

# **INVERNESS COUNSEL, LLC**

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## **FORM ADV, PART 2A, BROCHURE**

This brochure provides information about the qualifications and business practices of Inverness Counsel, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 207-2122. The information contained in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or any state securities authority.

Additional information about Inverness Counsel, LLC is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Inverness is an SEC registered investment adviser. Such registration with the SEC or any state securities authority does not imply a certain level of skill or training.

March 31, 2015

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## **Material Changes**

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### **Annual Update**

Inverness Counsel, LLC (“Inverness,” the “Company” or “we”) is providing this information as part of our annual updating amendment and it reflects certain material changes from our last annual update, which we filed with the SEC as of March 31, 2014.

### **Material Changes Since Last Update**

The SEC adopted amendments to Part 2 of Form ADV, effective October 2010. The revised Part 2 consists of Part 2A (the "Brochure") and Part 2B (the "Brochure Supplement"). Each update of the Brochure must include a summary of all material changes that have occurred since the last annual update.

This Brochure, dated March 31, 2015, sets forth below a summary of material changes that have occurred since our last annual update. Clients are urged to read this Brochure in its entirety.

In January 2015, M.L. Graeme Campbell was promoted and appointed as Director of Wealth Management. Ms. Campbell has been with the Company since 2000. Additionally, in January 2015, Richard H. Chesterton was promoted and appointed as Chief Investment Officer. Mr. Chesterton has been with the Company since 2007, and had served as its Director of Research since December 2013.

## **Advisory Business**

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### **Firm Description**

Inverness is an independent investment counsel firm and investment adviser registered under the Investment Advisers Act of 1940, as amended (the “Act”). Inverness, a Delaware limited liability company, has engaged in the investment counsel business since 1967. Our headquarters are located in New York City. We also have an office in Utah. The Company is primarily engaged in providing continuous investment advice to clients based on their individualized goals and circumstances. We provide our individual, family, trust, tax-exempt organization, pension and profit sharing plan, and institutional clients with a high level of investment advisory services. Our principal objective is to generate wealth enhancement for our clients over the long term.

## **Principal Owners**

There are four principal equity owners of Inverness. ICI (New York) Holdings, LLC beneficially owns over 45% of the outstanding membership interests of the Company. Cromarty Management Corporation, Philip S. Lawrence, the President and Chief Executive Officer of Inverness, and David W. Laughlin, the Chairman of Inverness, each beneficially owns less than 25% of the outstanding membership interests of the Company.

## **Types of Advisory Services**

Inverness provides its clients with a variety of investment advisory services on both discretionary and non-discretionary bases. However, the substantial majority of the Company's assets under management are managed on a discretionary basis. The services rendered by Inverness consist primarily of "investment supervisory services." These are defined under the Act as the providing of continuous advice as to the investment of funds, based on the individualized needs of each client. The advice and services that we provide are tailored to the investment objectives, financial circumstances, risk orientations and expectations of our clients.

Ongoing collaboration and communication are essential aspects of the services that Inverness provides in managing its client accounts. At the outset of a client relationship, Inverness thoroughly discusses with the client (and, often, the client's family and legal and accounting advisors) the client's: overall financial goals, both long-and short-term; financial condition, including asset allocation and liquidity needs; investment experience and history; risk orientation; general and specific investment objectives; and any restrictions or limitations that the client desires to impose on investing in certain issuers or types of securities. In particular, the Company often works closely with its clients in the planning and execution of strategies designed to preserve family wealth and provide for the inter-generational distribution or transfer of such wealth, including through trusts and similar vehicles. Inverness manages its clients' accounts in a manner consistent with the above-described strategies and information that it garners, including compliance with any restrictions or limitations imposed on investments. Importantly, during the period that Inverness manages a client's account, it closely monitors such account in order to ensure that the account continues to meet the above-discussed criteria and makes adjustments, when and as appropriate, to address evolving personal and financial situations, such as changes in risk tolerance or investment restrictions, and changing market conditions.

Inverness regularly provides investment advice to, and makes investments on behalf of, its clients with respect to publicly-traded equity and debt securities. Inverness, from time to time, also recommends alternative investments, which may include hedge funds, private equity funds, real estate investments (including real estate investment trusts) and, to a lesser degree, options, warrants, limited partnership interests and

securities of other unincorporated entities. The Company's general investment strategy is to purchase securities and hold them for significant periods of time.

Inverness also manages some accounts in a manner that does not constitute providing "investment supervisory services" if specifically requested by clients to do so. This type of relationship generally involves providing administrative and supervisory oversight and general investment advice.

### **Tailored Relationships**

We strive to understand the specific financial and personal circumstances of our clients and to tailor our recommendations based on this information. Client relationships are customized based on the individualized objectives, circumstances and risk profiles of our clients. Our goal is to provide the most effective and comprehensive advice and services to our clients.

### **Client Assets**

As of December 31, 2014, Inverness managed client assets of approximately \$2,596,972,537 on a discretionary basis and client assets of approximately \$14,138,026 on a non-discretionary basis.

## **Fees and Compensation**

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### **Fee Schedule Description**

Inverness is compensated for its investment advisory services via payment of annual fees that are based generally on a percentage of the appraised value of a client's assets under management ("AUM"). The specific terms and fee structure payable for the investment services provided by the Company are generally negotiated in advance by the Company and its clients, subject to adjustment in any renewal agreements. The fees payable for new and existing high net worth individual clients range from 0.5% to 1.5% of AUM per annum, depending on a number of factors and circumstances, principally including the size of the account, the account's asset composition and mix, any pre-existing client relationships and the types of client services to be rendered. The fees payable for new and existing institutional clients range from 0.3% to 0.6% of AUM per annum, depending on a number of factors and circumstances, principally including the size of the account and its asset composition and mix. As a general matter, larger accounts are subject to lower annual rates. If the investment services provided by Inverness consist essentially of consultation services, the compensation payable by its clients is generally a negotiated fixed fee.

Clients may make additions to and withdrawals from their accounts at any time, subject to our right to terminate any account. Additions may be in cash or securities,

except that the Company reserves the right, following consultation with a client, to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to Inverness, subject to the usual and customary securities settlement procedures. However, Inverness notes that it generally constructs its portfolios as long-term investments and the withdrawal of assets may negatively impact the achievement of clients' objectives. The Company may consult with its clients about the alternatives to, and implications of, transferring securities.

### Fee Billing

Investment advisory fees are payable quarterly, in advance. Fees are calculated based on Inverness's appraised valuation of the AUM, utilizing the most recent pricing information available, determined as of the close of the last trading day immediately preceding the commencement of the billing period for which advisory services are to be provided. Securities for which there are not current market values are priced using the most recent reasonably available information. If assets are deposited into or withdrawn from an account after the commencement of a billing period, the fees payable with respect to such assets generally are not adjusted or *pro rated* to reflect the change in portfolio value.

A client who terminates its relationship with Inverness prior to a quarter end will receive a refund of any unearned fees. The refund amount will be determined on a *pro rata* daily basis. Clients may either pay the advisory fees owed directly to Inverness or, which is generally the case, instruct the custodial institution(s) that hold their assets to debit and deduct the fees from designated custodial account(s) and pay Inverness on their behalf. The investment advisory agreements with our clients provide that any "assignment" of such agreement by Inverness shall be made only in accordance with the Act and its applicable rules.

### Other Fees

The sole compensation received by Inverness for its investment advisory services is the investment advisory fees payable to it by its clients. Clients may, however, incur certain additional costs payable to third parties. For instance, our clients may be charged custodial fees by the institutions maintaining custody of their assets under management and also may incur mutual fund expenses. Our clients also pay brokerage commissions and other transaction costs to the broker-dealers that effect transactions on their behalf. Please refer to the section of this Brochure below titled "*Selecting Brokerage Firms.*"

In certain circumstances, Inverness may advise its clients to invest in money market funds, mutual funds, exchange traded funds (ETFs) and investment limited partnerships or limited liability companies (including hedge and private equity funds). Clients whose assets are invested in money market funds, mutual funds, ETFs and/or investment limited partnerships or limited liability companies may, directly or indirectly,

pay additional advisory fees to the managers of those investment vehicles. Accordingly, clients in such cases pay fees to both Inverness and outside managers. The advisory fees payable to these entities can vary considerably. Generally, money market fund and ETF fees are significantly lower than those charged by managers of investment limited partnerships or limited liability companies. In addition, the managers of certain private investment partnerships or companies may be paid an amount equal to a percentage of the investment performance generated by such partnerships or companies. The fees charged by managers of equity mutual funds are generally comparable to those charged by Inverness, but may, at times, be higher.

No employees or officers of Inverness accept compensation for the sale of securities or other investment products, including any asset-based charges or service or other fees from the sale of mutual funds.

## **Performance-Based Fees & Side-by-Side Management**

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This section is not applicable to the policies, procedures and practices of Inverness because Inverness does not charge or accept any performance-based fees.

## **Types of Clients**

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### **General Description**

Inverness provides its investment advisory services to individuals, families, trusts, tax-exempt organizations, pension and profit sharing plans, and institutional clients.

### **Account Minimum**

Inverness generally requires clients to have minimum AUM of \$1,000,000, although historically it has made exceptions to the minimum account size on a case-by-case basis, taking into consideration such factors as whether there are other accounts held by family members or related parties, the account's asset composition and mix and the types of client services to be rendered.

## **Methods of Analysis, Investment Strategies and Risks of Loss**

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### **Methods of Analysis**

Inverness provides investment management services to a range of clients, including institutions and high net worth family and trust clients. The Company recognizes that each client is different, with its own return objectives, risk tolerance and constraints, time horizon and liquidity needs. In addition, client mandates, concentrated securities positions and other related issues, as well as the amount of investable assets,



are closely considered by us when constructing investment strategies for clients. For the majority of its clients, Inverness provides actively managed fixed-income and/or equity investment advisory services. Inverness also provides broader asset allocation advice to certain clients based on their specific investment needs and objectives.

Our active management services are driven by fundamental securities analyses. Inverness focuses on long-term investment ideas. Various analytical tools, including proprietary computer screening techniques and third-party research, are used and applied by Inverness's personnel, including the members of its Investment Committee. Written analyses, including financial valuation models and written reports, are generated for each potential investment. Each individual investment is judged on its own particular merits and on how it would contribute to the quantitative and qualitative parameters of a client's portfolio.

Although no two investments are completely alike, we emphasize such significant factors as the issuer's financial strength, the quality of earnings, the strength of its management team, the competitive environment, its competitive position and advantages, prevailing industry and market conditions, and the investment's liquidity. To a significantly lesser extent, we may at times evaluate certain technical and/or trading methods of analyses. These analyses involve the examination and interpretation of past and current market data in determining investment recommendations for our clients and often utilize mathematical-based indicators and charts designed to identify market patterns and trends.

### **Investment Strategies and Risks of Loss**

The Company's general investment strategy is to identify and purchase high-quality investments for its clients and hold them for significant periods. However, short-term trading of securities may be appropriate in certain circumstances.

The exact structure and composition (including types and mix) of securities held in a client's account vary based principally on the client's individual investment objectives, risk orientation and any restrictions or limitations imposed by it. Investing in securities in various asset classes involves certain risks. The primary risks associated with our general investment strategy are active management risk and issuer specific risks.

**Active Management Risk:** Active portfolio management relies largely on the individual manager's ability to define, formulate and implement an agreed upon investment strategy. In addition, if key personnel were to resign or otherwise leave the Company, subsequent managers may be unable to replicate prior investment results.

**Fixed-Income Securities Risk:** In addition to general market risks, macro-economic factors and liquidity issues, the values of fixed income securities are primarily affected by changes in interest rates and credit quality. Typically, a general rise in interest rates causes the trading prices of debt securities to decline. Generally, the longer the maturity of a debt security, the more sensitive the security is to changes in interest rates. There are also risks that an issuer of a debt security will not timely pay all or a portion of the

borrowed principal and/or accrued interest when due or there is a perception that such will occur.

Equity Securities Risk: The values of equity investments are subject to issuer specific matters such as its financial and other condition, operating results and prospects. A company's stock price can be negatively impacted by competitive developments, product demand or supply problems, general industry or sector issues, litigation and various other circumstances and events. The prices of equity securities also fluctuate based on the overall condition of, and prospects for, the general economy and the financial markets. A substantial risk associated with relying on fundamental analyses is that while the overall condition and position of an issuer may be positive, evolving market and/or technical conditions and considerations may negatively impact its securities.

Alternative Investments Risk: For certain clients, Inverness may recommend investing a portion of their funds with selected third-party managers as part of an overall investment strategy designed to provide diversification or to meet certain risk or return expectations or other client goals. Access to these managers may require the client to meet additional SEC-imposed requirements, such as being a qualified investor with a minimum net worth. These managers may also have substantial minimum investment and other requirements that limit client access.

Investments in hedge funds and other private limited liability companies and partnerships have issuer-and security-specific risks, including those mentioned above. In addition, these investments may have risks associated with a lack of liquidity, short selling, limited marketability and pricing difficulties. These private partnerships and companies may employ leverage and have significant exposure to contingent and unknown operational and counter-party risks. Some of these private partnerships and companies may use derivative instruments, such as options, swaps, futures, structured securities or similar instruments, that have certain additional inherent risks and add volatility to the investments. Finally, some of these private partnerships and companies may hold securities or instruments for which market quotations are not readily available. Valuations of such securities are often made by the general partner(s) or manager(s) of the entities and independently verified by administrators. Dispositions of such investments may be protracted and/or result in distributions in-kind to the investors. Many of these private partnerships and companies are not registered under the Investment Company Act of 1940 and, accordingly, investors do not have the protections afforded by such Act and the rules thereunder. There may be other structural and taxation issues that clients should consider and review disclosed in the subscription and offering documents for such investments.

The principal investment strategies pursued by Inverness seek to generate long-term growth while also limiting the risk of loss of capital. Inverness generally seeks to avoid strategies that involve significant or unusual risks. However, every investment involves some risk of loss.

Inverness does not offer advice concerning investments in initial public offerings. If clients seek to purchase securities in initial public offerings, Inverness will transmit the requests and, to the extent practicable, execute purchases on their behalf.

## **Disciplinary Information**

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### **Legal and Disciplinary Events**

Neither Inverness nor any of its management personnel or employees has been involved in any legal or disciplinary event that is material to an evaluation of its investment advisory business or the integrity of its management.

### **Criminal or Civil Actions**

Neither Inverness nor any of its management personnel or employees has been involved in any criminal or civil action that is material to an evaluation of its investment advisory business or the integrity of its management.

### **Administrative Proceedings**

Neither Inverness nor any of its management personnel or employees has been involved in any administrative proceeding that is material to an evaluation of its investment advisory business or the integrity of its management.

### **Self-Regulatory Proceedings**

Neither Inverness nor any of its management personnel or employees has been involved in any self-regulatory proceeding that is material to an evaluation of its investment advisory business or the integrity of its management.

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

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This section is not applicable to the policies, activities or practices of Inverness.

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

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### **Code of Ethics**

In compliance with applicable securities laws, Inverness has adopted and maintains a written Code of Ethics that sets forth specific legal and ethical requirements and restrictions designed to ensure the highest standards of conduct by its employees. Inverness requires its employees to comply with all laws, rules and regulations applicable to its business and operations as well as certain policies and practices of the Company.

All employees are responsible for reviewing the Code of Ethics and acting in compliance with its policies, practices and restrictions in their daily activities. The Code covers all officers and other employees of the Company involved in the development and dissemination of investment advice to clients. These persons are deemed “access persons” under the Code and the Act. The Code expressly provides that the interests of our clients take clear precedence over the interests of the Company and its employees. All access persons are prohibited from using or communicating information, specifically including any material non-public information, for their personal benefit or otherwise to the detriment of any clients of Inverness.

Inverness will provide a copy of its Code of Ethics to any existing or prospective client upon request.

### **Recommending Securities with Material Financial Interest**

Neither Inverness nor any of its employees or officers is permitted to recommend to clients, or to buy or sell for clients’ accounts, any securities in which any of them or any related person has a material financial interest.

### **Investing in Same Securities Recommended to Clients**

All employees of Inverness are directed to avoid investments in their personal accounts that could impair their ability to make disinterested investment judgements or recommendations to clients. However, Company employees are permitted to buy or sell securities that they also recommend to clients if such transactions are effected in compliance with the Code, specifically including the restriction described in the next sentence. All employees must wait at least 15 days from the date of any recommendation made by the Investment Committee before effecting any transactions in securities that have been recommended for our clients, either for themselves or for accounts in which they have a beneficial interest

All Company employees are required to report their personal holdings and account transactions on a regular basis and that activity is reviewed by and, as applicable, subject to the approval of our Chief Compliance Officer. Subject to certain limited exceptions, all Company employees must obtain pre-approval of any investments that they seek to make, including in any initial public offerings and private offerings, and are required to hold securities positions for at least 15 days. Upon their discovery, any violations or conflicts are required to be promptly reported to, and addressed by, our Chief Compliance Officer and Chief Executive Officer. In such events, these officers will determine the appropriate sanctions to be imposed on non-complying employees, which may include forfeiture of privileges and/or compensation, lack of promotion, demotion or even termination.

As stated above, Company employees may engage in transactions only after 15 days have elapsed from the date of the recommendation to clients. Accordingly, it is possible that Company employees may seek to effect transactions at the same time(s) as transactions for clients are being effected by Inverness. Please refer to the section of this Brochure below titled “*Brokerage Practices*” for more information regarding order aggregation. Inverness may encounter situations when it is appropriate for more than one account to purchase or sell a particular security at the same time(s), but the investment opportunity is limited. In those situations, Inverness employees are not permitted to trade for a period of time so as to first afford clients the investment opportunity. Inverness allocates trading opportunities among its clients in such situations on a *pro rata* basis, based on relative client demand, in order to make equitable allocations.

## Brokerage Practices

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### Selecting Brokerage Firms

Inverness’s investment advisory agreements specify whether Inverness or its client will be responsible for selecting the broker-dealer(s) to execute securities transactions. A client may specifically direct Inverness to execute the client’s trades through one or more designated broker-dealers. Certain consequences may result with respect to such directed brokerage activities. In particular, a client may not achieve the best execution of its transactions and may incur higher brokerage costs. Commission rates charged to individual clients by directed brokers are frequently higher than those negotiated by Inverness, principally by virtue of the volume of transactions effected by Inverness. In directed brokerage situations, Inverness may not be able to negotiate lower commissions or aggregate orders in order to reduce transaction costs.

Inverness selects the broker-dealers and commission rates when a client does not specifically designate a broker-dealer for its account. Inverness makes such selections throughout the term of the client’s relationship, often selecting different broker-dealers for different transactions. Inverness considers the full range and quality of a broker-dealer’s services before engaging it, including its execution capability, commission rates, financial responsibility, responsiveness and effectiveness in clearing and settling trades, and the value of any research it provides. In seeking best execution, the determinative factor is whether the transaction represents the best qualitative execution, taking into consideration the above-described broker-dealer services. Inverness seeks competitive rates, but may not necessarily obtain the lowest possible commission rates for its clients. Also, some larger client accounts may pay lower rates than other accounts.

In selecting or recommending broker-dealers for or to its clients, neither the Company nor any of its related persons considers whether it would receive client referrals from a broker-dealer or other entity. Additionally, the Company does not use, or

recommend to its clients, any broker-dealer of which the Company is a related person and neither the Company nor any of its related persons receives any direct or indirect compensation for referring any of the Company's clients to a particular broker-dealer(s).

### **Research and Soft Dollars**

Inverness does not have any formal "soft dollar" agreements. However, it is possible that, in recognition of the value of the services provided to the Company by a particular broker-dealer, commissions may, from time to time, be higher than what another broker-dealer would charge.

Inverness bases its decisions in obtaining brokerage services on various factors. These principally include the commission rates, execution and processing capabilities, general service, and access to proprietary and third-party research or market opinions. As a result, clients may pay commissions to certain broker-dealers that are higher than if the trades were directed to broker-dealers that provided trade execution service only. Some of the services received by, or made available to, the Company in the past have consisted of oral and written output of research departments, access to field reports for industries and issuers, supporting statistical data, as well as seminars, meetings and forums sponsored by certain broker-dealers. To the extent that brokerage commissions are used to obtain research or other products and services, we and certain clients, particularly those who direct their brokerage activities, receive a benefit because we and they do not have to separately generate or pay for such research, products or services. As a result, we may, from time to time, have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products and services provided by such broker-dealer.

In general, Inverness negotiates commission rates that it believes are reasonable and competitive in comparison to prevailing industry standards. Inverness utilizes a qualified independent third party to conduct a trade cost analysis and review, evaluate and track its best execution efforts. Such third party delivered a written report to the Company's management, dated as of February 12, 2015, that reviewed and evaluated the trading activity conducted during the second half of 2014. A copy of the report is available to our clients upon their request. The Company's Investment Committee meets periodically to review its "best execution" efforts, including approving the broker-dealers engaged and the commission rates being paid, and makes adjustments whenever it deems them appropriate in a continuing effort to achieve best execution for our clients.

The research and other products or services provided by a broker-dealer for particular client accounts may, from time to time, be used to service other clients' accounts. To the extent practicable, we attempt to use such research and other products and services to benefit as many client accounts as is viable. Because of the nature of the services and products, and the fact that different client accounts have different investment

objectives and asset allocations, it is not feasible for us to allocate these benefits, or these costs, among client accounts proportionally. This difficulty is additionally attributable to the large volume of securities transactions involved, the varying sizes of the different orders and our large number of accounts. Accordingly, any proportionate allocation of research and other benefits would be extremely difficult.

### **Order Aggregation**

Transactions for each client will generally be effected independently, unless Inverness determines to purchase or sell the same securities for several clients at approximately the same time(s). In such situations, Inverness may (but is not obligated to) combine or "bunch" orders in order to obtain best execution or to equitably allocate among its clients any differences in prices and/or commissions paid. Under this method, transactions are generally averaged as to price and allocated among the clients. The effect is that, to the extent practicable, similarly situated clients will receive the same purchase or sale price for trades placed at or about the same time. Inverness believes that its clients often may benefit from a more orderly execution of transactions when the transactions are effected simultaneously. Also, as a result, no client is favored over another in terms of purchase or sale price.

Inverness may occasionally encounter situations where more than one client account is interested in purchasing or selling the same security, but the investment opportunity is limited. As a fiduciary, Inverness has an obligation to allocate investment opportunities fairly. Inverness allocates such investment opportunities among its clients with similar investment profiles on a *pro rata* basis, based on the relative demand of such clients, as evidenced by the respective purchase and sale orders placed for such clients on any given day. Accordingly, Inverness does not favor one account over another or delay in allocating investment opportunities among its clients' accounts.

## **Review of Accounts**

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### **Periodic Reviews**

Our portfolio managers and the members of our Investment Committee review all of our advisory accounts at least monthly. Each portfolio manager oversees about 15 to 20 client relationship groups. The reviews are carried out within the framework of the investment policies and restrictions established and/or modified by the members of the Investment Committee at its weekly meetings. These policies and restrictions are adjusted and refined to meet our clients' objectives, as set forth in their respective investment advisory agreements.

The Inverness Investment Committee is presently composed of the following 11 individuals:

Philip S. Lawrence  
*(President and CEO)*

David G. Hyun  
*(Vice President)*

David Laughlin  
*(Chairman and Manager)*

Adrian Sancho  
*(Vice President)*

Richard Chesteron  
*(Chief Investment Officer)*

John Rochford  
*(Senior Vice President)*

M.L. Greame Campbell  
*(Director of Wealth Management)*

Burt Kobylivker  
*(Vice President)*

Henry P. Renard  
*(Executive Vice President)*

Micheal V. Crill  
*(Vice President)*

Robert K. Maddock  
*(Senior Vice President)*

### **Review Triggers**

Additional reviews may be triggered by clients' requests, any adjustments to our investment recommendations, policies or restrictions or certain changes in economic or financial circumstances. These reviews can result in changes in the size, composition and mix of an account's holdings.

### **Regular Reports**

We furnish our clients with account statements of their holdings, listing their assets under management, by mail, on at least a quarterly basis (and more frequently if so requested by a client). Regular oral or written communications are supplemented by periodic meetings with clients. These meetings may include accountants, attorneys or other advisors of the clients.

## **Client Referrals and Other Compensation**

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### **Economic Benefit**

Inverness does not compensate any outside third parties for client referrals. Inverness does not presently engage any third-party solicitors.

### **Third-Party Solicitors**

The so-called cash solicitation rule under the Act provides that an investment adviser required to be registered with the SEC may not pay any cash compensation to a



third-party solicitor for client referrals unless the investment adviser complies with certain conditions. These conditions are that payments must be in accordance with a written agreement to which the adviser is a party and the clients of the investment adviser must be provided with certain disclosure intended to alert them that the solicitor is being compensated by the adviser for making such referrals. The cash solicitation rule is intended to address conflicts of interest inherent in solicitation arrangements.

In the event that, in the future, Inverness engages in any third-party solicitation arrangements, we will require that each solicitor, at the time of any solicitation activities, provide our clients with a separate written document that contains, among other items, the following:

- the names of the solicitor and us;
- a description of the nature of the relationship between the solicitor and us;
- a statement that the solicitor will be compensated by us; and
- the terms of the compensation arrangement.

Compensation for any third-party solicitors would consist of a percentage of the fees received by Inverness from any solicited client during the period that such client remains a client of Inverness. The compensation payable to the third party would solely come from the fees paid to Inverness. As a result, there would be no difference in the fees payable by comparable solicited and non-solicited clients of the Company. Prior to receiving any fees from Inverness, the solicitor would be required to obtain a written confirmation from the client that it had received both the solicitor's disclosure document and our most recent Form ADV, Part 2A.

## Custody

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### Account Statements

Inverness does not have physical custody of any client's assets. Inverness also does not have direct access to its client funds as they are maintained with "independent qualified custodians" in accordance with the Act. However, clients often request and authorize Inverness to effect transfers or distributions of their assets to third parties in ways that extend beyond the mere direction to broker-dealers to execute transactions and that may constitute "custody" under the Act. Similarly, a client may authorize Inverness to effect the purchase of securities against payment by the client's account or the sale of securities from such account against receipt of payment. In certain circumstances, Inverness also may be deemed to have custody when it acts as a trustee or in a similar capacity.

In order to help ensure that client assets are secure from conversion or other inappropriate use by its personnel, Inverness is subject to an annual “surprise” custody examination by an independent third party. Such examination reviews if Inverness was acting in compliance with the custody requirements set forth under the Act and the rules thereunder. Such third party conducted an examination of the Company’s compliance with the applicable custody requirements of the Act and such rules as of September 30, 2014 and for the 15-month period then ended. It issued a report, dated January 27, 2015, stating its opinion that Inverness was in compliance with such requirements.

Inverness reasonably believes that the qualified custodians engaged by or on behalf of the Company’s clients send at least quarterly account statements (by mail or electronically) to such clients and that such statements identify the funds and securities held in the accounts as at the end of each period and set forth all transactions effected during the described period. In order to establish its reasonable belief that its clients are receiving account statements from the qualified custodian(s), Inverness receives duplicate copies of all such account statements delivered via mail and takes various steps to verify that the respective mailing and/or e-mail addresses of its clients are (and remain) correct, including requiring that Inverness be copied on e-mail transmissions to the clients. Inverness regularly performs reconciliations of its client statements and the clients’ custodian statements in order to ensure their accuracy and consistency. Inverness urges its clients also to compare their written Inverness account statements with the account statements received by them from custodians for the same periods.

We collect certain non-public personal information about our clients from information provided in clients’ interviews, investment advisory agreements, financial profiles and other information provided to us in writing, in person, by telephone, electronically or by other means. Inverness is committed to protecting the confidentiality of the information furnished to us by our clients. We maintain physical, electronic and procedural safeguards that comply with applicable federal and state laws and regulations to protect our clients’ non-public personal information. In particular, Inverness, as required by federal law, provides its clients with initial and annual privacy notices even if it does not share client information with any other persons. Inverness provides an initial privacy notice no later than the outset of the client relationship.

The Company has also adopted and implemented policies and practices designed to comply with the requirements of federal Regulation S-ID concerning matters of identity theft and related issues. These policies and practices cover both new and existing accounts. The Company believes that the policies and procedures it has adopted are reasonably designed to adequately detect, prevent and mitigate instances of identity theft relating to its clients’ accounts.

## Investment Discretion

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### Discretionary Authority for Trading

Inverness generally accepts discretionary authority to manage securities accounts for and on behalf of its clients. In order to effectuate this authority, the clients must grant a limited power of attorney to Inverness. This document affords Inverness the authority to act on behalf of its clients to determine: (i) the types of securities to be bought and sold; (ii) the amounts of securities to be bought and sold; (iii) the timing of any transactions; (iv) the broker-dealers to be used for order execution; and (v) the commission rates (or mark-ups and mark-downs) to be paid.

### Limited Authority

The limitations on such grants of authority are determined by the specific limitations and restrictions agreed to with the client and the policies of our Investment Committee. The amounts and types of any securities bought or sold are subject to these limitations and restrictions. In particular, significant consideration is given by the Company to the diversification and asset distribution of our clients' discretionary accounts. The selection of investments and broker-dealers and the commission rates payable are governed by the internal policies and procedures of Inverness, which are implemented by the Investment Committee. Clients may impose additional restrictions and limitations on the investment and other authority granted to Inverness if they so elect.

## Voting Client Securities

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### Proxy Votes

Inverness has adopted proxy voting policies and procedures that cover the following actions relating to clients' proxies that may be taken by Inverness:

- voting, including abstentions, of proxies with respect to securities owned by its clients;
- identifying and resolving any conflicts of interest between such clients and Inverness that may exist with respect to such voting;
- archiving of related records; and
- disclosing and producing records upon clients' requests.

The substantial majority of the Company's account holders does not direct or authorize us to vote proxies on their behalf and they receive proxies directly from the financial institutions at which their securities are held in custody. For those clients that have directed (in writing) Inverness to vote their proxies, Inverness will vote such proxies in a manner that it believes to be in the clients' best interests. The Company's written statement of proxy policies and procedures are designed to effectuate this objective. In

particular, it is the policy of Inverness to identify and recommend actions to be taken for the benefit of the client if and when conflicts of interest arise. In the event of a conflict, clients may instruct Inverness, in writing, on how to vote their proxies and Inverness will comply with any such instructions. If such written direction is not obtained in a conflict situation, Inverness will not vote any proxies in respect of any issue presenting a conflict on behalf of such clients. Inverness has an obligation to forward all proxy materials that it may receive to clients that do not authorize or direct it to vote their proxies. Clients may obtain information as to how Inverness voted proxies relating to their securities by contacting the Company directly.

A written copy of the proxy voting policies and procedures of Inverness are available by contacting us at (212) 207-2122.

## **Financial Information**

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### **Financial Condition**

Because Inverness neither maintains custody of client funds or securities nor requires or solicits the prepayment of fees amounting to more than \$1,200 per client for a period of six months or more in advance, a balance sheet of Inverness is not required by the Act to be included herewith.

Inverness has never been in a precarious financial condition and has never filed a bankruptcy petition.