

## Item 1: Cover Page

### **Firm Brochure**

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of Gray Equity Management LLC (the “Firm” or “GEM”). If you have any questions about the contents of this brochure, please contact us at: (781) 407-0300, or by email at [dromano@grayequitymanagement.com](mailto:dromano@grayequitymanagement.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”), or by any state securities authority.

Additional information about the Firm 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 the Firm is 128547.

The Firm’s registration as an investment adviser does not imply any particular level of skill or training.

**February 28, 2018**

## Item 2: Material Changes

### **Material Changes since the Last Update**

The Firm's most recent update to Part 2 of its Form ADV was made on March 8, 2017.

The Firm has applied for SEC registration to convert its current registration as an investment adviser with the Massachusetts Securities Division to that of an SEC-registered investment adviser.

The Firm now offers discretionary investment advisory services to its Clients.

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## Item 4: Advisory Business

### Firm Description

Gray Equity Management LLC (“GEM” or the “Firm”) was founded in 1999. Beginning in 2012, the Firm has been registered as an investment adviser with the Massachusetts Securities Division. However, as of the date of this Firm Brochure, the Firm has applied for registration with the SEC to convert its registration as an investment adviser with the Massachusetts Securities Division to that of an SEC-registered investment adviser.

The Firm provides discretionary investment management services to individuals, pension and profit sharing plans, trusts, partnerships, estates, corporations and charitable organizations. Advice is provided through consultation with each client of the Firm (each, a “Client”) and may include: determination of financial objectives, tax planning, insurance review, investment management, cash flow, education funding and college planning, retirement planning, and estate planning. In general, the Firm seeks to provide their Clients with maximum after-tax, risk adjusted returns over long term time horizons consistent with each Client’s investment objectives.

### Principal Owners

The Firm is organized as a Massachusetts limited liability company. The Firm is owned equally by the following seven individuals: Concetto Joseph Ciccarello, Daniel C. Romano, Mark E. Kashgegian, James A. DeLeo, Michael L. Cecere, Richard Hirschen and Paul J. Gerry, Jr. Daniel C. Romano is the Managing Member of the Firm and is responsible for the day-to-day operations of the Firm.

### Types of Advisory Services

The Firm provides investment advisory services, also known as asset management services. This means that the Firm provides its Clients with regular and continuous investment advice which is particularly tailored to that Client’s investment needs.

The Firm also furnishes advice to Clients on matters not involving securities, such as financial planning matters, taxation issues, and retirement planning services that often include 401(k) investment and planning.

As of December 31, 2017, the Firm managed approximately \$132,751,550 in assets under management for approximately 261 accounts. Assets under management consist solely of assets for which the Firm provides investment advice on a regular and continuous basis to Clients. All accounts are managed on a discretionary basis.

### Tailored Relationships

GEM provides investment advisory services, which it defines as providing continuous advice to a Client or making investments for a Client based on the individual needs, objectives and unique circumstances of the Client. Through personal discussions in which goals and objectives based on a Client's particular circumstances are established, GEM develops a

Client's personal investment policy and creates and manages a portfolio based on that policy. GEM provides this service to individuals, pension and profit sharing plans, trusts, partnerships, estates, corporations and charitable organizations. GEM will manage advisory accounts on a discretionary basis. Account supervision is guided by the stated objectives of the Client (i.e., maximum capital appreciation, asset protection, growth, income, or growth and income).

## **Item 5: Fees and Compensation**

### **General**

The Firm bases its fees on a percentage of assets under management, hourly charges, and occasionally fixed fees.

Some agreements may be priced based on the complexity of work, especially when asset management is not the most significant part of a relationship with a Client.

Financial plans are priced according to the degree of complexity associated with the Client's situation.

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

### **Advisory Fees**

The annual fee for investment advisory services will be charged as a percentage of assets under management based on a negotiated rate of up to 1.25%, depending on the size of the assets under management. Fees are calculated by taking the value of the assets in a Client's account as of the end of each quarter, and applying the fee percentage. Fees are paid in advance and Clients will be refunded fees on a pro rata basis in the event of the termination of Client's relationship with GEM within any quarterly period based on the number of days within the quarter that the Client is engaged with GEM.

### **Financial Planning and Consulting Fees**

Clients have a choice on how they would like to be charged for their financial plans and consulting fees. GEM will either charge on an hourly or fixed fee basis. Fees will range from \$150 to \$450 per hour or a minimum of \$2,500 on a fixed fee basis. All fees will be billed as time is incurred and no fees will be prepaid. If the Client would like to review the financial plan on a semi-annual or annual basis, they will also be billed as the time is incurred either on an hourly or fixed fee basis depending on the size of the plan. GEM may, in its sole discretion, waive its financial planning fee.

## **Fee Billing**

Each Client will be provided with a statement that states the value of assets, and amount to be withdrawn from their account by Charles Schwab & Co., Inc. ("Schwab"), the custodian, to pay fees earned by GEM. Each Client will receive a statement from Schwab reflecting the withdrawal of fees.

Fees for financial plans and consulting engagements are invoiced as services are rendered and are due upon receipt.

## **Other Fees and Expenses**

The fees charged by GEM are in addition to fees charged by any mutual fund in which a Client's funds may be invested. The mutual funds that make up the Client's portfolio will assess charges and fees at the mutual fund level, including fees for investment management services. Clients may also be charged early redemption fees should fund holdings in the account be liquidated within a certain period of time, typically within 30 to 180 days dependent upon a fund company's policies. These fees and expenses are described in each mutual fund's prospectus. These fees will generally include a management fee, other fund expenses, and possibly a distribution fee.

Accordingly, the Client should review both the fees charged by the funds and the fees charged by the Firm to fully understand the total amount of fees to be paid by the Client and to thereby evaluate the advisory services being provided.

Hedge Funds will also be subject to underlying fund expenses including management and other servicing fees. The Client may be responsible for a repurchase fee: a percentage of the amount requested if the Client requests a distribution and has been invested in the Hedge Fund for less than a certain period of time. The Hedge Funds may also assess a performance fee. The fees and expenses of any structured product may change from offering to offering.

Custodians may charge transaction fees on purchases or sales of certain mutual funds, exchange-traded funds, stocks and bonds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Client portfolios may incur additional transaction costs, typically ranging from \$5 to \$30 per transaction.

Daniel C. Romano, Paul J. Gerry, and James Branch, in their respective individual capacities, are each a licensed insurance agent with various insurance companies. These affiliations and licenses are maintained in order to effectuate insurance policies, annuity contracts, and certain deferred compensation plans that may only be offered through an insurance company. These transactions are typically commission paid transactions that may not otherwise be accessible directly. Any fees and/or commissions (to the extent received) are in addition to any fees payable to GEM and are paid to Messrs. Romano, Gerry and Branch directly. This practice potentially presents a conflict of interest and gives each of them or GEM's supervised persons an incentive to recommend investment products based on compensation received, rather than on a Client's needs. GEM addresses these conflicts by disclosing these transactions to the Client prior to or at the time of purchase.

Transaction costs are not commissions; they are clearing costs charged by the designated clearing firm on the account and are subject to change at any time.

### **Expense Ratios**

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

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

## **Item 6: Performance-Based Fees**

### **Sharing of Capital Gains**

The fees payable to the Firm are not based on a share of the capital gains or capital appreciation of managed securities.

The Firm does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for an investment adviser to recommend an investment that may carry a higher degree of risk to its client.

## **Item 7: Types of Clients**

### **Description**

The Firm provides investment management services to individuals, partnerships, trusts, endowments, retirement plans, corporations and other legal entities.

Client relationships vary in scope and length of service.

### **Account Minimums**

The minimum account balance for clients is \$400,000 subject to reduction or waiver at the sole discretion of GEM.

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

### **Methods of Analysis of Mutual Funds**

The Firm has well established due diligence procedures which it uses in the selection of mutual funds, exchange traded funds (ETFs), and other securities as investments on behalf of Clients. This analysis is ongoing and undergoes a comprehensive review at least once a

year. From time to time a security may be added to the approved list (or removed) during the year after undergoing a thorough analysis.

For an investment to be considered for potential recommended use in Client portfolios it must first be put through an investment due-diligence screen which considers both quantitative and qualitative factors. Some of the qualitative factors considered include strategy, bottom-up fundamental analysis, strength of portfolio management team, and fund family reputation, among other factors. A potential investment will also be put through a quantitative screen that considers fund size, expense ratios, tax-efficiency, asset allocation, sector and regional weightings, history of executing on their strategy, and consistency of focus, among other things.

## **Investment Strategies**

The primary investment strategy for a specific Client is based upon the objectives stated by the Client during consultations. The Client may change these objectives at any time. Each Client executes an Investment Management Agreement (“IMA”) that documents their objectives and desired investment strategy.

The Firm will develop a strategic asset allocation for each Client based upon the Client’s investment objectives as developed through discussions with the Client and analysis of the client’s unique financial circumstances. GEM will allocate the Client’s assets among various investments, including mutual funds, exchange traded funds, separately managed accounts, individual securities, and other securities. The mutual funds, ETFs, and other securities recommended for use in client portfolios will be selected from the approved list of investments that have been subjected to the Firm’s due-diligence screens described above in Methods of Analysis. These could include any or all of the following criteria: the fund’s history; the strategy, allocation, and level of concentration of the fund portfolio; the track record of the fund’s manager; the fund’s investment objectives; the fund’s management style and philosophy; and the fund’s management fee structure. Portfolio asset allocation and weighting between recommended securities will be determined by each Client’s individual needs and circumstances.

A risk of investing in a mutual fund and/or ETF is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful in the past may not be able to replicate that success in the future. In addition, as the Firm does not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same, or similar securities, increasing the risk to the client due to increased concentration 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, which could make the fund or ETF less suitable of for the client’s portfolio.

The Firm examines the strategy, 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 full market cycle and in different economic conditions. The Firm monitors the manager’s underlying holdings, strategy, 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, the Firm does not control the underlying investments in a third-party manager’s portfolio. Therefore, there is a risk that a manager may deviate from their stated investment mandate and/or strategy, resulting in a less suitable



investment for our clients. Moreover, as the Firm does not control the manager's daily business and compliance operations, it is possible for the Firm to miss the absence of internal controls necessary to prevent business, regulatory or reputational deficiencies.

The Firm purchases securities with the intent of holding them in the Client's account for a year or longer. The Firm may purchase the security to fulfill a long-term strategic allocation to a particular asset class or may purchase the security to take advantage of a perceived market dislocation. A potential risk in a long-term buy and hold strategy is that, by holding the security over a full market cycle, the Firm may not take advantages of short-term gains that could be profitable to a Client. Moreover, if the Firm's perceived market dislocations are incorrect, a security may decline sharply in value before it makes the decision to sell.

As discussed above, the Firm may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). The Firm does this in an attempt to take advantage of conditions that the Firm believes will soon result in a price swing in the securities it purchases. A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, the Firm is 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.

If it is appropriate based upon a Client's investment objective and risk profile, the Client also has access to fund of funds hedge funds ("Hedge Funds"), private equity, business development corporations, buffered return enhanced notes ("BREN") (a type of structured investment) and a structured product ("Structured Investments"). The Hedge Funds, private equity and Structured Investments will only be made available to qualified purchasers, qualified clients or accredited investors as those terms are defined under applicable securities laws. The Hedge Funds, private equity and Structured Investments will only be made available to those Clients with a moderate, growth or aggressive growth profile based the Firm's understanding of the Client's risk tolerance resulting from initial and continued discussions with the Client and its analysis of its unique financial circumstances.

A Client is limited to an investment in Hedge Funds, private equity and Structured Investments of not more than 10% of stated net worth and 10% of the Client's account value. Furthermore, a maximum of 30% of a Client's portfolio may be allocated to Hedge Funds and Structured Investments. The rest of the account will be allocated to the appropriate portfolio type as determined by the Client's Investment Policy. The percentage allocated to each asset class within the portfolio type will be proportionately reduced by the percentage of the portfolio allocated to Hedge Funds and/or Structured Investments.

Special rebalancing considerations will be made for those accounts incorporating an allocation to the Hedge Funds and/or Structured Investments. Investments in Hedge Funds are considered illiquid meaning that there are limited opportunities to redeem an investment in Hedge Funds. Structured Investments are available in various maturities outlined in the offering documents, though typically 1 to 5 years. When rebalancing a Client's account, GEM will attempt to maintain the target allocation of the Hedge Funds and/or Structured Investments portion of the account. Due to limited liquidity of the Client's investments in Hedge Funds and Structured Investments, however, it is likely that the portion of the Client's account allocated to the strategic asset allocation will be rebalanced independent of the Hedge Funds and/or Structured Investments portion of the account. The asset allocation will be rebalanced back to the original target allocations if it is not feasible for GEM to incorporate the Hedge Funds and/or Structured Investments. Once a Structured Investments

matures, the Client can make a determination as to the disposition of the funds and can rebalance the account at that time.

For suitable Clients, GEM offers access to other illiquid alternative investments, such as nonpublic traded REITs, limited partnership interests and business development corporations. GEM may rebalance the Client's asset allocation independent of these products as well. The illiquid alternative portion of the account, which includes hedge funds, private equity, structured investments, nonpublic traded REITs and LPs generally may not exceed 30% of the account. GEM may waive these requirements under circumstances GEM deems to be appropriate.

GEM does not utilize short sales or options.

## **Risk of Loss**

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

- **Interest-Rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline. the price of bonds will fluctuate to reflect prevailing interest rates. In the event of rising interest rates, prices of bonds could decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to market forces (systematic) or company specific (non-systematic) events. tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, therefore purchasing power will erode at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the local currency of the investment. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on successful exploration & production, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an utility electric company, which generates its income from a steady stream of customers who buy electricity with consistent demand no matter what the economic environment is like.

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

## **Item 9: Disciplinary Information**

### **Legal and Disciplinary**

The Firm and its employees have not been involved in legal or disciplinary events related to past or present investment Clients.

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

### **Financial Industry Activities**

As of the date of this Brochure, GEM is an investment adviser registered with the Massachusetts Securities Division and has applied for investment adviser registration with the SEC to convert its registration as an investment adviser with the Massachusetts Securities Division to an SEC-registered investment adviser.

However, as defined in the Firm's Supplemental Brochure, certain supervised persons and members of GEM are also licensed, practicing Certified Public Accountants with the firm of Gray, Gray & Gray LLP ("GG&G").

Daniel C. Romano, Managing Member of GEM, is principally responsible for providing advisory services on behalf of GEM.

GG&G may recommend GEM to accounting clients in need of advisory services. GEM may recommend GG&G to advisory clients in need of accounting and tax services. Accounting and tax services provided by GG&G are separate and distinct from advisory services of GEM and are separately compensated. No GEM Client is obligated to use GG&G for any accounting services, and, conversely, no accounting client is obligated to use the advisory services provided by GEM. Information concerning the Client will not be shared except in accordance with all applicable laws and regulations or as authorized by the Client.

Certain members and related persons of GEM are also members of Fuel Exchange, LLC, an affiliate of GG&G. Fuel Exchange, LLC is designed to match buyers and sellers of companies. Neither Mr. Romano nor Mr. Gerry are affiliated with Fuel Exchange, LLC.

It is expected that Mr. Romano may spend as much as 5% of his time on these related activities, and Mr. Gerry may spend as much as 90% of his time with all of these related activities.

## **Affiliations**

Since the Firm endeavors at all times to put the interest of its Clients first as part of its fiduciary duty as a registered investment adviser and takes the following steps to address these conflicts:

1. The Firm discloses to Clients the existence of all material conflicts of interest, including the potential for the Firm and its employees to earn compensation from advisory clients in addition to its advisory fees;
2. The Firm discloses to Clients that they are not obligated to purchase any additional services from the Firm or its employees;
3. The Firm collects, maintains and documents accurate, complete and relevant client background information, including the Client's financial goals, objectives and risk tolerance;
4. Firm management conducts regular reviews of each Client account to verify that all recommendations made to a Client are suitable to the Client's needs and circumstances;
5. The Firm requires that its employees seek prior approval of any outside employment activity so that it may ensure that any conflicts of interests in such activities are properly addressed;
6. The Firm periodically monitors these outside employment activities to verify that any conflicts of interest continue to be properly addressed by the Firm; and
7. The Firm educates its employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to Clients.

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

### **Code of Ethics**

The employees of the Firm have committed to a Code of Ethics that is available for review by Clients and prospective Clients upon request. The Firm will provide a copy of the Code of Ethics to any Client or prospective Client upon request.

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

GEM or individuals associated with GEM may buy or sell securities identical to those recommended to 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.

It is the expressed policy of GEM that no person employed by GEM may purchase or sell any security within 15 days prior to a transaction(s) being implemented for an advisory account, and therefore preventing such employees from benefitting from transactions placed on behalf of advisory accounts.

As these situations represent a conflict of interest, GEM has established the following restrictions in order to ensure its fiduciary responsibilities:

- 1) A member or employee of GEM shall not buy or sell securities for his/her personal portfolio(s) where his/her 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 supervised person of GEM shall prefer his or her own interest to that of the advisory client.
- 2) GEM maintains a list of all securities holdings for itself, and anyone associated with this advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by an appropriate member of GEM.
- 3) GEM emphasizes the unrestricted right of the Client to decline to implement any advice rendered.
- 4) GEM requires that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
- 5) Any individual not in observance with the above may be subject to termination.

## **Personal Trading**

The Chief Compliance Officer of the Firm is Daniel C. Romano. He reviews all employee trades each quarter. His trades are reviewed by James Branch. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that Clients of the Firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades or stock trades, in general the trades do not affect the securities markets.

## **Item 12: Brokerage Practices**

### **Selecting Brokerage Firms and Custodians**

The Firm does not maintain custody of Client assets on which it advises (although it may be deemed to have custody of a Client's assets (see Item 15 – Custody, below). A Client's assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. The Firm recommends that its Clients use Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SIPC, as the qualified custodian. The Firm is independently owned and operated and not affiliated with Schwab. Schwab will hold the Client's assets in a brokerage account and buy and sell securities when the Firm's instructs them to. While the Firm recommends that Clients use Schwab as custodian/broker, the Client will decide whether to do so and open the Client's account with Schwab by entering into an account agreement

directly with them. The Firm does not open the account for Clients. Even though Client accounts are maintained at Schwab, the Firm can still use other brokers to execute trades for the Client's account, as described in the next paragraph.

### **Selection of Brokers/Custodians**

The Firm seeks to recommend a custodian/broker who will hold the Client's assets and execute transactions on terms that are overall most advantageous when compared with other available providers and their services. The Firm considers a wide range of factors, including these:

- Combination of transaction execution services along with asset custody services (generally without a separate fee for custody).
- Capability to execute, clear, and settle trades (buy and sell securities for a Client's account).
- Capabilities to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.).
- Breadth of investment products made available (stocks, bonds, mutual funds, exchange-traded funds (ETFs), etc.).
- Availability of investment research and tools that assist the Firm in making investment decisions.
- Quality of services.
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them.
- Reputation, financial strength, and stability of the provider.
- Their prior service to the Firm and the Firm's other clients.
- Availability of other products and services that benefit the Firm, as discussed below (see "Products and Services Available to the Firm from Schwab").
- The Client's Custody and Brokerage Costs.

For the Firm's Client accounts that it maintains, Schwab generally does not charge a Client separately for custody services but is compensated by charging Clients commissions or other fees on trades that it executes or that settle into a Client's Schwab account.

Schwab's asset-based fees applicable to the Firm's client accounts were negotiated based on the Firm's commitment to maintain \$120,000,000 of the Firm's clients' assets statement equity in accounts at Schwab. This commitment benefits the Client because the overall asset-based fees the Client pays are lower than they would be if the Firm had not made the commitment.

In addition to asset-based fees Schwab charges the Client a flat dollar amount as a "prime broker" or "trade away" fee for each trade that the Firm has executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into the Client's Schwab account. These fees are in addition to the commissions or other compensation the Client pays the executing broker-dealer. Because of this, in order to minimize the Client's trading costs, the Firm has Schwab execute most trades for the Client's account.

### **Products and Services Available to GEM From Schwab**

Schwab Advisor Services™ (formerly Schwab Institutional) is Schwab's business serving independent investment advisory firms like the Firm. They provide the Firm's clients and GEM with access to its institutional brokerage— trading, custody, reporting, and related services— many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help the Firm manage or administer the Firm's clients' accounts, while others help the Firm manage and grow the Firm's business. Here is a more detailed description of Schwab's support services:

*Services That Benefit The Client.* Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which the Firm might not otherwise have access or that would require a significantly higher minimum initial investment by the Firm's clients. Schwab's services described in this paragraph generally benefit the Client and the Client's account.

*Services That May Not Directly Benefit The Client.* Schwab also makes available to the Firm other products and services that benefit the Firm but may not directly benefit the Client or the Client's account. These products and services assist the Firm in managing and administering the Firm's clients' accounts. They include investment research, both Schwab's own and that of third parties. The Firm may use this research to service all or some substantial number of the Firm's client accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to Client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of the Firm's fees from the Firm's Client accounts; and
- assist with back-office functions, recordkeeping, and client reporting.

*Services That Generally Benefit Only The Firm.* Schwab also offers other services intended to help the Firm manage and further develop the Firm's business enterprise. These services include:

- educational conferences and events;
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants, and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to the Firm. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide the Firm with other benefits such as occasional business entertainment of the Firm's personnel.

## **Best Execution**

The Firm reviews the execution by the custodian on a periodic basis. Trading fees charged by the custodians are also reviewed on a quarterly basis. The Firm does not receive any portion of the trading fees.

It is expected that all trades will be referred to Schwab for execution. Schwab, the Client's custodian, transmits customer orders for execution to various exchanges or market centers based on a number of factors. These include size of order, trading characteristics of the security, favorable execution prices (including the opportunity for price improvement), access to reliable market data, availability of efficient automated transaction processing and reduced execution costs through price concessions from the market centers. Certain of the market centers may execute orders at prices superior to the publicly quoted market in accordance with their rules or practices.

GEM or its delegate monitors the execution of trades monthly to make sure they are competitive in the marketplace.

### **Order Aggregation**

Most of the Firm's trades consist of shares of mutual funds or exchange-traded funds where trade aggregation does not garner any Client benefit.

Transactions for each Client generally will be effected independently, unless the Firm decides to purchase or sell the same securities for several Clients at approximately the same time. The Firm may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among the Firm's Clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among the Firm's Clients pro rata to the purchase and sale orders placed for each Client on any given day. The Firm will not receive any additional compensation as a result of the aggregation of orders.

## **Item 13: Review of Accounts**

### **Periodic Reviews**

GEM reviews advisory accounts on a continuous basis and more thoroughly on a quarterly basis. GEM manages the portfolio type and model portfolios to maintain consistency with the Client's IMA. GEM will monitor the performance of the account and the model portfolios / mutual funds / ETFs / hedge fund(s) / private equity / REITs / LPs / business development corporations comprising the account. GEM will rebalance the account when an asset class is out of tolerance by more than 5% for a period of time. Asset managers may also prompt rebalancing trades when making changes to their model portfolio. More frequent reviews and meetings may be triggered by changes in variables such as market, political or economic circumstances, or changes in Client's individual circumstances. Reviews will be conducted by Daniel C. Romano, Paul J Gerry, James Branch, and/or Justin J. Klunder, investment adviser representatives of GEM.

GEM will review financial plans upon Client request. More frequent reviews may be necessary depending on economic changes to Clients. Reviews will be conducted by Daniel C. Romano,



Managing Member of GEM, Paul Gerry, James Branch, and/or Justin J. Klunder, investment adviser representatives of GEM.

### **Review Triggers**

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

### **Regular Reports**

GEM will produce various financial reports for financial planning Clients depending on the Client needs. These reports, produced from information provided by the Client, will be sent to and reviewed with the Clients as requested by the Client.

Each Client will be provided with a custodial statement from Schwab on a monthly basis depending on activity in the account, which will include a detail of account activity during the month (including account holdings, contributions and withdrawals, and the value of the account at the beginning and end of the period). Clients will receive confirmations of the activity in the account. In addition, GEM will provide quarterly performance reports to assist in the monitoring of the account. Clients are urged to compare account statements received from Schwab with those received from GEM.

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

### **Incoming Referrals**

The Firm receives an economic benefit from Schwab in the form of the support products and services it makes available to the Firm and other independent investment advisors that have their clients maintain accounts at Schwab. These products and services, how they benefit the Firm, and the related conflicts of interest are described above (see Item 12 – Brokerage Practices). The availability of Schwab's products and services to the Firm is not based on the Firm's giving particular investment advice, such as buying particular securities for the Firm's clients.

## **Item 15: Custody**

### **Account Statements**

Under government regulations, the Firm is deemed to have custody of the Client's assets if the Client authorizes the Firm to instruct Schwab to deduct the Firm's advisory fees directly from the Client's account. Schwab maintains actual custody of the Client's assets. The Client will receive account statements directly from Schwab on a monthly basis. They will be sent to the email or postal mailing address the Client provided to Schwab. The Client should carefully review those statements promptly when the Client receive them. The Firm also urges the Client to compare Schwab's account statements with the periodic portfolio reports the Client will receive from the Firm.

## Item 16: Investment Discretion

### Discretionary Authority for Trading

The Firm will have investment discretion over Client accounts. Clients grant GEM investment discretion through GEM's Investment Management Agreement.

Clients can place reasonable restrictions on GEM's investment discretion.

## Item 17: Voting Client Securities

### Proxy Votes

The Firm will not vote proxies on securities on behalf of Clients. Therefore, although the GEM may provide investment advisory services relative to client investment assets, Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Therefore, GEM and/or the Client shall as required in each case instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

### Class Actions

The Firm does not advise or act for Clients in any legal proceedings, including bankruptcies or class actions, involving securities held or previously held by the Account or the issuers of these securities.

## Item 18: Financial Information

The Firm does not require or solicit prepayment of more than \$1,200 in fees per Client, six months or more in advance.

The Firm has never filed for bankruptcy nor does it have any financial impairment that will preclude the Firm from meeting contractual commitments to Clients.