



# EVOLUTIONARY TREE

CAPITAL MANAGEMENT

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This Brochure (ADV Part 2A) provides information about the qualifications and business practices of Evolutionary Tree Capital Management LLC (“**Evolutionary Tree**”, “**we**”, or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact Erin Price, Director of Operations & Compliance Manager, at (703) 544-2300 or email [eprice@evolutionarytree.com](mailto:eprice@evolutionarytree.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or any state securities authority.

Registration as an investment adviser does not imply a particular level of skill or training.

Additional information about Evolutionary Tree is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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Since the Firm's last Brochure update of October 28, 2020 there were no material changes.

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**Item 4: Advisory Business**

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Evolutionary Tree is an investment management firm headquartered in Alexandria, VA and registered with the U.S. Securities and Exchange Commission as an investment adviser. The Firm, structured as a Delaware limited liability company, was founded in late 2017 by Thomas Ricketts, CFA, the Firm's President, Chief Investment Officer, and Portfolio Manager. A trust established by Mr. Ricketts is the principal owner of the Firm.

Evolutionary Tree is an investment manager that specializes in innovation-focused, concentrated-growth investing using a long-term approach we call *Evolutionary Investing*. The Firm builds concentrated portfolios of high-quality, sustainable growth companies using a disciplined set of criteria for evaluating investments. Our dual mission is to 1) connect clients to portfolios of leading innovative businesses with the potential to drive wealth creation over the long term and 2) provide long-term perspective, thought leadership, and beyond-the-call-of-duty service.

We offer discretionary portfolio and investment management services to individual and institutional clients with separately managed accounts ("SMA"), including both taxable and tax-exempt accounts, and investment management services to registered investment companies and pooled investment vehicles. The Firm advises and manages the investments of the Evolutionary Tree Innovators Fund, a non-diversified series of Ultimus Managers Trust.

While the Firm does not provide financial planning services, it does accommodate clients that wish to have the Firm manage balanced accounts, which may include both equity and fixed income securities. In addition, while the Firm typically uses a model portfolio for each strategy to manage client accounts, we also accommodate client-specific restrictions or guidelines, if in our judgment it does not significantly affect our ability to manage the strategy effectively. Clients may impose restrictions on investing in certain securities or certain types of securities.

We are not financial planners, tax accountants, insurance professionals, or estate attorneys, and thus encourage our clients to seek advice for these services from external professionals and service providers of their choosing. We may coordinate with these providers at a client's direction, when appropriate.

As of March 22, 2021, the Firm managed \$182.2 million in assets under management, all of which are managed on a discretionary basis.

**Item 5: Fees and Compensation**

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Evolutionary Tree charges each separately managed account client a management fee calculated as a percentage of the client's assets under management. Currently, while the Firm offers advisory services to both institutional and private clients, we offer one investment strategy to retail private individual clients. We have structured our fees so that the overall blended management fee rate declines as a client's assets under management increase. We have two separate fee schedules, one for institutional clients and another for private individual clients, which we outline in the following table:

<b>Institutional Fee Schedule</b>	
Account Value	Annual Management Fee Rate*
First \$25 million	0.70%
Next \$25 million	0.60%
Amounts over \$50 million	0.50%
<b>Private Client Fee Schedule</b>	
Account Value	Annual Management Fee Rate*
First \$5 million	0.95%
Next \$20 million	0.80%
Next \$25 million	0.60%
Amounts over \$50 million	0.50%

\*Stated at an annual rate of assets under management.

The management fee and minimum account size for private clients are generally non-negotiable but may be subject to adjustment at the Firm's sole discretion. Fees for larger institutional, registered fund, and private fund clients may be subject to negotiation.

The first payment of the management fee is due at the end of the first calendar quarter in which Evolutionary Tree assumes management of the account and is based on the initial funding value of the assets in the account. For non-quarter end start dates, the first payment of the management fee is calculated on a *pro rata* basis. For each succeeding calendar quarter, the management fee is payable in advance at the beginning of each calendar quarter and is based on the value of the assets in the account as of the last business day of the previous calendar quarter, generally without taking into consideration contributions and withdrawals during the quarter. The Firm deducts the management fee from client accounts on a quarterly basis by instructing the client's custodian. Evolutionary Tree will refund any unearned management fees on a *pro rata* basis in the event of termination of an account. Evolutionary Tree does not require or solicit prepayment of more than \$500 in fees per client, six months or more in advance.

The Firm is also paid a fee for its services as the adviser to the Evolutionary Tree Innovators Fund (the "Fund"). The advisory fee paid to the Firm by the Fund is described in the Fund's offering documents. The Firm does not sell or distribute the Fund.

In addition to paying management fees, client accounts are also subject to other investment expenses such as custodial charges, brokerage fees, commissions and related costs; interest expenses; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; other portfolio expenses; and costs, expenses and fees associated with products or services that may be necessary or incidental to such investments or accounts. Please refer to Item 12 of this Brochure for a discussion of the Firm's brokerage practices.

**Item 6: Performance-Based Fees and Side-By-Side Management**

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Our fee schedule, outlined in Item 5, is based on a percentage of assets under management. Evolutionary Tree does not charge performance-based fees to either its SMA clients or its Fund clients.

“Side-by-side” management refers to situations when an investment adviser manages mutual funds and private funds, particularly when managed pursuant to similar strategies or by the same portfolio manager. The Firm does advise a private fund, a registered fund, and separately managed private retail and institutional accounts that pursue similar strategies. The process of side-by-side management – which essentially refers to the process of evaluating funds/accounts ‘side by side’ for fair and transparent allocations -- ensures that portfolio managers are allocating all assets in accordance with regulatory mandates, and are not basing these decisions between specific accounts on gaining better fees, commissions, or personal benefits. The Firm has structured its fees similarly for all its clients and has procedures designed to provide fair and equitable treatment to all accounts it advises including procedures for best execution, allocation and aggregation of trades, and allocation of investment opportunities.

**Item 7: Types of Clients**

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Evolutionary Tree offers advisory services to individuals, family offices, estates, and trusts; pension, retirement, and profit-sharing plans; charitable organizations, foundations, or other non-profit organizations; and state and municipal government entities and pension plans; or registered investment companies and pooled investment vehicles.

The Firm has a stated minimum of \$1 million to open a separately managed account, however the account minimum is subject to negotiation. The Firm, at its discretion, may combine the value of accounts associated with a specific client relationship in calculating the total account value for purposes of the account minimum.

The Firm advises and manages the investments of the Evolutionary Tree Innovators Fund, a non-diversified series of Ultimus Managers Trust.

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

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***Methods of Analysis***

Evolutionary Tree specializes in innovation-focused, concentrated-growth investing using a long-term approach we call *Evolutionary Investing*. The Firm builds portfolios of high-quality, sustainable growth companies using a disciplined set of criteria for evaluating investments. We endeavor to meet our mission—connecting clients to portfolios of leading innovative businesses with the potential to drive wealth creation—through fundamental in-depth research and the development of insights into investable innovation.

We live in an age where the pace of innovation, and thus evolution, is accelerating. We believe a focused research effort on leading companies developing important innovations and benefiting from secular trends and evolutionary shifts can enable us to build high-quality, concentrated portfolios that are positioned to create long-term value for our clients. Most investors intuitively sense the power

and impact of innovation in their lives. Our objective is to provide an attractive pathway for investing in important innovation and evolutionary shifts.

The Firm's philosophy is built on the belief that wealth creation is fundamentally driven by important innovation that powers the evolution of technology, industries, and, ultimately, the economy as a whole. Everything evolves over time, and this progressive and sometimes discontinuous change can create multi-year investment opportunities. However, not all innovation or secular trends are investable or profitable, as some innovations never develop into mainstream offerings or competitors imitate the innovation, and thus no one firm is able to earn sustainable above-average profits or returns. As a result of this dynamic, we search for what we call *investable innovations*, where imitation is more difficult and a standout industry leader can, in our assessment, capture the long-term revenue growth and profit potential as the industry grows over time. We define investable innovations as those innovations that may be ready for mainstream adoption, cannot be easily replicated or imitated by competitors, and where the value being created can be captured by the innovator. Examples of innovations that we believe contribute to sustainable growth, often developed in combination, include technological innovation, product innovation, service or experience innovation, process or cost innovation, brand innovation, organizational innovation, and/or business model innovation.

While we believe a bottom-up, company-focused approach is an appropriate starting point for finding these types of businesses, we complement this approach with what we call meso-down analysis. Meso-level analysis (the word meso is derived from the Greek word mesos, meaning middle) takes into account forces at the industry and broader ecosystem levels. Companies rarely innovate on their own. Rather, they often work in innovation networks with other players. This broader context is critical for understanding how innovation evolves over time. We combine bottom-up with meso-level analysis to gain a more complete view of the long-term forces affecting companies and industries.

Each company is evaluated based on a disciplined set of criteria across three core investment drivers: 1) industry/meso-level drivers, 2) company/bottom-up drivers, and 3) stock valuation. Our research process is built on in-depth research and evaluation into each of these elements.

We strive to own businesses that meet the following investment criteria:

1. Benefits from Evolutionary Shift Driven by Secular Trends & Innovation
2. Large Market Opportunity with Room for Growth
3. Attractive Industry Structure and Dynamics
4. Industry Leader with Strong Innovation Pipeline
5. Multiple Layers of Competitive Advantage
6. Strong Business Model & Financial Position
7. Exceptional Talent with a Unique Culture
8. Logical Valuation Based on Long-term Drivers and Economics

The investment process is comprised of five phases:

1. Idea Generation
2. Prospect Prioritization
3. In-depth Research and Analysis
4. Discussion and Decision

## 5. Investment Monitoring

We believe there is considerably greater value during the idea generation phase, and the overall research process, in utilizing a more qualitative lens for evaluating businesses, based on our unique philosophy that *Innovation + Evolution = Opportunity*. Our investment team focuses on what we call the *innovation frontier* to find the root causes of growth, change, and, ultimately, evolution of industries. We do this by reading trade journals, attending industry conferences and events, talking with industry experts, and connecting with industry associations. Ultimately, we build a proprietary *Evolutionary Shift Database*, which catalogues what we believe are important innovations and evolutionary shifts/secular trends across many industries and sectors.

In analyzing important innovations on the innovation frontier and understanding the strategic implications of various industry trends, we identify companies that we believe are in the leading vanguard of driving these innovations—the leading beneficiaries—and track these in a proprietary *Innovator Database*. The Innovator Database of leading companies developing key innovations is the primary universe from which we source ideas for our portfolios. Given the heterogeneity, if not rarity, of innovators versus non-innovators within industries, this phase of our research is a primary filter narrowing our universe across the broader growth stock universe. We view our research in this area as an important differentiator versus traditional growth managers.

In the second phase of the process, using the Innovator Database of leading growth businesses as a focal point, we evaluate each innovator, while also conducting comparative analyses between the various businesses. Those with the strongest fit with our investment criteria move to the next phase of our process and are placed on our Prospect List. We pay particular attention to opportunities where we believe the core innovations are ready for sustained growth and where the leading innovator may be in a position to capture the value they create, either through strong intellectual property protection and/or through other layers of competitive advantage. We call these layers of competitive advantage, *innovation moats*.

During the third phase of the process, we perform in-depth research on these companies to affirm that a particular business meets each of the eight criteria, which cover the three core investment drivers: 1) industry, 2) company, and 3) valuation. We typically evaluate the history of the industry and its evolutionary path, identifying important secular trends, sizing up the market and adoption trends, and understanding the competitive dynamics. When appropriate, we attend industry conferences, talk with users, and read industry and trade journals to gain insight into these dynamics. At the company level, we are looking for a business with a track record of innovation, a unique culture and talent base, with an effective business model that is protected by a wide moat of competitive advantages. Ultimately, we build an investment case and assess valuation based on a company's long-term drivers and economics.

The investment team typically meets weekly to discuss holdings, portfolio weights, and potential new investments, along with risk management considerations. Evaluation of new holdings is team-based and assessing multiple viewpoints is important. While team input is considered, the CIO and Portfolio Manager, Thomas Ricketts, CFA, makes the final buy/sell decisions.

In the last phase of the process, investment monitoring, we perform continuous tracking of each investment. It is important to note that we place much greater emphasis on the long-term progress



of a business and its key innovations and less on short-term dynamics. Our objective is to maintain our investment through normal business issues, temporary setbacks, and stock volatility. We aim to capture the long-term growth opportunities of these leading innovative companies, and thus our time horizon is measured in years, not months or quarters. However, if a company fails to deliver on our growth expectations over time or experiences erosion in its leadership position or competitive advantages, we will sell a business. Also, we will sell an investment if valuation, in our opinion, becomes excessive, or we believe a better investment opportunity exists.

Portfolio construction and risk management are important components of concentrated strategies. We believe leading innovators are rare, and thus are best held in focused strategies of concentrated portfolios of 35 or fewer holdings. We also believe that the best way to benefit from important innovations and evolutionary shifts is to take a long-term orientation by investing over a multi-year horizon that mirrors the growth path of these types of companies. We aim for low turnover in the portfolio and we do not time the market, and thus aim to be fully invested, with cash typically in a range of 0-5%.

### ***Risk Management***

We view risk management through the wide lens of a long-term investor and owner of a business, rather than through the narrow lens of short-term stock price volatility. In our opinion, as investors expand their time horizon, short-term volatility should minimize in importance while the performance of the underlying business or asset, and the ultimate long-term gain or loss in capital, matters more.

While many investors seek a margin of safety by focusing primarily on lower valuation metrics, we believe that a high-quality business provides the key margin of safety over the long term. In our opinion, quality, exhibited in multiple forms, provides a more durable form of safety. Importantly, quality can also provide long-term growth potential. Qualities we look for in businesses owned in client portfolios include: leadership, competitive advantages, unique talent and culture, and significant innovation.

We define risk as the potential for permanent loss of capital, which is primarily linked to the long-term performance of the business. Examples of events that may lead to potential permanent loss of capital for a particular investment in the context of our strategy include: a business that fails to deliver on its growth prospects; a business that loses its leadership position and/or sees erosion of its competitive advantages; a business whose primary innovations fail to create adequate value and drive customer adoption, or where this value is not captured by the innovator; and/or the stock valuation is impaired due to fundamental deterioration in the business or failure to meet growth expectations.

We have designed our investment strategy and investment criteria to manage these risks, though we cannot eliminate them. We maintain a portfolio of investments to spread risk as we acknowledge that individual investments can experience adverse stock outcomes. Growth stocks and innovation-focused companies can be volatile and, therefore, investors in innovation and evolutionary shifts need to be prepared to accept short-term volatility in their investments in order to potentially benefit from the growth of innovative companies over the long term.

Portfolio-level risk management provides another layer for managing risk. Portfolio weights are conviction-weighted, so that companies that are, in our opinion and assessment, more established,

have higher visibility into future growth, have stronger market positions, and/or lower risk profiles are typically held at higher weights, while emerging growers with potentially higher risk profiles, or newer holdings, are typically held at lower weights.

### ***Risk of Loss***

Evolutionary Tree's investment strategy involves significant risks, including the loss of all or a portion of a client's investment. Clients should be aware of and prepared to bear these risks. The Firm's investment strategy is intended to be one of several components of a client's overall asset allocation and is not intended to be a complete investment program. No guarantee or representation is made that clients will achieve their investment objectives. This Brochure does not include an exhaustive list of every potential risk that clients may encounter. Below are some material risks that clients should be aware of in connection with Evolutionary Tree's advisory services:

**Stock Market Risk.** Investments in the stock market are subject to market fluctuations and clients may experience losses due to factors that affect the performance of the financial markets. Declines can be sudden or can take place over extended periods of time.

**Equity Securities Risk.** Evolutionary Tree invests client assets in equity securities. The value of these securities can fluctuate significantly as a result of different factors, including political, social or financial instability, acts of terrorism, war, natural disasters and public health events and crises, such as disease/virus outbreaks, epidemics and pandemics, and other economic events and conditions. These factors are potential risks that could negatively affect an investment in a security. Additionally, equity securities are affected by the degree of liquidity for that particular security and securities with lower liquidity will have increased liquidity risk that could affect our ability to buy or sell a security at favorable prices.

**Ownership in a Business Risk.** When we purchase securities for client accounts, the client becomes an equity owner in the company and therefore is subject to the risks inherent in owning a business.

**Growth Company Risk.** We primarily invest in growth businesses and each company's ability to sustain above-average earnings growth is a primary determinant of stock price performance. Failure to achieve the level of growth we or the market expects may cause the stock price to decline. Historically, growth stocks have been susceptible to significant price volatility, especially during times of economic uncertainty, and an investment in these types of stocks exposes clients to this risk.

**Market Capitalization Risk.** While Evolutionary Tree invests in companies with large capitalizations, we also invest in businesses that are considered small to mid-cap companies. Securities of these companies tend to be more volatile and less liquid than those of larger companies which can increase risk. Additionally, companies on the smaller end of the capitalization spectrum may have more limited resources relative to larger companies.

**Concentration Risk.** Our investment strategy involves a high degree of concentration in certain sectors (for example, technology, healthcare, and consumer) and industries, geographies, and securities. Additionally, there are only a small number of businesses that meet our investment criteria, and as such we typically build concentrated portfolios of 35 or fewer holdings. By holding fewer companies in client portfolios each security is held at a larger weight, and thus an increase or decrease in each

security's price can have a significant impact on the overall portfolio performance. Also, concentrated portfolios of 35 or fewer holdings may entail greater volatility.

**Sector Risk.** Our investment strategy may result in a client account having significant over or under exposure to certain industries or market sectors, which may cause the account's performance to be more or less sensitive to developments affecting those industries or market sectors.

**Technology Sector Risk.** We may concentrate client assets in the securities of issuers engaged primarily in the technology sector. Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers in this sector. They are also heavily dependent on intellectual property rights and may be adversely affected by the loss or impairment of those rights.

**Foreign Securities Risk.** While we primarily invest in the issues of US securities, we also invest in foreign companies through American Depositary Receipts (ADRs) and/or foreign securities traded on foreign exchanges. This exposes client accounts to currency risk, and risks inherent in investing in foreign countries such as political and economic risk specific to these countries, including risks associated with variable interest entities (VIE structures). Additionally, Evolutionary Tree does not implement a hedging strategy to minimize currency risk associated with foreign securities.

**Active Management Risk.** We invest client assets in a select number of businesses that fit our investment criteria. Ultimately, this leads to portfolios that represent a small subset of the investable universe of businesses, which may lead to significant return differences relative to the benchmark over different time periods. The securities that we select for client portfolios may not add value and clients may incur losses as a result of our stock selection.

**Fixed Income Risk.** We anticipate that some clients may request that we manage balanced portfolios that include fixed income securities. These clients should be aware of the risks inherent with investing in these types of securities. Fixed income investments are sensitive to changes in interest rates and an increase in interest rates typically causes the value of fixed income securities to decrease. Fixed income securities with longer durations will be more sensitive to interest rate changes than those with shorter durations. Additionally, fixed income securities, while generally liquid, may experience periods of lower liquidity, which could affect the effective price when purchased or sold. Fixed income securities also involve risk around potential default of the underlying issuer, as well as any changes in credit ratings.

**Cybersecurity Risk.** Evolutionary Tree depends on advanced technology and third-party providers, such as custodians and portfolio accounting services, to operate our business. These services may be interrupted during electrical and Internet outages, or because of other unforeseen issues. Such disruptions could impact our ability to perform certain operations including trading, portfolio accounting, and client reporting. Additionally, our internal network and those of third-party service providers could be susceptible to data breaches or other attacks, which could expose our data and that of our clients. While we have implemented policies and incident response capabilities for contending with unplanned events like power outages and data breaches, there may be certain risks associated with these events that cannot be fully known or controlled.

**Key Personnel Risk.** Our President and CIO is the sole portfolio manager and key decision maker at Evolutionary Tree. While we have experienced professionals supporting him in various roles, the Firm and client portfolios may be affected if this key employee is absent from the business for either short or long periods of time.

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**Item 9: Disciplinary Information**

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The Firm is not subject to any disciplinary actions.

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

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The Firm has no other financial industry activities or affiliation.

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

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The Firm has adopted a Code of Ethics (the "Code") that obligates the Firm and its supervised persons to put the interests of the Firm's clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. In addition to compliance with the Firm's policies and procedures, all of the Firm's personnel are required to comply with applicable state and federal securities laws. Clients or prospective clients may obtain a copy of the Code by contacting Erin Price (Director of Operations & Compliance Manager) at [erprice@evolutionarytree.com](mailto:erprice@evolutionarytree.com) or (703) 544-2300. See below for further provisions of the Code as they relate to the preclearing and reporting of securities transactions by the Firm's supervised persons.

The Firm and its supervised persons may give and/or receive gifts, services or other items to/from any person or entity that does business with or potentially could conduct business with or on behalf of the Firm. The Firm has adopted policies and procedures governing gifts and business entertainment, which includes quarterly disclosure of gifts and business entertainment in excess of certain *de minimis* thresholds and pre-clearance by the Chief Compliance Officer (CCO), or his designee, prior to giving/receiving gifts above a certain *de minimis* threshold.

The Firm, in the course of its investment management and other activities, may come into possession of confidential or material nonpublic information about issuers, including issuers in which the Firm or its related persons have invested or seek to invest on behalf of clients. The Firm is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Firm maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Firm is meeting its obligations to its clients and remains in compliance with applicable law. In certain circumstances, the Firm may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security; the Firm will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Firm will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Firm possesses such information), or not using such information for the client's benefit, as a result of following the Firm's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

At this time, the Firm does not buy, sell or hold securities for its own account. However, the Firm's supervised persons invest in the same securities that the Firm or a supervised person recommends to clients. The Firm's supervised persons may trade in a particular security in a manner that is the same as, different from, or even opposite to the trading activity undertaken by the Firm on behalf of its clients with respect to that same security. Such practices present a conflict when, because of the information the Firm has, the Firm's supervised persons are in a position to trade in a manner that could adversely affect the Firm's clients (e.g., place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients' trades). In addition to affecting the Firm's supervised person's objectivity, these practices by its supervised persons may also harm clients by adversely affecting the price at which the clients' trades are executed. The Firm has adopted the following procedures in an effort to minimize such conflicts:

- The Firm requires its supervised persons to preclear all transactions in their personal accounts with the Chief Compliance Officer, or his designee, who may approve the transaction if such transaction complies with the Code and is not likely to have any adverse economic impact on clients.
- The Firm's Code prohibits its supervised persons from executing personal securities transactions of any kind in any securities on a restricted securities list maintained by the CIO absent the CIO's and the Compliance Manager's prior approval.
- The Firm's supervised persons are required to disclose their securities transactions at least quarterly, either by submitting quarterly transaction reports or by directing their brokers to provide the Firm with monthly brokerage statements.
- The Firm's supervised persons are required to disclose the holdings in their personal accounts upon commencement of employment with the Firm and on an annual basis thereafter.
- Trading in the personal accounts of the Firm's supervised persons is reviewed by the Chief Compliance Officer, or his designee, and compared with client account transactions related to changes with model portfolios and reviewed against the restricted securities list.

The Firm may, from time to time, recommend securities to clients, or buy or sell securities for client accounts, at or about the same time that a related person buys or sells the same securities for their own account in accordance with the procedures described above in order to minimize the conflicts stemming from situations where the contemporaneous trading results in an economic benefit for the Firm's related person to the detriment of the client. In addition, the Firm has adopted the aggregation policies and procedures discussed in Item 12.

#### **Item 12: Brokerage Practices**

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The Firm considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include, but are not limited to, reputation, financial strength and stability, creditworthiness, efficiency of execution and error resolution, the actual executed price and the commission, research (including economic forecasts, fundamental advice on securities, and market analysis); custodial and other services provided for the enhancement of the Firm's portfolio management capabilities; the size and type of the transaction; the difficulty of execution and the ability to handle difficult trades; and

the operational facilities of the brokers and/or dealers involved (including back office efficiency). In selecting a broker-dealer to execute transactions (or a series of transactions) and determining the reasonableness of the broker-dealer's compensation, the Firm need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the Firm's practice to negotiate "execution only" commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. The Firm's Chief Compliance Officer or his designee periodically evaluates the broker-dealers used by the Firm to execute client trades using the foregoing factors.

The Firm receives research or other products or services other than execution from broker-dealers and/or third parties in connection with client securities transactions. This is known as a "soft dollar" relationship. The Firm will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Firm will not have to pay for the products and services itself. This creates an incentive for the Firm to select or recommend a broker-dealer based on its interest in receiving those products and services, rather than on a client's interest in receiving most favorable execution. We believe that any research or other products or services we receive through soft dollar relationships provide lawful and appropriate assistance to our investment decision-making process.

The Firm often purchases or sells the same security for many clients at or near the same time and using the same executing broker. The Firm, where appropriate, aggregates client orders for the purchase or sale of the same security submitted at or near the same time for execution using the same executing broker. Such aggregation may enable the Firm to obtain for clients a more favorable price or a better commission rate based upon the volume of a particular transaction. However, in cases where the client has negotiated the commission rate directly with the broker, the Firm will not be able to obtain more favorable commission rates based on an aggregated trade. In such cases, the client will be precluded from receiving the benefit of any possible commission discounts that might otherwise be available as a result of the aggregated trade. In cases where trading or investment restrictions are placed on a client's account, the Firm may be precluded from aggregating that client's transaction with

others. In such a case, the client may pay a higher commission rate and/or receive less favorable prices than clients who are able to participate in an aggregated order. When an aggregated order is completely filled, the Firm allocates the securities purchased or proceeds of sale *pro rata* among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. To the extent an order is price-averaged, a client account participating in the trade may pay a higher price than if the Firm did not aggregate the order. If an aggregated order is only partially filled, the Firm's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair to clients. Depending on the investment strategy pursued and the type of security, this may result in a *pro rata* allocation to all participating clients.

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

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Each client account is managed to a model portfolio. This model portfolio and its holdings are reviewed frequently to assess the fit with our investment criteria. Each client separately managed account is reviewed by a Portfolio Manager periodically relative to client objectives and guidelines, as well as any significant deviations from the model portfolio. Matters reviewed include specific securities held, portfolio weightings, risk exposures, adherence to investment guidelines and the performance of each client account.

The Firm will send each separately managed account client quarterly account statements containing portfolio holdings and annual statements of gains and losses. Such reports may be delivered electronically to the client in accordance with the client's agreement with the Firm.

For its Fund client, the Firm reports regularly to the Trustees and officers of the Trust regarding the Advisers' discharge of its responsibilities and management of the Fund in connection with the Investment Advisory Agreements.

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

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The Firm has two written agreements with unaffiliated parties who solicit investment adviser clients on Firm's behalf. In the first agreement, the Firm has entered into a written agreement with a broker-dealer to refer from time to time prospective clients to the Firm in exchange for compensation. The other agreement provides for the contracting party to provide the Firm with marketing services and includes a provision for payments from the Firm to the solicitor should the party provide prospective institutional clients to the Firm. Pursuant to both agreements, each prospective client will be provided with a copy of the Adviser's Form ADV Part 2, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the broker-dealer and the Adviser and any fees to be paid to the broker-dealer. Payments from the Firm to both solicitors are typically paid out as a stated percentage of the client's paid advisory fee to the Firm. Clients are not charged any fee above the stated fee in their agreement with the Firm, nor do they incur any additional costs for being referred to the Firm by the broker-dealer or other strategic partner.

The Firm receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for the Firm to select or recommend broker-dealers based on the Firm’s interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by the Firm on behalf of its clients. Please see Item 12 for further information on the Firm’s “soft-dollar” practices, including the Firm’s procedures for addressing conflicts of interest that arise from such practices.

#### **Item 15: Custody**

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The Firm does not take physical possession of client funds and securities. Client assets are held by an unaffiliated, qualified custodian.

The Firm is regarded to have custody of certain client assets based on clients granting the Firm authority, in writing, to directly debit the Firm’s investment management fees from their custodial accounts. Clients will receive account statements from the qualified custodian and should carefully review those statements.

To the extent the Firm sends statements directly to a client in addition to those sent by the qualified custodian, the client should compare any quarterly statements they receive from their qualified custodian with those received from the Firm. The Firm’s statements could vary from the custodial statement based on accounting methods, reporting dates, or other factors.

#### **Item 16: Investment Discretion**

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The Firm provides investment advisory services on a discretionary basis to clients, as described below. Prior to assuming discretion in managing a client’s assets, the Firm enters into an investment management agreement that sets forth the scope of the Firm’s discretion.

Unless otherwise instructed or directed by a discretionary client, the Firm has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines), and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among clients in invested positions and securities held. The Firm submits an allocation statement describing the allocation of securities to (or from) client accounts for each trade/order submitted. The Firm may consider the following factors, among others, in allocating securities among clients: (i) a client’s investment objectives and strategies; (ii) risk profiles; (iii) tax status and restrictions placed on a client’s portfolio by the client or by applicable law; (iv) size of the client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is the Firm’s policy to allocate investment opportunities to eligible client accounts on a *pro rata* basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts), these factors may lead the Firm to allocate securities to client accounts in varying amounts. Even client accounts that are typically managed on a *pari passu* basis may, from time to time, receive differing allocations of



securities based on total assets of each account eligible to invest in the particular investment type (e.g., equities) divided by the total assets of all accounts eligible to invest in the particular investment. Unless otherwise instructed or directed by a discretionary client, the Firm has authority to exercise discretion as to the selection of executing brokers for client trades, which may include brokers that are not the client's custodian, and to negotiate commission rates with brokers.

The Firm may effect cross transactions between discretionary client accounts, except as otherwise noted below. Cross transactions enable the Firm to effect a trade between two clients for the same security at a set price, thereby possibly avoiding an unfavorable price movement that may be created through entrance into the market and saving commission costs for both accounts. Cross transactions include rebalancing transactions that are undertaken so that, after withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. The Firm has a potentially conflicting division of loyalties and responsibilities regarding both parties to cross transactions. Cross transactions between client accounts are not permitted if they would constitute principal trades or trades for which the Firm or its affiliates are compensated as a broker unless client consent has been obtained based upon written disclosure to the client of the capacity in which the Firm or its affiliates will act. In addition, cross transactions are not permitted for benefit plans or other similar accounts that are subject to ERISA.

Please see Item 4 for a description of any limitations clients may place on the Firm's discretionary authority.

#### **Item 17: Voting Client Securities**

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The Firm will not vote proxies unless directed by the client and the Firm agrees to do so in the client's investment management agreement. To the extent the Firm has been delegated proxy voting authority on behalf of its clients, the Firm complies with its proxy voting policies and procedures that are designed to ensure that in cases where the Firm votes proxies with respect to client securities, such proxies are voted in the best interests of each client. In voting proxies on routine and administrative matters, the Firm generally votes in accordance with the recommendation of the issuer's management, unless the Firm has a particular reason to vote to the contrary. The Firm will attempt to consider all aspects of the proposal that could affect the long-term value of the issuer or that of the client's investment, and will vote in a manner that it believes is consistent with the client's investment objectives. Clients generally may not direct the Firm's vote in a particular solicitation.

If a material conflict of interest between the Firm and a client exists, the Firm will vote in accordance with the guidelines set forth in its proxy voting policies and procedures or consult the voting research and recommendations of a third-party proxy voting service.

Clients may obtain a copy of the Firm's proxy voting policies and procedures and information about how the Firm voted a client's proxies by contacting Erin Price (Director of Operations & Compliance Manager) at [eprice@evolutionarytree.com](mailto:eprice@evolutionarytree.com) or (703) 544-2300.

#### **Item 18: Financial Information**

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This Item is not applicable.