

# Pennington Partners & Co., LLC

## Brochure

**Dated: April 27, 2016**

3 Bethesda Metro Center, Suite 700  
Bethesda, Maryland 20814

**This brochure provides information about the qualifications and business practices of Pennington Partners & Co., LLC (“Pennington Partners”). If you have any questions about the contents of this brochure, please contact us at (202)-370-6435. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Pennington Partners also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**References herein to Pennington Partners as a “registered investment adviser” or any reference to being “registered” does not imply a certain level of skill or training.**

## **Item 2            Material Changes**

This is Pennington Partners' initial filing.

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## **Item 4            Advisory Business**

- A. Pennington Partners & Co., LLC (“Pennington Partners”) is a limited liability company formed in January 2016 in the State of Delaware. Pennington Partners is principally owned by Brian Gaister. Pennington Partners became an SEC registered Investment Adviser Firm in February 2016.

B.

### **INVESTMENT ADVISORY SERVICES**

Pennington Partners provides discretionary and non-discretionary investment advisory services on a wrap and non-wrap fee basis. (See discussion below). If a client determines to engage the Registrant on a wrap fee basis the client will pay a single fee for bundled services (i.e. investment advisory, brokerage, custody). However, if the client determines to engage the Registrant on a non-wrap fee basis the client will select individual services on an unbundled basis, paying for each service separately (i.e. investment advisory, brokerage, custody).

### **NON-WRAP FEE BASIS**

Pennington Partners may provide discretionary and/or non-discretionary investment advisory services on a non-wrap *fee* basis. Pennington Partners’ annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under Pennington Partners’ management (generally between negotiable and 1.50%) to be charged quarterly in advance.

Pennington Partners's annual investment advisory fee shall include investment advisory services, and, to the extent specifically requested by the client, financial planning and consulting services. In the event that the client requires extraordinary planning and/or consultation services (to be determined in the sole discretion of Pennington Partners), Pennington Partners may determine to charge for such additional services, the dollar amount of which shall be set forth in a separate written notice to the client.

### **PENNINGTON PARTNERS WRAP PROGRAM**

Pennington Partners may provide discretionary and non-discretionary investment management services on a wrap fee basis in accordance with Pennington Partners’ investment management wrap fee program (the “Program”). The services offered under, and the corresponding terms and conditions pertaining to, the Program are discussed in the Wrap Fee Program Brochure, a copy of which is presented to all prospective Program participants. Under the Program, Pennington Partners is able to offer participants discretionary or non-discretionary investment management services, for a single specified annual Program fee, inclusive of trade execution, custody, reporting, account maintenance, investment management fees, and in some instances, fees charged by independent managers and/or separately managed accounts. However, clients may be responsible for, but not limited to, trustee fees, mutual fund expenses, ETF expenses, mark-ups, mark-downs, transfer taxes, fees charged by independent managers and/or separately managed accounts (when such managers require the client to enter into a dual contract relationship) odd lot differentials, exchange fees, interest charges, American Depository Receipt agency processing fees, and any charges, taxes or other fees mandated by any federal, state or other applicable law or otherwise agreed to with regard

to client accounts (Such fees are in addition to any fees paid by the client to Pennington Partners and are between the client and the account custodian). The current annual Program fee ranges from negotiable to 1.60%, depending upon the complexity of the account, the amount of the client assets in the Program and the independent/separately managed accounts utilized by the client's investment portfolio.

The terms and conditions for client participation in the Program are set forth in detail in the Wrap Fee Program Brochure, which is presented to all prospective Program participants in accordance with disclosure requirements. All prospective Program participants should read both Pennington Partners' Brochure and the Wrap Fee Program Brochure, and ask any corresponding questions that they may have, prior to participation in the Program.

Please Note: As indicated in the Wrap Fee Program Brochure, participation in the Program may cost more or less than purchasing such services separately. When managing a client's account on a wrap fee basis, Pennington Partners shall receive as payment for its asset management services, the balance of the wrap fee after all other costs (including account transaction fees) incorporated into the wrap fee have been deducted. As also indicated in the Wrap Fee Program Brochure, the Program fee charged by Pennington Partners for participation in the Program may be higher or lower than those charged by other sponsors of comparable wrap fee programs.

Conflict of Interest: Because Program transaction fees and/or commissions are being paid by Pennington Partners to the account custodian/broker-dealer, Pennington Partners could have an economic incentive to maximize its compensation by seeking to minimize the number of trades in the client's account. Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the corresponding conflict of interest a wrap fee arrangement may create.

### **CONCIERGE WEALTH SERVICES**

Pennington Partners makes available to clients with at least \$10,000,000 in assets under management or who meet our retainer fee of \$100,000, the following wealth services to be provided by an unaffiliated third party:

- Family Wealth Coaching Sessions
- Access to an Estate Attorney
- Tax Services
- Health Management

Pennington Partners will suggest third party service providers for each of the services listed above. Eligible clients may work with the third party service provider of their choosing. Pennington Partners shall be responsible for up to \$10,000 of aggregate expense associated with these services. No client is under any obligation to utilize this resource and the client retains absolute discretion over all decisions made based upon guidance provided. Please Note: If a dispute arises relative to any service rendered by an unaffiliated third party, the client agrees to seek recourse exclusively from and against the engaged professional.

## RETIREMENT PLAN CONSULTING

Pennington Partners also provides non-discretionary retirement plan consulting services, pursuant to which it assists sponsors of self-directed retirement plans with the selection and/or monitoring of investment alternatives (generally open-end mutual funds) from which plan participants shall choose in self-directing the investments for their individual plan retirement accounts. In addition, to the extent requested by the plan sponsor, Pennington Partners shall also provide participant education designed to assist participants in identifying the appropriate investment strategy for their retirement plan accounts. The terms and conditions of the engagement shall generally be set forth in a Retirement Plan Consulting Agreement between Pennington Partners and the plan sponsor.

## FINANCIAL PLANNING AND CONSULTING SERVICES

To the extent requested by a client, Pennington Partners may be engaged to provide a client with a onetime financial plan without ongoing investment management services on a stand-alone separate fee basis. Pennington Partners' planning and consulting fees are negotiable, but generally range from \$2,500 to \$25,000 on a fixed fee basis, and from \$250 to \$550 on an hourly basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s). Prior to engaging Pennington Partners to provide planning or consulting services on a stand-alone basis, clients are generally required to enter into a *Financial Planning and Consulting Agreement* with Pennington Partners setting forth the terms and conditions of the engagement (including termination), describing the scope of the services to be provided, and the portion of the fee that is due from the client prior to Pennington Partners commencing services.

If requested by the client, Pennington Partners may recommend the services of other professionals for implementation purposes, including certain of Pennington Partners' representatives in their individual capacities as licensed insurance agents. (*See* disclosure at Item 10.C). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Pennington Partners. Please Note: If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. Please Also Note: It remains the client's responsibility to promptly notify Pennington Partners if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/ evaluating/ revising Pennington Partners' previous recommendations and/or services.

## MISCELLANEOUS

**Non-Investment Consulting/Implementation Services.** To the extent requested by the client, Pennington Partners may provide consulting services regarding non-investment related matters, such as estate planning, insurance, etc. Neither Pennington Partners, nor any of its representatives, serves as an attorney or an accountant and no portion of Pennington Partners' services should be construed otherwise. To the extent requested by a client, Pennington Partners may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.), including certain of Pennington Partners' representatives in their individual

capacities as registered representatives and/or licensed insurance agents, as discussed below. The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Pennington Partners. Please Note: If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional.

**Private Investment Funds.** Pennington Partners may provide investment advice regarding unaffiliated private investment funds. Pennington Partners' role relative to the private investment funds shall be limited to its initial and ongoing due diligence and investment monitoring services. If a client determines to become a private fund investor, the amount of assets invested in the fund(s) shall be included as part of "assets under management" for purposes of Pennington Partners calculating its investment advisory fee. Pennington Partners' clients are under absolutely no obligation to consider or make an investment in a private investment fund(s).

Please Note: Private investment funds generally involve various risk factors, including, but not limited to, potential for complete loss of principal, liquidity constraints and lack of transparency, a complete discussion of which is set forth in each fund's offering documents, which will be provided to each client for review and consideration. Unlike liquid investments that a client may maintain, private investment funds do not provide daily liquidity or pricing. Each prospective client investor will be required to complete a Subscription Agreement, pursuant to which the client shall establish that he/she is qualified for investment in the fund, and acknowledges and accepts the various risk factors that are associated with such an investment.

Please Also Note: Valuation. In the event that Pennington Partners references private investment funds owned by the client on any supplemental account reports prepared by Pennington Partners, the value(s) for all such private investment funds shall reflect either the initial purchase and/or the most recent valuation provided by the fund sponsor. If the valuation reflects the initial purchase price (and/or a value as of a previous date), the current value(s) (to the extent ascertainable) could be significantly more or less than the original purchase price.

**Independent Managers/Separately Managed Accounts.** Pennington Partners generally recommends that clients authorize the active discretionary management of all or a portion of their assets by and/or among certain independent investment manager(s) and/or separately managed accounts ("Independent Manager(s)"). To the extent applicable, Pennington Partners shall recommend Independent Managers consistent with the client's investment objectives. Factors which Pennington Partners shall consider in recommending Independent Managers include the client's stated investment objective(s), management style, performance, reputation, financial strength, reporting, pricing, and research.

The specific terms and conditions under which the client engages an Independent Manager may be set forth in a separate contract between the client and the Independent Manager. Also, when required, the client shall receive a copy of the Independent Manager's disclosure Brochure. As noted above, when an Independent Manager requires the client to enter into a dual contract relationship, the Independent Manager's fee shall be separate from and in addition to Pennington Partners' Wrap Program fee if the client

had engaged Pennington Partners on a wrap fee basis. However, in such circumstances Pennington Partners shall continue to render advisory services to the client relative to the ongoing monitoring and reviewing of account performance, for which Pennington Partners shall receive an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated Independent Manager.

**Sub-Advisory Arrangements.** Pennington Partners may engage sub-advisors for the purpose of assisting with the management of its client accounts. The sub-advisor(s) shall have discretionary authority for the day-to-day management of the assets that are allocated to it by Pennington Partners. The sub-advisor shall continue in such capacity until such arrangement is terminated or modified by sub-advisor or Pennington Partners. Pennington Partners will render ongoing and continuous advisory services to the client relative to the monitoring and review of account performance, client investment objectives, and asset allocation. Pennington Partners shall pay a portion of the investment advisory fee received for these allocated assets to the sub-advisor for its sub-advisory services. Pennington Partners' Chief Compliance Officer remains available to address any questions concerning the Registrant's sub-advisory arrangements.

**Please Note: Non-Discretionary Service Limitations.** Clients that determine to engage Pennington Partners on a non-discretionary investment advisory basis must be willing to accept that Pennington Partners cannot effect any account transactions without obtaining prior consent to any such transaction(s) from the client. Thus, in the event of a market correction during which the client is unavailable, Pennington Partners will be unable to effect any account transactions (as it would for its discretionary clients) without first obtaining the client's consent.

**Use of Mutual Funds.** Most mutual funds are available directly to the public. Thus, a client or prospective client can obtain many of the mutual funds that may be recommended and/or utilized by Pennington Partners independent of engaging Pennington Partners as an investment advisor. However, if a client or prospective client determines to do so, he/she/it will not receive the benefit of Pennington Partners' initial and ongoing investment advisory services.

**Retirement Rollovers:** A client leaving an employer typically has four options (and may engage in a combination of these options): i) leave the money in his former employer's plan, if permitted, ii) roll over the assets to his new employer's plan, if one is available and rollovers are permitted, iii) rollover to an IRA, or iv) cash out the account value (which could, depending upon the client's age, result in adverse tax consequences). Pennington Partners may recommend an investor roll over plan assets to an Individual Retirement Account (IRA) managed by Pennington Partners. As a result, Pennington Partners and its representatives may earn an asset-based fee. In contrast, a recommendation that a client or prospective client leave his or her plan assets with his or her old employer or roll the assets to a plan sponsored by a new employer will generally result in no compensation to Pennington Partners (unless you engage Pennington Partners to monitor and/or manage the account while maintained at your employer). Pennington Partners has an economic incentive to encourage an investor to roll plan assets into an IRA that Pennington Partners will manage or to engage Pennington Partners to monitor and/or manage the account while maintained at your employer. There are various factors that Pennington Partners may consider before recommending a rollover, including but not limited to: i) the investment options available in the plan versus the investment options available in an IRA, ii) fees and expenses in the plan versus the fees and expenses in an

IRA, iii) the services and responsiveness of the plan's investment professionals versus Pennington Partners', iv) protection of assets from creditors and legal judgments, v) required minimum distributions and age considerations, and vi) employer stock tax consequences, if any. No client is under any obligation to rollover plan assets to an IRA managed by Pennington Partners or to engage Pennington Partners to monitor and/or manage the account while maintained at your employer. Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above and the corresponding conflict of interest presented by such engagement.

**Cash Positions.** At any specific point in time, depending upon perceived or anticipated market conditions/events (there being no guarantee that such anticipated market conditions/events will occur), Pennington Partners may maintain cash positions for defensive purposes. All cash positions (money markets, etc.) shall be included as part of assets under management for purposes of calculating Pennington Partners' advisory fee.

**Please Note:** When the account is holding cash positions, those cash positions will be subject to the same fee schedule as set forth below in Item 5. Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above fee billing practice.

**Client Obligations.** In performing its services, Pennington Partners shall not be required to verify any information received from the client or from the client's other professionals, and is expressly authorized to rely thereon. Moreover, each client is advised that it remains his/her/its responsibility to promptly notify Pennington Partners if there is ever any change in his/her/its financial situation or investment objectives for the purpose of reviewing/evaluating/ revising Pennington Partners' previous recommendations and/or services.

**Disclosure Statement.** A copy of Pennington Partners' written Brochure as set forth on Part 2 of Form ADV shall be provided to each client prior to, or contemporaneously with, the execution of the *Investment Advisory Agreement* or *Financial Planning and Consulting Agreement*.

- C. Pennington Partners shall provide investment advisory services specific to the needs of each client. Prior to providing investment advisory services, an investment adviser representative will ascertain each client's investment objective(s). Thereafter, Pennington Partners shall allocate and/or recommend that the client allocate investment assets consistent with the designated investment objective(s). The client may, at anytime, impose reasonable restrictions, in writing, on Pennington Partners' services.
- D. There is no material difference between how the Registrant manages wrap fee and non-wrap fee accounts. However, as stated above, If a client determines to engage the Registrant on a wrap fee basis the client will pay a single fee for bundled services (i.e. asset management, brokerage, custody) (See Item 4.B). The services included in a wrap fee agreement will depend upon each client's particular need.

**Please Note:** When managing a client's account on a wrap fee basis, Pennington Partners shall receive as payment for its asset management services, the balance of the wrap fee after all other costs (including account transaction fees) incorporated into the wrap fee have been deducted.



Conflict of Interest: Because Program transaction fees and/or commissions are being paid by Pennington Partners to the account custodian/broker-dealer, Pennington Partners could have an economic incentive to maximize its compensation by seeking to minimize the number of trades in the client's account. Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the corresponding conflict of interest a wrap fee arrangement may create.

- E. As of January 21, 2016, Pennington Partners had \$0 in assets under management on either a discretionary or non-discretionary basis.

## **Item 5            Fees and Compensation**

A.

### **NON-WRAP BASIS**

Pennington Partners may be engaged to provide discretionary and non-discretionary investment advisory services on a non-wrap fee basis. Pennington Partners' annual investment advisory fee shall be based upon a percentage (%) of the market value and type of assets placed under Pennington Partners' management, generally between 0.40% and 1.50%. as follows:

<u>PORTFOLIO VALUE</u>	<u>ANNUAL FEE</u>
\$0 - \$10,000,000	1.50%
\$10,000,001 - \$30,000,000	0.75%
\$30,000,001 - \$50,000,000	0.50%
\$50,000,001 & Up	0.40%

### **PENNINGTON PARTNERS WRAP PROGRAM**

Pennington Partners provides investment management services on a wrap fee basis in accordance with Pennington Partners' investment management wrap fee program (the "Program"). Under the Program, Pennington Partners is able to offer participants discretionary and non-discretionary investment management services, for a single specified annual Program fee, inclusive of trade execution, custody, reporting, account maintenance, investment management fees and in some instances, fees charged by independent managers and/or separately managed accounts (clients will receive an Independent Manager's advisory agreement and Disclosure Statement should Pennington Partners choose to engage a manager who will charge a separate fee in addition to the Program fee). The current annual Program fee ranges from negotiable to 1.60%, depending upon the amount and type of the Program assets. The services offered under, and the corresponding terms and conditions pertaining to the Program are discussed in the Wrap Fee Program Brochure.

The Wrap Fee Program Brochure is presented to all prospective Program participants in accordance with disclosure requirements. All prospective Program participants should read both Pennington Partners' Brochure and the Wrap Fee Program Brochure, and ask any corresponding questions that they may have, prior to choosing to participate in the Program.

## RETIREMENT CONSULTING

Pennington Partners' non-discretionary pension consulting fee is based upon the market value of the assets in the plan. Each client's fee schedule is dependent upon services provided and is clearly detailed in Retirement Plan Consulting Agreement executed by the client. However, Pennington Partners typically charges between 1.00% and negotiable for pension consulting services.

## FINANCIAL PLANNING AND CONSULTING SERVICES FEES

To the extent requested by a client, Pennington Partners may determine to provide financial planning and/or consulting services (including investment and non-investment related matters, including estate planning, insurance planning, etc.) on a stand-alone fee basis. Pennington Partners' planning and consulting fees are negotiable, but generally range from \$2,500 to \$25,000 on a fixed fee basis, and from \$250 to \$550 on an hourly basis, depending upon the level and scope of the service(s) required and the professional(s) rendering the service(s).

- B. Clients may elect to have Pennington Partners' advisory fees deducted from their custodial account. Both Pennington Partners' *Investment Advisory Agreement* and the custodial/clearing agreement may authorize the custodian to debit the account for the amount of Pennington Partners' investment advisory fee and to directly remit that management fee to Pennington Partners in compliance with regulatory procedures. In the limited event that Pennington Partners bills the client directly, payment is due upon receipt of Pennington Partners' invoice. Pennington Partners shall deduct fees and/or bill clients quarterly in advance, based upon the market value of the client's assets on the last business day of the previous quarter.
- C. As discussed below, unless the client directs otherwise or an individual client's circumstances require, Pennington Partners shall generally recommend a broker-dealer/custodian to the client to custody their investment management assets. Broker-dealers charge brokerage commissions and/or transaction fees for effecting certain securities transactions (i.e. transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and fixed income securities transactions). Please Note: Participants in the Program will not incur brokerage commissions and/or transaction fees in addition to the Program fees. However, clients may incur, relative to all mutual fund and exchange traded fund purchases, charges imposed at the fund level (e.g. management fees, IRA and qualified retirement plan fees, surrender charges and other fund expenses).

**Tradeaway/Prime Broker Fees.** Relative to its discretionary investment management services, when beneficial to the client, individual fixed income transactions may be effected through broker-dealers other than the account custodian, in which event, the executing broker-dealer will charge a fee (commission, mark-up/mark-down) and a separate "tradeaway" and/or prime broker fee will be charged by the account custodian. Pennington Partners' Program fee is inclusive of such fees and client will not incur any additional expense when tradeaway and/or prime broker fees are charged.

- D. Pennington Partners' annual investment advisory fee shall be prorated and paid quarterly, in advance, based upon the market value of the client's assets on the last business day of the previous quarter. The *Investment Advisory Agreement* between Pennington Partners

and the client will continue in effect until terminated by either party by written notice in accordance with the terms of the *Investment Advisory Agreement*. Upon termination, Pennington Partners shall refund the pro-rated portion of the advanced advisory fee paid based upon the number of days remaining in the billing quarter.

- E. Neither Pennington Partners, nor its representatives accept compensation from the sale of securities or other investment products.

## **Item 6            Performance-Based Fees and Side-by-Side Management**

Neither Pennington Partners nor any supervised person of Pennington Partners accepts performance-based fees.

## **Item 7            Types of Clients**

Pennington Partners' clients shall generally include individuals, business entities, trusts, estates, charitable organizations, and pension and profit sharing plans.

Pennington Partners generally requires a minimum annual fee of \$100,000 for investment advisory services. Pennington Partners, may also, in its sole discretion, waive its minimum annual fee requirement or charge a lesser investment management fee based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Please Note: Certain Independent Managers utilized by Pennington Partners, may impose more restrictive account requirements and billing practices than in place at Pennington Partners. In these instances, Pennington Partners may alter its corresponding account requirements and/or billing practices to accommodate those of the Independent Manager.

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

- A. Pennington Partners may utilize the following methods of security analysis:
- Charting - (analysis performed using patterns to identify current trends and trend reversals to forecast the direction of prices)
  - Cyclical - (analysis performed on historical relationships between price and market trends, to forecast the direction of prices)
  - Fundamental - (analysis performed on historical and present data, with the goal of making financial forecasts)
  - Technical – (analysis performed on historical and present data, focusing on price and trade volume, to forecast the direction of prices)

Pennington Partners may utilize the following investment strategies when implementing investment advice given to clients:

- Long Term Purchases (securities held at least a year)
- Short Term Purchases (securities sold within a year)
- Trading (securities sold within thirty (30) days)

- Options (contract for the purchase or sale of a security at a predetermined price during a specific period of time)

**Please Note: Investment Risk.** Different types of investments involve varying degrees of risk, and it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Pennington Partners) will be profitable or equal any specific performance level(s).

- B. Pennington Partners' methods of analysis and investment strategies do not present any significant or unusual risks.

However, every method of analysis has its own inherent risks. To perform an accurate market analysis Pennington Partners must have access to current/new market information. Pennington Partners has no control over the dissemination rate of market information; therefore, unbeknownst to Pennington Partners, certain analyses may be compiled with stale information, severely limiting the value of Pennington Partners' analysis. Furthermore, an accurate market analysis can only produce a forecast of the direction of market values. There can be no assurances that a forecasted change in market value will materialize into actionable and/or profitable investment opportunities.

Pennington Partners' primary investment strategies - Long Term Purchases, Short Term Purchases, and Trading - are fundamental investment strategies. However, every investment strategy has its own inherent risks and limitations. For example, longer term investment strategies require a longer investment time period to allow for the strategy to potentially develop. Shorter term investment strategies require a shorter investment time period to potentially develop but, as a result of more frequent trading, may incur higher transactional costs when compared to a longer term investment strategy. Trading, an investment strategy that requires the purchase and sale of securities within a thirty (30) day investment time period, involves a very short investment time period but will incur higher transaction costs when compared to a short term investment strategy and substantially higher transaction costs than a longer term investment strategy.

In addition to the fundamental investment strategies discussed above, Pennington Partners may also implement and/or recommend the use of option strategies. The use of options has a high level of inherent risk. Accordingly, the decision as to whether to employ option strategies is left totally to the discretion of client.

Option transactions establish a contract between two parties concerning the buying or selling of an asset at a predetermined price during a specific period of time. During the term of the option contract, the buyer of the option gains the right to demand fulfillment by the seller. Fulfillment may take the form of either selling or purchasing a security depending upon the nature of the option contract. Generally, the purchase or the recommendation to purchase an option contract by Pennington Partners shall be with the intent of offsetting/"hedging" a potential market risk in a client's portfolio.

Please Note: Although the intent of the options-related transactions that may be implemented by Pennington Partners is to hedge against principal risk, certain of the options-related strategies (i.e. straddles, short positions, etc), may, in and of themselves, produce principal volatility and/or risk. Thus, a client must be willing to accept these enhanced volatility and principal risks associated with such strategies. In light of these

enhanced risks, client may direct Pennington Partners, in writing, not to employ any or all such strategies for their accounts.

- C. Currently, Pennington Partners primarily allocates client investment assets among various independent managers, separately managed accounts, individual equity, fixed income securities, mutual funds and/or exchange traded funds, hedge funds, Real Estate Investment Trusts and Master Limited Partnerships on a discretionary or non-discretionary basis in accordance with the client's designated investment objective(s).

From time to time, and only in those cases where the client is eligible to do so, Pennington Partners may recommend participating in initial and secondary public offerings ("IPOs"). In addition to the risks set forth above, given the nature of such offerings they may have more volatility in price than existing equities that are currently traded and have a trading history. Accordingly, the decision as to whether to participate in initial or secondary offerings is left totally to the discretion of client.

## **Item 9            Disciplinary Information**

Pennington Partners has not been the subject of any disciplinary actions.

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

- A. Neither Pennington Partners, nor its representatives, are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither Pennington Partners, nor its representatives, are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or a representative of the foregoing.
- C. **Licensed Insurance Agents.** As disclosed above, certain of Pennington Partners' representatives are licensed insurance agents. These individuals may recommend the purchase of insurance-related products on a commission basis.

**Conflict of Interest:** The recommendation by Pennington Partners' representatives, that a client purchase an insurance commission product presents a conflict of interest, as the receipt of commissions may provide an incentive to recommend products based on commissions received, rather than on a particular client's need. No client is under any obligation to purchase any commission products from Pennington Partners' representatives or affiliates. Clients are reminded that they may purchase insurance products recommended by Pennington Partners through other, non-affiliated insurance agents. Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above conflicts of interest.

- D. Pennington Partners does not receive, directly or indirectly, compensation from Independent Managers that it recommends or selects for its clients.

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

- A. Pennington Partners maintains an investment policy relative to personal securities transactions. This investment policy is part of Pennington Partners' overall Code of Ethics, which serves to establish a standard of business conduct for all of Pennington Partners' representatives that is based upon fundamental principles of openness, integrity, honesty and trust, a copy of which is available upon request.

In accordance with Section 204A of the Investment Advisers Act of 1940, Pennington Partners also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by Pennington Partners or any person associated with Pennington Partners.

As disclosed above, Pennington Partners may recommend participation in initial and secondary offerings to eligible clients. In such cases, offerings may be available in limited quantities wherein Pennington Partners may need to allocate shares to clients in a lesser proportion than as requested by the client. These situations create a potential conflict of interest and in such cases Pennington Partners will manage such conflicts through applicable policies and procedures.

- B. Neither Pennington Partners nor any related person of Pennington Partners recommends, buys, or sells for client accounts, securities in which Pennington Partners or any related person of Pennington Partners has a material financial interest.
- C. Pennington Partners and/or representatives of Pennington Partners may buy or sell securities that are also recommended to clients. This practice may create a situation where Pennington Partners and/or representatives of Pennington Partners are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. Practices such as "scalping" (i.e., a practice whereby the owner of shares of a security recommends that security for investment and then immediately sells it at a profit upon the rise in the market price which follows the recommendation) could take place if Pennington Partners did not have adequate policies in place to detect such activities. In addition, this requirement can help detect insider trading, "front-running" (i.e., personal trades executed prior to those of Pennington Partners' clients) and other potentially abusive practices.

Pennington Partners has a personal securities transaction policy in place to monitor the personal securities transactions and securities holdings of each of Pennington Partners' "Access Persons". Pennington Partners' securities transaction policy requires that an Access Person of Pennington Partners must provide the Chief Compliance Officer or his/her designee with a written report of their current securities holdings within ten (10) days after becoming an Access Person. Each quarter, Access Persons shall provide a summary of their personal transactions to the Chief Compliance Officer or his/her designee. Each Access Person must also provide the Chief Compliance Officer or his/her designee with a written report of the Access Person's current securities holdings at least once each twelve (12) month period thereafter on a date Pennington Partners selects.

- D. Pennington Partners and/or representatives of Pennington Partners may buy or sell securities, at or around the same time as those securities are recommended to clients. This practice creates a situation where Pennington Partners and/or representatives of

Pennington Partners are in a position to materially benefit from the sale or purchase of those securities. Therefore, this situation creates a potential conflict of interest. As indicated above in Item 11.C, Pennington Partners has a personal securities transaction policy in place to monitor the personal securities transaction and securities holdings of each of Pennington Partners' Access Persons.

## **Item 12      Brokerage Practices**

- A. In the event that the client requests that Pennington Partners recommend a broker-dealer/custodian for execution and/or custodial services (exclusive of those clients that may direct Pennington Partners to use a specific broker-dealer/custodian), Pennington Partners may recommend certain broker-dealer/ custodians. Prior to engaging Pennington Partners to provide investment management services, the client will be required to enter into a formal *Investment Advisory Agreement* with Pennington Partners setting forth the terms and conditions under which Pennington Partners shall manage the client's assets, and a separate custodial/clearing agreement with each designated broker-dealer/ custodian.

Factors that Pennington Partners considers in recommending a broker-dealer/custodian, investment platform and/or mutual fund sponsor include historical relationship with Pennington Partners, financial strength, reputation, execution capabilities, pricing, research, and service. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of broker-dealer services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although Pennington Partners will seek competitive rates, it may not necessarily obtain the lowest possible commission rates for client account transactions. Pennington Partners' best execution responsibility is qualified if securities that it purchases for client accounts are mutual funds that trade at net asset value as determined at the daily market close. As noted above, Pennington Partners offers investment management services on a non-wrap fee basis. Accordingly, participants in the Wrap Program will not incur brokerage commissions and/or transaction fees in addition to the Program fees.

### **1. Research and Additional Benefits**

Although not a material consideration when determining whether to recommend that a client utilize the services of a particular broker-dealer/custodian, Pennington Partners may receive from broker-dealer/custodian(s) without cost (and/or at a discount) support services and/or products, certain of which assist Pennington Partners to better monitor and service client accounts maintained at such institutions. Included within the support services that may be obtained by Pennington Partners may be investment-related research, pricing information and market data, software and other technology that provide access to client account data, compliance and/or practice management-related publications, discounted or gratis consulting services, discounted and/or gratis attendance at conferences, meetings, and other educational and/or social events, marketing support, computer hardware and/or software and/or other products used by Pennington Partners in furtherance of its investment advisory business operations.

Pennington Partners' clients do not pay more for investment transactions effected and/or assets maintained at a particular broker-dealer/custodian as result of these

arrangements. There is no corresponding commitment made by Pennington Partners to any broker-dealer/custodian or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

2. Pennington Partners does not receive referrals from broker-dealers.
3. Pennington Partners may accept directed brokerage arrangements (when a client requires that account transactions be effected through a specific broker-dealer). In such client directed arrangements, the client will negotiate terms and arrangements for their account with that broker-dealer, and Pennington Partners will not seek better execution services or prices from other broker-dealers or be able to "batch" the client's transactions for execution through other broker-dealers with orders for other accounts managed by Pennington Partners. As a result, client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case.

Please Note: In the event that the client directs Pennington Partners to effect securities transactions for the client's accounts through a specific broker-dealer, the client correspondingly acknowledges that such direction may cause the accounts to incur higher commissions or transaction costs than the accounts would otherwise incur had the client determined to effect account transactions through alternative clearing arrangements that may be available through Pennington Partners.

Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement.

- B. To the extent that Pennington Partners provides investment management services to its clients, the transactions for each client account generally will be effected independently, unless Pennington Partners decides to purchase or sell the same securities for several clients at approximately the same time. Pennington Partners may (but is not obligated to) combine or "bunch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among Pennington Partners' 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 be averaged as to price and will be allocated among clients in proportion to the purchase and sale orders placed for each client account on any given day. Pennington Partners shall not receive any additional compensation or remuneration as a result of such aggregation.

## **Item 13      Review of Accounts**

- A. For those clients to whom Pennington Partners provides investment supervisory services, account reviews are conducted on an ongoing basis by Pennington Partners'



representatives. All investment supervisory clients are advised that it remains their responsibility to advise Pennington Partners of any changes in their investment objectives and/or financial situation. All clients (in person or via telephone) are encouraged to review financial planning issues (to the extent applicable), investment objectives and account performance with Pennington Partners on an annual basis.

- B. Pennington Partners may conduct account reviews on an other than periodic basis upon the occurrence of a triggering event, such as a change in client investment objectives and/or financial situation, market corrections and client request.
- C. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Pennington Partners may also provide a written periodic report summarizing account activity and performance.

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

- A. As referenced in Item 12.A.1 above, Pennington Partners may receive an indirect economic benefit from a broker-dealer/custodian it recommends to clients. Pennington Partners, without cost (and/or at a discount), may receive support services and/or products from a broker-dealer/custodian.

Pennington Partners' clients do not pay more for investment transactions effected and/or assets maintained at these broker-dealer/custodian(s) as result of these arrangements. There is no corresponding commitment made by Pennington Partners to any particular broker-dealer/custodian or any other entity to invest any specific amount or percentage of client assets in any specific mutual funds, securities or other investment products as a result of the above arrangement.

Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above arrangement and any corresponding perceived conflict of interest any such arrangement may create.

- B. Neither Pennington Partners nor any related person of Pennington Partners directly or indirectly compensates any person for client referrals.

#### **Item 15      Custody**

Pennington Partners shall have the ability to have its advisory fee for each client debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts. Pennington Partners may also provide a written periodic report summarizing account activity and performance.

Please Note: To the extent that Pennington Partners provides clients with periodic account statements or reports, the client is urged to compare any statement or report provided by Pennington Partners with the account statements received from the account

custodian. Please Also Note: The account custodian does not verify the accuracy of Pennington Partners' advisory fee calculation.

## **Item 16 Investment Discretion**

The client can determine to engage Pennington Partners to provide investment advisory services on a discretionary basis. Prior to Pennington Partners assuming discretionary authority over a client's account, the client shall be required to execute an *Investment Advisory Agreement*, naming Pennington Partners as the client's attorney and agent in fact, granting Pennington Partners full authority to buy, sell, or otherwise effect investment transactions involving the assets in the client's name found in the discretionary account.

Clients who engage Pennington Partners on a discretionary basis may, at anytime, impose restrictions, in writing, on Pennington Partners' discretionary authority (i.e. limit the types/amounts of particular securities purchased for their account, exclude the ability to purchase securities with an inverse relationship to the market, limit or proscribe Pennington Partners' use of margin, etc.).

## **Item 17 Voting Client Securities**

- A. Pennington Partners does not vote client proxies. Clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities 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.
- B. Clients will receive their proxies or other solicitations directly from their custodian. Clients may contact Pennington Partners to discuss any questions they may have with a particular solicitation.

## **Item 18 Financial Information**

- A. Pennington Partners does not solicit fees of more than \$1,200, per client, six months or more in advance.
- B. Pennington Partners is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments relating to its discretionary authority over certain client accounts.
- C. Pennington Partners has not been the subject of a bankruptcy petition.

ANY QUESTIONS: Pennington Partners' Chief Compliance Officer remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.