



**Firm Brochure**

Part 2A of Form ADV: Uniform Application for Investment Adviser Registration

**FERNWOOD INVESTMENT MANAGEMENT, LLC**

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March 23, 2017

This Brochure provides information about the qualifications and business practices of Fernwood Investment Management, LLC. If you have any questions about the contents of this Brochure, please contact us at 617-376-4750 and/or [info@fernwoodinvestment.com](mailto:info@fernwoodinvestment.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.

Fernwood Investment Management, LLC is a registered investment adviser. 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.

Additional information about Fernwood Investment Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This brochure is the disclosure document that Fernwood provides to its clients as required by SEC rules. This Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes.

The only changes since Fernwood's last Form ADV Amendment, which was filed March 29, 2016, is (1) the removal of disclosure outlining Fernwood's participation in TD Ameritrade's Advisor Direct Program. Fernwood no longer participates in this program. (2) Change of accountant to Wolf & Company, P.C.

Our current Brochure may be requested by contacting Janice Mett, Administrative Assistant at 617-376-4750 or Janice@fernwoodinvestment.com. Clients should review the document in its entirety and are encouraged to ask questions at any time prior to or throughout the engagement.

Additional information about Fernwood Investment Management, LLC is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with Fernwood Investment Management, LLC who are registered as investment adviser representatives of Fernwood Investment Management, LLC

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## Item 4 – Advisory Business

Fernwood Investment Management, LLC (“Fernwood”), is an SEC registered investment adviser providing investment management services and personalized investment advice. Fernwood will create a custom investment portfolio for each client that is suited to meet unique needs and takes into consideration a client’s time horizon, income needs, risk tolerances, outside holdings and tax status. If desired, clients have the right to impose restrictions on their investments.

Fernwood manages a variety of investment strategies including traditional asset classes such as stocks and bonds, directly and through mutual fund and exchange traded fund (“ETF”) investments, and non-traditional investments such as private equity funds, venture capital, real estate, and hedge funds that result in a well-rounded portfolio based on a client’s tolerance for risk. Fernwood’s investment policy is to adhere to a long-term, fundamentally driven discipline to achieve above-market rates of return with below market risk.

Fernwood also currently serves as a general partner [or investment manager] of a private investment fund that it has established (the “**Private Fund**”) to facilitate pooled client allocations to alternative asset classes where the minimum size of direct investments would result in too large and concentrated an investment for the client. The Private Fund has its own set of private offering documents that must be reviewed by a client prior to an investment in that Private Fund. This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase an interest in any of the Private fund. Such an offer may be made only by means of the Private Fund’s offering documents addressed to the intended recipient.

Fernwood Investment Management, LLC has been in business since 2003. Thomas P. Reilly is Fernwood’s Founder, Managing Member, and Portfolio Manager. Tom has been in the investment business for over 30 years. As of December 31, 2016, Fernwood had total assets under management of \$216,688,203 on a discretionary and non-discretionary basis.

## Item 5 – Fees and Compensation

Fernwood Investment Management, LLC fees are paid quarterly, in advance. Such fees shall be assessed at an annual rate based on the following tiered fee schedule

<u>Assets Under Management</u>	<u>Annualized Rate</u>
First \$1,000,000	1.25%
Next \$4,000,000	1.00%
Next \$5,000,000	0.75%
\$10,000,000 and over	0.50%

Employer sponsored retirement plan assets (e.g. 401k, 403b, etc.) and 529 Plan assets will have an annual fee of 0.50%.

These rates are not generally negotiable. Lower fees may be negotiated, however, in certain circumstances involving exceptionally large accounts or accounts which require a reduced level of advisory service. Each client also bears their own investment, transaction and custodial expenses, such as brokerage commissions, custodial fees, bank service fees, margin interest and short position dividends.

Fernwood generally instructs the custodians to deduct fees from client accounts. A few clients may instead receive fee statements and pay statements directly. All fee payments are reflected on client account statements, which clients should review carefully for accuracy.

Investment advisory contracts are initiated by both parties and terminable by either party at any time upon written notice subject to a proportionate charge or a refund of management fee in the event of a commencement or termination prior to the end of a calendar quarter.

Clients also bear fees payable to mutual fund and ETF advisers and other expenses, as disclosed in each fund's respective prospectus. With regard to Pennmont Fund, fees are paid directly to Fernwood and indirectly to their underlying portfolio managers or sub-advisers ("Sub-Advisers") and bears its own expenses as disclosed in the Private Fund's respective private offering documents.

Fernwood also has an agreement with a sub-advisory firm which charges a flat fee of 0.50%, in which Fernwood will receive 0.25%.

Item 12 further describes the factors that Fernwood Investment Management, LLC considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

Fernwood Investment Management, LLC does not charge any direct performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). However, as general partner of Pennmont Fund, L.P., Fernwood receives an annual 10% incentive profit allocation from the capital accounts of investors, as more fully described in the Pennmont Fund, L.P. private offering documents. Some or all of the Sub-Advisers that manage Private Fund assets may also receive performance-based fees or profit allocations.

Such arrangements create an incentive on Fernwood's behalf to recommend client investment allocation to the Private Funds, and may create an incentive for Fernwood or the Sub-Adviser to make investments that are riskier or more speculative than would be the case in the absence of those performance fee arrangements in order to generate profits subject to the fees or allocations. Including unrealized profits in the calculation of performance fee arrangements may increase the amount of such allocations or fees to Fernwood or the Sub-Adviser.

Such fee arrangements could also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. However, the use of these investment products always includes an evaluation of the fees.

## **Item 7 – Types of Clients**

Fernwood Investment Management, LLC provides portfolio management services to high net worth individuals, individuals, pooled investment vehicles, charitable organizations, corporations or other businesses.

Fernwood may provide advice from time to time concerning the investment in certain limited partnerships, including hedge funds, and other entities relating to venture capital investments and leverage buyout transactions. Fernwood or an affiliate of Fernwood may have an interest in these entities from time to time.

Some Fernwood clients are currently invested in limited partnership venture transactions. In these limited partnerships, a related person acted or is acting in the capacity of a general partner. The limited partnerships noted have invested and/or are still invested in Agriculture, Healthcare, Real Estate, Retail, and Technology. The general partners are entitled to receive a management fee and have, by way of carried interest, an economic interest in the profits of the partnerships, disproportionate to their investments in the partnerships.

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

### Method of Analysis

Fernwood Investment Management uses both fundamental and technical analysis when evaluating individual securities. Examples include analyzing a company's growth rate, profitability, and financial position along with macroeconomic factors and trends for the sector in which the particular company operates in. Research tools we use included the following: broker reports, financial publications such as Morningstar, annual company reports, news services, for example, Reuters, and conference calls hosted by either a specific company or industry analyst.

### Investment Strategies

Based on each client's objective, investment risk tolerance and time horizon, we will design an investment strategy they are in agreement with. Each client is required to sign an investment management contract designating Fernwood as Agent with full discretionary investment authority. We will periodically conduct investment reviews with our clients where they will reaffirm or change their level of investment risk tolerance, which can range from safety of principal as the dominant concern to growth of capital. Each quarter a client

receives a statement. Periodically, clients will receive a letter outlining our current investment strategy and outlook.

We are primarily a long-term investment manager with a bias towards equities primarily U.S. large cap stocks. However, we may invest in other types of investments including corporate debt securities, commercial paper and real estate. Our typical turnover rate is 3-5 years. We construct portfolios that are diversified and not concentrated in just one security. Based on a client's liquidity needs, we will raise cash by selling securities. Sometimes this occurs more than once in each calendar year. On occasion based on our outlook for a particular stock, we may hedge a position by writing a covered call option. In this case, our primary objective is income enhancement with a secondary goal of capital gain.

### Risk of Loss

Clients should be aware that investing in securities involves risk of loss, and clients should be prepared to bear this risk when investing. Prior to entering into an agreement with Fernwood, you should carefully consider the following: The securities markets experience varying degrees of volatility; Over time your assets may fluctuate and at anytime be worth more or less than the amount you invested; and committing to Fernwood's management only those assets that you believe you will not need for current purposes and that can be invested on a long-term basis. Fernwood does not recommend strategies involving frequent trading due to the transaction costs and risks associated with these strategies.

Each of the Private Funds and the mutual funds in which clients invest also provides its own Offering Documents or prospectus that clients should review carefully in order to understand the particular risks associated with those investments.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the adviser or the integrity of the adviser's management. Fernwood has no disclosure applicable to this Item.

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

Mr. Reilly is an insurance agent doing business under the name Tomco Insurance. Mr. Reilly's responsibilities in this regard are not expected to consume a significant amount of his time during any given work week. From time to time Mr. Reilly may sell or recommend various life insurance products offered by various insurance companies to Fernwood clients. Mr. Reilly may receive remuneration from insurance companies for such sales. The premiums charged by these insurance companies to Fernwood clients will be at levels competitive with premiums charged by other companies offering similar insurance products.

Effective September 26, 2005, Fernwood replaced Pennmont Partners, LLC as the General Partner of Pennmont Fund, L.P., Fernwood receives a management fee based on the total assets in the fund, as well as an incentive allocation based on the net profits of the fund subject to an annual benchmark and high-water mark. Pennmont Fund, L.P. invests in other private investment funds.

Again, as mentioned in Item 7 above, some clients of Fernwood are currently invested in limited partnership venture transactions. In these limited partnerships, a related person acted or is acting in the capacity of a general partner. The limited partnerships noted have invested and/or are still invested in Agriculture, Healthcare, Real Estate, Retail, and Technology. The general partners are entitled to receive a finder's fee and have, by way of carried interest, an economic interest in the profits of the partnerships, disproportionate to their investments in the partnerships.

Mr. Reilly currently serves as a board member of Connected Living, Inc., a Quincy-based firm and GXT Green, based in Billerica. He is also a member of the advisory board and has an equity position in Bloc Enterprises. He has no compensation arrangements with any of these entities. As a board member, he may receive, along with all board members, stock option grants.

Fernwood participates in TD AMERITRADE's Institutional customer program and Fernwood may recommend TD AMERITRADE to clients for custody and brokerage services. There is no direct link between Fernwood's participation in the program and the investment advice it give to its clients, although Fernwood receives economic benefits through its participation in the program that are typically not available to TD AMERITRADE retail investors. These benefits include the following products and services (provided without cost or at a discount): duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisory participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to clients accounts); the ability to have advisory fees deducted directly from clients accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees to certain INSTITUTIONAL money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Fernwood by third party vendors. TD AMERITRADE may also have paid for business consulting and professional services received by Fernwood related persons [and may also pay or reimburse expenses (including travel, lodging, meals [and entertainment] expenses) for Fenwood's personnel to attend conferences or meetings relating to the program or to TD AMERITRADE's advisor custody and brokerage services generally.] Some of the produces and services made available by TD AMERITRADE through the program may benefit Fernwood but may not benefit its client accounts. These products and services may assist Fernwood in managing and administering client accounts, including accounts not maintained at TD AMERITRADE. Other services made available by TD AMERITRADE are intended to help Fernwood manage and further develop its business



enterprise. The benefits received by Fernwood (or its personnel) through participation in the program do not depend on the amount of brokerage transactions directed to TD AMERITRADE. As part of its fiduciary duties to clients, the firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Fernwood or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Fernwood's recommendations of TD AMERITRADE for custody and brokerage services.

Fernwood also receives from TD AMERITRADE certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment advisors participating in the program. Specifically, the Additional Services provided to Fernwood is payment of a percentage of the Advent expense, which will be used in conjunction with Fernwood's investment advisory practice and is for the direct and/or indirect benefit of Fernwood's clients. TD AMERITRADE provides the Additional Services to Fernwood in its sole discretion and at its own expense, and Fernwood does not pay any fees to TD AMERITRADE for the Additional Services. Fernwood and TD AMERITRADE have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

Fernwood's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to Registrant, TD AMERITRADE most likely considers the amount and profitability to TD AMERITRADE of the assets in, and trades placed for, Fernwood's client accounts maintained with TD AMERITRADE. TD AMERITRADE has the right to terminate the Additional Services Addendum with Fernwood, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD AMERITRADE, Fernwood may have an incentive to recommend to its clients that the assets under management by Fernwood be held in custody with TD AMERITRADE and to place transactions for client accounts with TD AMERITRADE. Fernwood's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including to seek best execution of trades for client accounts.

## **Item 11 – Code of Ethics**

As stated in Item 10, Mr. Reilly may from time to time recommend that certain Fernwood clients invest in Pennmont Fund, L.P., a hedge fund. Fernwood Investment Management, LLC is the Managing Member of the General Partner of Pennmont Fund, L.P. and as such will receive a management fee based on the amount of assets in the fund, as well as an incentive allocation based on the net profits of the fund subject to an annual benchmark and high-water mark.

Subject to the restrictions hereinafter described, Mr. Reilly and other employees of Fernwood may purchase or sell in the open market, for their own accounts, securities which are bought or sold for clients of Fernwood, provided that no such purchase or sale

may be affected between any such individual and any client account. Fernwood's policy is to require disclosure to Mr. Reilly, or his designee, of such personal transactions and the circumstances relevant thereto to determine whether such transactions represent a commonality of interest with our clients or create a potential conflict of interest or any appearance of conflict. Authority to consummate any such transaction resides with Mr. Reilly, or his designee.

Fernwood Investment Management, LLC Code of Ethics is available upon request.

## **Item 12 – Brokerage Practices**

Except if specified differently by a client, Fernwood has complete discretion in the investment of each account it manages, including the choice of brokers.

Subject to obtaining best execution in Fernwood's good faith judgment, brokers are chosen for their ability to provide research services to Fernwood. As a result, Fernwood clients may pay commissions higher than those obtainable from other brokers. Such research services generally constitute analyses of companies in which Fernwood contemplates investing or has invested managed funds. Accordingly, such research services are generally used to benefit all accounts managed by Fernwood. Exceptions may be made where the client has specifically designated the use of another broker exclusively.

Fernwood participates in the institutional customer program offered by TD AMERITRADE Institutional. TD AMERITRADE Institutional is a division of TD AMERITRADE Inc. ("TD AMERITRADE") member FINRA/SIPC/NFA. TD AMERITRADE is an independent and unaffiliated SEC-registered broker-dealer and FINRA member. TD AMERITRADE offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Fernwood receives some benefits from TD AMERITRADE through its participation in the program (See the disclosure under Item 10 Above.)

## **Item 13 – Review of Accounts**

Tom Reilly will perform periodic reviews of client's accounts. Such reviews will focus on the status of investments, diversification, tax considerations, changes in individual investment objectives, market opportunities and other relevant factors. Special reviews may be conducted whenever deemed appropriate in light of specific events relating to certain securities, general market events or client requests.

Below is outlined the nature and frequency of regular reports to clients on their accounts:

- 1. Quarterly Reports – Statements of assets under management showing costs, current*

*market value and other relevant date.*

- 2. Annual Reports – Year-end tax reports indicating gain, loss, dividend income, interest income, expenses and other relevant data, prepared on a cash basis, trade date method or accounting.*
- 3. Other Reports – Other written reports may be forwarded to some or all clients when Tom believes that these reports will be of value to such clients. Oral reports and discussions will also be available by either telephone or in person.*
- 4. Various other reports and information are available to clients via a secured website hosted by Merrill Lynch, and TD AMERITRADE custodian of clients' accounts.*

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

A Fernwood Employee who is licensed as a Registered Investment Advisor (Series 65 or 66) can receive a portion of the management fees collected on a new client relationship.

## **Item 15 – Custody**

Client assets are held at unaffiliated, qualified custodians. Fernwood normally does not have custody of client's accounts, except with regard to a few accounts in which Mr. Reilly is named as a trustee or co-trustee. Additionally, Fernwood also has custody of the Pennmont Fund, L.P., because Fernwood serves as general partner of that Fund. As required by SEC rules and in conformity with industry practice, those few accounts and the Pennmont Fund are subject to an audit at least annually. The Pennmont Fund distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all Fund investors. The Fund will also distribute audited financial statements upon liquidation promptly after the completion of such audit. Also as required, the audits are conducted by an independent public accountant that is registered with the Public Company Accounting Oversight Board in accordance with its rules. For the accounts in which Mr. Reilly is named a trustee or co-trustee, these audits are conducted on a surprise basis annually.

Fernwood instructs the custodians to deduct fees from client accounts. All fee payments are reflected on client account statements, which clients should review carefully for accuracy.

Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Fernwood urges you to carefully review such statements and compare such official custodial records to the account statements that Fernwood may provide to you. Fernwood statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

Fernwood Investment Management, LLC receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be

bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the investment objectives for the particular client account. When selecting securities and determining amounts, Fernwood observes the investment policies, limitations and restrictions of the clients for which it advises.

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

As a matter of firm policy and practice, Fernwood Investment Management, LLC does not have any authority to and 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 client portfolios. Fernwood may provide advice to clients regarding the clients' voting of proxies.

### **Item 18 – Financial Information**

Fernwood Investment Management, LLC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.