW usually receives discretionary authority from the client at the outset of an advisory relationship defined through the management contract.

For discretionary accounts, FMW determines the identity and amount of securities to be bought and sold, the brokerage firm for execution, as well as the timing of such purchases and sales, consistent with the investment objectives of each client and subject to any investment policies and limitations established by the client. Such limitations generally include investing in certain securities, types of securities, or industry sectors. Clients may also direct purchases and sales for certain securities. Investment decisions for a client concerning specific portfolio securities are made independently from those for other clients advised by FMW. As a result, a client may or may not invest in the same securities as other clients.

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

As a matter of firm policy and practice, Farr, Miller & Washington, LLC generally does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in their portfolios. Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent. Farr, Miller & Washington may offer assistance and advice as to a particular proxy matter upon a client's request, but the client always retains the proxy voting responsibility. Our policy is disclosed to clients in the investment advisory contract.

Although generally we do not vote proxies, the firm does make exceptions for certain Institutional Clients. For those limited clients, we have retained an independent third party proxy consultant, ISS. This firm offers a fully outsourced proxy voting service which includes delivery of holdings-specific proxy research and recommendations, automated voting with vote override options, full record keeping and a dedicated account management team to support the service. ISS will vote proxies in accordance with our established policies and procedures.

Absent material conflicts, ISS will determine how Farr, Miller & Washington, LLC should vote the proxy in accordance with the client's applicable voting guidelines, complete the proxy and vote the proxy in a timely and appropriate manner.

If a material conflict of interest exists, FMW has established a Proxy Committee which will determine whether it is appropriate to disclose the conflict to the affected clients, to give the clients an opportunity to vote the proxies themselves, or to address the voting issue through other objective means such as voting in a manner consistent with a predetermined voting policy or receiving an independent third party voting recommendation.

The Proxy Committee may also propose a particular vote cast against ISS recommendation or may propose an abstention from voting, if the Proxy Committee has determined that such action will serve the best interest of clients. Also, if ISS has not made a recommendation on how a particular proxy should be voted, the Proxy Committee will make a voting recommendation, consistent with the best interest of the clients.

If a client for whom we vote inquires about a particular vote and has an opinion on how they would like to vote on that particular proxy, the Proxy Committee has the ability to override ISS and will vote as directed by the client.

Clients may obtain a copy of Farr, Miller & Washington's complete proxy voting policies and procedures upon request. Clients may also obtain information and reports from FMW about how their securities were voted, if applicable.

## **Item 18 – Financial Information**

FMW has never been the subject of a bankruptcy petition and FMW is not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients.