



Firm Brochure

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

FERNWOOD INVESTMENT MANAGEMENT, LLC

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March 23, 2023

This Brochure provides information about the qualifications and business practices of Fernwood Investment Management, LLC ("Fernwood"). If you have any questions about the contents of this Brochure, please contact us at 617-376-4750 and/or info@fernwoodinvestment.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Fernwood Investment Management, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Fernwood Investment Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

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

There have been no material changes since Fernwood's last Form ADV Amendment, which was filed March 2022.

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

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

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Item 4 – Advisory Business

Fernwood Investment Management, LLC, A Delaware Limited Liability Company has been in business since 2003. Thomas P. Reilly is Fernwood's Founder, Managing Member, CCO and Portfolio Manager. Tom has been in the investment business for over 45 years. As of December 31, 2022, Fernwood had total assets under management of \$ 398,557,410 on a discretionary and non-discretionary basis.

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

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

Fernwood also currently serves as a general partner [or investment manager] of a private investment fund, Pennmont Fund (the "**Private Fund**") and Fernwood GXT/Prairie, LLC. These Alternative Investments allow Fernwood to facilitate pooled client allocations to alternative asset classes where the minimum size of direct investments would result in too large and concentrated an investment for the client. The Private Fund(s) have their own set of private offering documents that must be reviewed by a client prior to an investment in that Private Fund. This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase an interest in any of the Private fund. Such an offer may be made only by means of the Private Fund's offering documents addressed to the intended recipient.

In 2018, Fernwood entered into an agreement with SMartX Advisory Solutions ("SmartX"). Through SmartX, Fernwood can access third-party managers using the SmartX Platform. TD Ameritrade still remains the custodian for these accounts.

In November of 2021, one of our clients entered into an Advisory agreement with Lind Capital Partners, to manage the investments in one of his accounts, custodied at Charles Schwab.

Item 5 – Fees and Compensation

Fernwood Investment Management, LLC fees are paid quarterly, in advance. Such fees shall be assessed at an annual rate based on the below tiered fee schedule. On an exception basis, discounts may be offered at the discretion of the managing member.

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

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

Each client also bears their own investment, transaction and custodial expenses, such as brokerage commissions, custodial fees, bank service fees, margin interest, platform fees and short position dividends.

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

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

Clients also bear fees payable to mutual fund and ETF advisers and other expenses, as disclosed in each fund's respective prospectus. With regard to Pennmont Fund, fees are paid directly to Fernwood and indirectly to their underlying portfolio managers or sub-advisers ("Sub-Advisers") and the fund bears its own expenses as disclosed in the Private Fund's respective private offering documents. With Regard to Fernwood GXT/Prairie, Fernwood will receive carried interest after all investors have received 100% of their capital.

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

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

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

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

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

Item 7 – Types of Clients

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

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

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

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

Method of Analysis

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

Investment Strategies

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

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

Risk of Loss

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

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

Item 9 – Disciplinary Information

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

Item 10 – Other Financial Industry Activities and Affiliations

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

Mr. Jeffrey Vincent, Sr. Vice President, Director of Management Wealth and an Investment Advisor Representative of Fernwood is also a licensed insurance professional. Implementations of insurance recommendations are separate and apart from his role with Fernwood. As an insurance professional, Mr. Vincent may receive customary commissions and other related revenues from the various insurance companies whose products are sold. Mr. Vincent is not required to offer the products of any particular insurance company. Commissions generated by insurance sales do not offset regular advisory fees. This may cause a conflict of interest in recommending certain products of the insurance companies. Clients are under no obligation to implement any recommendations made by Mr. Vincent.

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

Again, as mentioned in Item 7 above, some clients of Fernwood are currently invested in limited partnership venture transactions. In these limited partnerships, a related person

acted or is acting in the capacity of a general partner. The limited partnerships noted have invested and/or are still invested in Agriculture, Healthcare, Real Estate, Retail, and Technology. The general partners are entitled to receive a finder's fee and have, by way of carried interest, an economic interest in the profits of the partnerships, disproportionate to their investments in the partnerships.

Mr. Reilly currently serves as a board member of GXT Green, based in Billerica and Ceres Food & Agriculture Opportunity Fund, based in Hingham, MA. He is also a member of the advisory board of BSL Investors Fund III LLC and Bloc Enterprises. He has an equity position in Bloc Enterprises. As a board member, he has no compensation arrangements with any of these entities, however, he may receive, along with all board members, stock option grants.

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

to clients, the firm endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Fernwood or its related persons in and of itself creates a potential conflict of interest and may indirectly influence Fernwood's recommendations of TD Ameritrade for custody and brokerage services.

Item 11 – Code of Ethics

As stated in 10, Mr. Reilly may from time to time recommend that certain Fernwood clients invest in Pennmont Fund, L.P., a hedge fund. Fernwood Investment Management, LLC is the Managing Member of the General Partner of Pennmont Fund, L.P. and as such will receive a management fee based on the amount of assets in the fund, as well as an incentive allocation based on the net profits of the fund subject to an annual benchmark and high-water mark. Mr. Reilly may also recommend that certain Fernwood clients invest in Fernwood GXT/Prairie, LLC, in which Fernwood Investment Management, LLC is the General Partner. However, Fernwood Investment Management, LLC does not charge a management fee for its role as General Partner of Fernwood GXT/Prairie.

Subject to the restrictions hereinafter described, Mr. Reilly and other employees of Fernwood may purchase or sell in the open market, for their own accounts, securities which are bought or sold for clients of Fernwood, provided that no such purchase or sale may be affected between any such individual and any client account. Fernwood's policy is to require disclosure to Mr. Reilly, or his designee, of such personal transactions and the circumstances relevant thereto to determine whether such transactions represent a commonality of interest with our clients or create a potential conflict of interest or any appearance of conflict. Authority to consummate any such transaction resides with Mr. Reilly, or his designee.

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

Item 12 – Brokerage Practices

Except if specified differently by a client, Fernwood has complete discretion in the investment of each account it manages, including the choice of brokers. Custody of clients assets are maintained by TD Ameritrade Institutional and Charles Schwab.

Subject to obtaining best execution in Fernwood's good faith judgment, brokers are chosen for their ability to provide research services to Fernwood. As a result, Fernwood clients may pay commissions higher than those obtainable from other brokers. Such research services generally constitute analyses of companies in which Fernwood contemplates

investing or has invested managed funds. Accordingly, such research services are generally used to benefit all accounts managed by Fernwood. Exceptions may be made where the client has specifically designated the use of another broker exclusively.

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

Item 13 – Review of Accounts

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

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

- 1. Quarterly Reports – Statements of assets under management showing costs, current market value and other relevant data.*
- 2. Annual Reports – Year-end tax reports indicating gain, loss, dividend income, interest income, expenses and other relevant data, prepared on a cash basis, trade date method or accounting.*
- 3. Other Reports – Other written reports may be forwarded to some or all clients when it is believed that these reports will be of value to such clients. Oral reports and discussions will also be available either by telephone or in person.*
- 4. Various other reports and information are available to clients via a secured website hosted by TD Ameritrade and Charles Schwab, custodians of clients' accounts.*

Item 14 – Client Referrals and Other Compensation

A Fernwood Employee who is licensed as a Registered Investment Advisor (Series 65 or 66, and/or Certified Financial Planner ("CFP®")) can receive a portion of the management fees collected on a client relationship.

Item 15 – Custody

Client assets are held at unaffiliated, qualified custodians. Fernwood is deemed to have custody of client's assets with regard to the following accounts: (1) accounts in which Fernwood deducts advisory fees, which is authorized in the signed contract with clients, (2) accounts in which certain members of senior management may from time to time act as trustee or co-trustee. These accounts are subject to an annual surprise audit, and (3) accounts where Fernwood has authority to transfer money from client account(s) to third-parties, which constitute a standing letter of authorization (SLOA). Fernwood follows the safeguards specified by the SEC regarding this third group of accounts, so therefore are not subject to surprise annual audits.

Additionally, Fernwood also has custody of the Pennmont Fund, L.P. and GXT/Prairie, as a result of Fernwood serving as general partner of these Funds. The Pennmont Fund distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all Fund investors. This Fund will also distribute audited financial statements upon liquidation promptly after the completion of such audit.

All the required audits are conducted by an independent public accountant that is registered with the Public Company Accounting Oversight Board in accordance with its rules.

All fee payments are reflected on client account statements, which clients should review carefully for accuracy. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Fernwood urges you to carefully review such statements and compare such official custodial records to the account statements that Fernwood may provide to you.

Fernwood's client statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Item 16 – Investment Discretion

Fernwood Investment Management, LLC receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the investment objectives for the particular client account.

When selecting securities and determining amounts, Fernwood observes the investment policies, limitations and restrictions of the clients for which it advises.

Item 17 – Voting *Client* Securities

As a matter of firm policy and practice, Fernwood Investment Management, LLC usually does not have any authority to and usually does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Fernwood may provide advice to clients regarding the clients' voting of proxies. Some custodian banks require that Fernwood assume the responsibility for voting proxies for certain clients.

Item 18 – Financial Information

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