

**Part 2A of Form ADV: *Firm Brochure***

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**This brochure provides information about the qualifications and business practices of Nichols Asset Management, LLC (hereinafter “NAM” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (978) 440-8741 or at [pnichols@nicholsassetmgmt.com](mailto:pnichols@nicholsassetmgmt.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 NAM is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for NAM is 111749. Registration with the Securities and Exchange Commission does not imply any level of skill or training.**

**Item 2**

There have been no material changes subsequent to the ADV Part 2 filed June 30, 2016.

**Item 3. Table of Contents**

Item 2.	Summary of Material Changes .....	<b>Error! Bookmark not defined.</b>
Item 3.	Table of Contents.....	3
Item 4.	Advisory Business .....	4
Item 5.	Fees and Compensation .....	5
Item 6.	Performance-Based Fees and Side-By-Side Management .....	6
Item 7.	Types of Clients .....	6
Item 8.	Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9.	Disciplinary Information .....	9
Item 10.	Other Financial Industry Activities and Affiliations .....	9
Item 11.	Code of Ethics, Participation in Client Transactions and Personal Trading ....	9
Item 12.	Brokerage Practices .....	10
Item 13.	Review of Accounts.....	12
Item 14.	Client Referrals and Other Compensation.....	13
Item 15.	Custody .....	13
Item 16.	Investment Discretion .....	13
Item 17.	Voting Client Securities.....	14
Item 18.	Financial Information .....	15

#### **Item 4. Advisory Business**

NAM is a fee-based SEC-registered investment adviser with its principal place of business located in Sudbury, Massachusetts. We have been in business since 1992, with Patricia Nichols, Charles Nichols II, owners of the firm.

Total assets under our firm's management were approximately \$131 million as of December 31, 2016.

<u>Type of Asset:</u>	<u>Approximate Amount (\$):</u>
Discretionary	\$ 92 million
Non-discretionary	\$39 million

Our firm offers the following advisory services to our clients:

##### Separate Account Small Mid Cap (SMID) Portfolio Management Services

We offer a SMID strategy to individual clients. The allowable market cap range will be broader with holdings ranging from small cap names to mid-cap names with the upper capitalization range will extending to \$12.5 billion.

Clients will retain individual ownership of all securities and utilize their own custodians. Clients are responsible for updating Nichols Asset Management as to changes in their restricted lists on a timely basis.

##### Custom Individual Portfolio Management Services

Our firm also provides continuous portfolio management to clients regarding the investment of client funds based on the individual needs of the client. We will manage these advisory accounts on a discretionary or non-discretionary basis, as agreed with each client. Account supervision is guided by the stated objectives of the client, as well as tax considerations. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors. There is great commonality among individual portfolio names and aggregation wherever possible of trading.

##### Services in General

Our client investments are broad based and may include the following instruments:

- ETFs and leveraged ETFs
- Equity securities
- Debt securities, including corporate debt securities, US government securities, municipal debt securities, US government agency debt

- Preferred securities
- Certificates of Deposit (CDs)
- Option Contracts (not typical)
- Warrants (not typical)
- Real Estate Investment Trusts (REITs)
- Master Limited Partnerships (MLPs)
- Foreign issuer securities (American Depositary Receipts)
- Review of investments in private placement offerings and/or limited investment partnerships, such as, hedge funds and other pooled investment partnerships.

For individual portfolios, our investment recommendations show great commonality of names, but the tax situation, income needs and capital accumulation needs will differ and portfolios are managed in view of these differences. Individual portfolio management parameters are based on information gathered through telephone, electronic and in-person discussions.

## **Item 5. Fees and Compensation**

We will charge our management fee as a percentage of assets under management, typically ranging from 0.75% to 1.00% for custom portfolios. We will quote an exact percentage to each client based on both the complexity and total dollar value of that account.

### Fees in General

We will either directly debit client fees from their custodial account(s) or invoice clients for our management fees in arrears (as agreed with each client).

Since most of our advisory agreements are separately negotiated, fee schedules may differ not only in fee amounts but also in fee calculation methodologies and billing frequency.

Fees and account minimums for all services are negotiable based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, complexity of the account, etc.). Discounts, not generally available to our advisory clients, may be offered to family members of our staff.

We may group certain related client accounts for the purposes of determining the account size and/or annualized fee.

### Account Termination

The client may terminate the agreement by providing us with a written notice, pursuant to the terms of each advisory agreement, at our principal place of business. Upon termination of any account, any earned, unpaid fees will be due and payable.

#### Mutual Fund and ETF Fees and Expenses

All fees paid to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund or an ETF directly, without the services of our firm. In that case, the client would not receive the services provided by us which are designed, among other things, to assist the client in determining which mutual fund or funds or ETFs are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and ETFs and the fees charged by us to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

#### Brokerage and Custodial Fees

In addition to advisory fees paid to our firm, clients will also be responsible for all transaction, brokerage, custodial and trade-away fees incurred as part of their account management. Please see Item 12 of this Brochure for important disclosures regarding our brokerage practices.

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

We do not charge any fees based on a share of capital gains on or capital appreciation of the assets of a client.

### **Item 7. Types of Clients**

Our firm primarily provides advisory services to individuals, pension and profit sharing plans, trusts, estates and charitable organizations.

Our suggested minimum account size is \$1 million of assets under management.

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

Our firm employs the following types of analysis to formulate client recommendations:

#### Fundamental Analysis.

NAM has developed a proprietary fundamental model to narrow the universe of stocks to include in a client portfolio and to monitor existing holdings. The model is run monthly for six broad industry sectors; Financials, Industrials, Consumer, Health Care,

Technology, and capital intensive industries including Utilities, Energy and Materials. The model scores stocks on 48 different variables in six categories:

- Growth,
- Profitability,
- Capital Structure,
- Valuation,
- Technical,
- Management.

The model incorporates a number of distinctive elements: employee metrics (e.g. revenue/employee, operating profit/employee), customized industry-specific relative strength metrics that compare the full market capitalization range within an industry sector, and subjective measures (management, strategy, product cycle). Portfolio managers identify targets of opportunity (high or improving scores), and areas of risk (low or falling scores).

The firm's objective is to build value over the long-term for clients. The firm's investment process incorporates a combination of quantitative tools, fundamental and valuation analysis, and the experience of the firm's portfolio managers in an effort to enhance security selection.

Fundamental analysis does not attempt to anticipate market movements. Market movements present a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Mutual Fund and/or ETF Analysis: We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest successfully over a period of time and in different economic conditions. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy and to avoid duplication of holdings.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the fund or ETF less suitable for the client's portfolio.

Third-Party Manager Analysis: Although we do not recommend third-party managers, upon client request we examine the experience, expertise, investment philosophies, and past performance of independent third-party investment managers in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and

in different economic conditions. We monitor the manager's underlying holdings, strategies, concentrations and leverage as part of our overall periodic risk assessment.

A risk of investing with a third-party manager who has been successful in the past is that he/she may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a third-party manager's portfolio, there is also a risk that a manager may deviate from the stated investment mandate or strategy of the portfolio, making it a less suitable investment for our clients. Moreover, as we do not control the manager's daily business and compliance operations, it is possible for us to miss the absence of internal controls necessary to prevent business, regulatory or reputational deficiencies.

#### Small Mid Cap Risk:

Mid cap stocks have inherent risks associated with them. Unlike their large cap counterparts, small cap companies may not have proven their ability to grow and consistently generate a profit. Furthermore, they may be more susceptible to volatility and market and internal hardships. Finally, due to lack of or insufficiency of market coverage, there may be a lack of readily available, reliable information on small cap companies and liquidity in the small cap market.

#### Fixed-Income Risk:

There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise. Generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

Risks for all Forms of Analysis: Our securities analysis method relies on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Our firm employs the following investment strategies to implement investment advice given to clients:



Long-term purchases: We mostly purchase securities with the idea of holding them in the client's account for a year or longer. We may do this because we believe the securities to be a good business or sector of the market with ongoing growth potential, and or currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that, by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases: At times, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains for U.S.-based clients.

Option Strategies are not a part of our current or planned investment offerings.

*Clients should understand that investing in any securities, including mutual funds and exchange traded funds, involves a risk of loss of both income and principal.*

## **Item 9. Disciplinary Information**

Our firm has no reportable disciplinary events to disclose.

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

Neither NAM nor its management or related persons have any financial industry activities or affiliations to report.

## **Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

### Code of Ethics Disclosure

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal

securities laws. Our Code of Ethics 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 access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code provides for oversight, enforcement and recordkeeping provisions. A copy of our Code of Ethics is available to our advisory clients and prospective clients upon request to our Chief Compliance Officer at the firm's principal office address.

Our firm or individuals associated with our firm may buy or sell securities identical to those recommended to or purchased for customers for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client. This practice results in a potential conflict of interest, as we may have an incentive to manipulate the timing of such purchases to obtain a better price or more favorable allocation in rare cases of limited availability.

To address the aforementioned conflict of interest, we may aggregate our employee trades with client trades whenever possible. In case there is a partial fill of a particular batch order, we will allocate all the purchases pro-rata, with each account paying average price.

To mitigate these potential conflicts of interest and ensure the fulfillment of our fiduciary responsibilities, we have established the following restrictions:

1. No persons associated with our firm may buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No persons associated with our firm may prefer his or her own interest to that of the advisory client.
2. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, and therefore, preventing such employees from benefiting from transactions placed on behalf of advisory accounts.
3. All persons associated with our firm must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to disciplinary action or termination.

## **Item 12. Brokerage Practices**

Clients have the option of granting our firm brokerage discretion or directing our firm to implement transactions in their accounts through specific broker-dealers.

In cases where our firm has limited or full brokerage discretion, we will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research and other services which will help us in providing investment management services to clients. We may, therefore recommend certain brokers to clients and use certain brokers who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

In cases where we are directed by the client to use a certain broker dealer or a brokers from an approved list, we will not survey or shop the brokerage market place for best execution on a transaction-by-transaction basis. Therefore, in directing the use of a particular broker or dealer, it should be understood that we will not have authority to negotiate commissions among various brokers or obtain volume discounts, and best execution may not be achieved. In addition, a disparity in commission charges may exist between the commissions charged to the client and those charged to other clients. We will endeavor wherever possible to negotiate commission rates in the best interest of the client in all cases.

For clients in need of brokerage or custodial services, and depending on client circumstances and needs, we will recommend the use of one of several broker dealers/custodians, provided that such a recommendation is consistent with our fiduciary duty to the client. Our clients must evaluate these brokers/custodians before opening an account. The factors considered by our firm when making this recommendation are the broker's ability to provide professional services, our experience with the broker, the broker's reputation, and the broker's quality of execution services and costs of such services, and the custodial platform provided to clients, among other factors.

*Clients are not under any obligation to effect trades through any recommended broker.*

With respect to the use of third party investment advisers, each such adviser may or may not recommend broker dealers to clients, and/or will have their own policies, practices and procedures regarding brokerage. Our firm does not directly recommend the services of any particular broker dealer to these clients under these circumstances. Clients should refer to the disclosure document(s) of recommended independent registered investment adviser(s) for information on the brokerage recommendations, practices and policies for those entities.

#### Trade Aggregation and Allocation

We may aggregate client trades when doing so is advantageous to our clients. Mostly, we will batch client transactions to receive volume discounts and to obtain better and

more uniform pricing across client accounts. If we determine that aggregation of trades in a certain situation will be beneficial to our clients, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed from each client account on any given day. Any exceptions from the pro-rata allocation procedure will be carefully explained and documented. Such exceptions may occur due to varying cash availability across accounts, divergent investment objectives and existing concentrations, and desire to avoid “odd lots,” (an amount of a security that is less than the normal unit of trading for that particular security) and client compliance restrictions.

Trade aggregation and participation in certain investment opportunities may be limited to the client’s selection of custodian and/or broker.

Our firm does not have any formal or informal soft-dollar arrangements and does not receive any soft-dollar benefits.

However, our firm participates in the Schwab Institutional (SI) services program offered to independent investment advisers by Charles Schwab & Company, Inc. (“Schwab”), an unaffiliated FINRA-registered broker dealer. Clients in need of brokerage and custodial services will have Schwab recommended to them. As part of the SI program, the firm receives benefits that it would not receive if it did not offer investment. These benefits include: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk serving SI participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client account; access, for a fee, to an electronic communication network for client order entry and account information; receipt of compliance publications; and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors. Schwab also offers other services intended to help us manage and further develop business enterprises. These services include educational conferences and events, technology, compliance, legal and business consulting, publications and conferences on practice management and business succession. The benefits received through participation in the SI program may or may not depend upon the amount of transactions directed to, or amount of assets custodied by, Schwab.

Participation in the SI program results a potential conflict of interest for the firm, as the receipt of the above benefits creates an incentive for us to recommend Schwab to clients. Nonetheless, the firm has reviewed the services of Schwab and recommends the services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients.

### **Item 13. Review of Accounts**

The following individuals are responsible for client account reviews:

- Patricia Nichols, Member, Chief Compliance Officer
- Charles Nichols II, Member, Chief Investment Officer

The above-listed individuals will continuously monitor the underlying securities in client accounts. The universe of securities is reviewed and updated monthly using a quantitative model and more often in the case of market turmoil or unexpected news or information in a market sector or specific security. We will also monitor the performance of third-party managers on a continuous basis. All accounts are reviewed for consistency and performance relative to the appropriate benchmark. Individual accounts are reviewed for consistency with client investment strategy, asset allocation, risk tolerance and performance relative to the appropriate benchmark. More frequent reviews may be triggered by changes in an account holder's personal, tax or financial status. Geopolitical and macroeconomic specific events may also trigger reviews.

In addition to the monthly statements and confirmations of transactions that clients receive from their broker dealer, our firm will typically provide quarterly consolidated account summaries and/or performance reports, as contracted for at the inception of the advisory relationship.

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

Other than that, already described in this Brochure, our firm does not receive any additional compensation from third parties for providing investment advice to its clients and does not compensate anyone for client referrals.

#### **Item 15. Custody**

Custody is defined as any legal or actual ability by our firm to access client funds or securities. Since all client funds and securities are maintained with a qualified custodian, we don't take physical possession of client assets. However, because for some clients we may directly debit fees from their custodial accounts, our firm is deemed to have constructive custody of client funds. We urge all our management clients to carefully review and compare their reviews of account holdings and/or performance results received from us to those they receive from their custodian. Should you notice any discrepancies, please notify us and/or your custodian as soon as possible.

#### **Item 16. Investment Discretion**

For clients granting us discretionary authority to determine which securities and the amounts of securities that are to be bought or sold for their account(s), we request that such authority be granted in writing, typically in the executed investment management agreement. With respect to the use of third party investment advisers, our firm does not manage these client portfolios, or this portion of these client portfolios, in the traditional sense of the definition, rather, we manage the managers. As such, the client may grant us the authority to hire and fire the selected registered investment adviser(s) directly.

Should the client wish to impose reasonable limitations on this discretionary authority, such limitations shall be included in the executed investment advisory agreement. Clients may change/amend these limitations as desired. Such amendments must be submitted to us by the client in writing.

#### **Item 17. Voting Client Securities**

Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive proxies related to their own accounts, in which case we may consult with clients as requested. (With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies.) In order to direct us as to how to vote a particular proxy, clients should contact Patricia Nichols, Chief Compliance Officer, directly. Since all proxies are voted in bulk across client accounts, we are typically unable to accept instructions from clients on how to vote a particular proxy, but we will endeavor to do so given timely notice. However, clients who have elected to delegate their proxy voting authority to us may withdraw this grant of authority at any time with a written request. Any change in proxy voting delegation will take place immediately upon client notification but may not result in the client having the ability to vote an existing proxy via the new delegation during the current specific proxy period.

NAM will endeavor to cast proxy votes of clients in a manner we believe is in the best interest of each client in a way that we believe maximizes client shareholder value, rights, and is in keeping with a socially responsible manner as it relates to fair and reasonable executive compensation as reflected in company performance and shareholder return, corporate governance, corporate labor practices, and being environmentally responsible. Voting also covers accountability, disclosure, and dilution. We support executive compensation disclosure requirements, and an annual review of executive pay. Changes in the structure of a corporation should put shareholder value first; we support majority voting, some anti-takeover provisions but shareholders should be allowed to vote on provisions, which might include, poison pills, staggered board seats, the need for outside directors, etc., such that it preserves and maximizes shareholder value. The capital structure of a corporation is also important to our clients, which includes issuing stock, common and preferred, debt, stock option plans, expensing of options which depends upon the company and the particular industry.

NAM will maintain all records, including vote decision, date voted, policies for vote decision and meeting information for all our clients receiving proxies.

Clients may obtain a copy of our voting policies, procedures and guidelines by contacting Patricia Nichols directly. Clients may request, in writing, information on how proxies for their shares were voted. If any client requests a copy of our complete proxy policies and procedures or information on how we voted for his/her account(s), we will promptly provide such information to the client.

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s). We will however, upon

client request, file “Proofs of Claims” in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

**Item 18. Financial Information**

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered, and therefore we have no obligation to disclose our firm financials as part of this Brochure.

Our firm has no financial condition that impairs our ability to meet our contractual obligations to you, and have never been the subject of a bankruptcy proceeding.