

# HEADINVEST, LLC

Part 2A of Form ADV: *Firm Brochure*

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**March 30, 2020**

This brochure provides information about the qualifications and business practices of HeadInvest, LLC (“HeadInvest”). It is designed to provide you with a thorough understanding of our business practices, any conflicts of interest we may have and how we address them. If you have any questions about the contents of this brochure, please contact us at 800-315-5360 or [info@headinvest.com](mailto:info@headinvest.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

HeadInvest is a Registered Investment Adviser. Registration of an investment adviser in itself does not imply any level of skill or training. The oral and written communications of an adviser provide you with information that help you determine which adviser to hire or retain.

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

## 2. Material Changes

Since the date of our last brochure, March 28, 2019, there have been no material changes in our business or personnel.

Each year, if there have been material changes, we will deliver to you a revised copy of this brochure or a summary of the material changes within 120 days of December 31. We may further provide other disclosures about material changes as necessary.

We will provide you with our current brochure at any time, without charge. You may request a copy of our brochure by contacting Carl G. Gercke, Managing Director or Jennifer E. Mogavero, Chief Compliance Officer at 800-315-5360 or [info@headinvest.com](mailto:info@headinvest.com).

Additional information about HeadInvest is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with HeadInvest who are registered, or are required to be registered, as investment adviser representatives of HeadInvest.

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## 4. Advisory Business

HeadInvest is a registered investment advisory firm that has been in business since 1989. The firm is 100% employee-owned. HeadInvest maintains its sole office in Portland, Maine.

We manage securities portfolios for endowments, trusts, corporations, retirement plans and individuals. We offer this service primarily on a discretionary basis, meaning that we make buy and sell decisions on your behalf, at our discretion, though clients may impose restrictions on investing in certain securities or types of securities. In some cases, we offer advice on a non-discretionary basis, meaning that we discuss investment matters with you but take no action in your investment portfolio without your prior approval.

We take a holistic view of your financial situation and, in addition to investment counsel, offer advice based on our years of experience in working with individual and institutional clients and tailored for you individually. This advice includes matters related to financial planning, insurance coverage, estate and gift planning, retirement planning and other matters. We seek to integrate our work with that of your other advisors, including accountants and estate attorneys, to minimize income and estate taxes and meet other important financial objectives.

We understand you have unique needs. We work with you to understand fully your financial goals and translate them into investment programs, taking into account your risk tolerance and constraints unique to your circumstances. Together, we establish a target asset allocation from among the available investment alternatives, including domestic and international stocks; government, corporate and municipal bonds; certain alternative assets; and cash. Within each asset class, we select securities that we believe are attractively priced relative to their inherent risk and expected return.

As of December 31, 2019, we managed a total of \$680,111,000 on a discretionary basis for 367 relationships. Total assets under management were \$680,111,000.

## 5. Fees and Compensation

The following fee schedule was put in place as of January 1, 2011 for new client relationships and is not currently applicable to pre-existing client relationships.

Our standard fees for investment management are computed at the following rate:

- 1.00% per annum of the first \$1,000,000,
- 0.75% per annum of the next \$2,000,000, and
- 0.50% per annum on assets over \$3,000,000.

Our fees are billed three months in advance, on a quarterly basis, based on the valuation of assets under management at the end of the prior month.

Fees vary and are negotiable based on size of portfolio, types of assets managed, extent of family relationship and other factors.

Non-profit organizations are eligible to receive up to a 20% discount. Any discount depends on the size and service requirements of the relationship.

HeadInvest utilizes exchange-traded funds (“ETFs”) and/or other mutual funds in the management of most client accounts. You should understand that these investments are managed separately and incur fees and expenses that are in addition to our fees.

On occasion, we have advised clients to retain third party investment managers. In such cases, the client pays the third party manager directly under the terms of a separate agreement between them.

In most instances, our clients authorize us to deduct management fees directly from their accounts. Alternatively, you may elect to be billed for fees incurred. If you terminate our services before the end of a billing period, we will refund any amount we have not earned. Likewise, any fees we have earned but are unpaid will be due and payable.

We do not maintain custody of your assets; instead we recommend qualified brokerage firms and/or banks to maintain custody of your assets (see “Brokerage Practices,” below). In addition to trading commissions, your custodian may charge annual custody fees, fixed income markups and/or other fees for specific transactions or services. As part of our duty to provide best execution, we carefully consider the reasonableness of any and all costs imposed by your custodian.

We can and do recommend third parties to provide trustee services when you require them. In such cases, any additional fees charged by a trustee will be detailed in a separate agreement that you execute with them.

Our Financial Planning Fees are based on hourly rates.

## **6. Performance-Based Fees and Side-By-Side Management**

HeadInvest does not charge performance-based fees (fees based on a share of capital gains on, or capital appreciation of, the assets of a client).

## **7. Types of Clients**

At HeadInvest, we manage financial assets for endowments, trusts, corporations, retirement plans and individuals. In order to effectively manage your assets we recommend a minimum relationship size of \$500,000. However, where individual circumstances warrant it, we do make exceptions to this standard. We consider all exceptions on a case-by-case basis.

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

We are managers of equity, fixed income and balanced portfolios. Each portfolio is customized to our clients' objectives and constraints. Portfolios are constructed using a three-step process. First, appropriate asset classes and weightings of each are identified for use in each portfolio. Second, we implement the desired asset allocation by selecting and purchasing securities within or representative of each asset class. Third, we periodically reassess weightings among asset classes and securities and rebalance as needed. Rebalancing may occur as a result of changes in market conditions or in the client's financial situation, cash needs or risk tolerance.

We use a disciplined analytical framework called Price/Value Analysis to guide our security selections. Using computer-assisted quantitative techniques to evaluate a large universe of stocks we are able to:

- Screen companies for financial quality and market liquidity;
- Estimate a theoretical valuation for each stock and compare that valuation to its actual market price; and,
- Identify companies that appear attractively priced relative to current earnings, dividends and book value.

We normally screen out companies with debt greater than half the total invested capital and companies whose market capitalization is less than \$750 million. We apply our valuation model to the remaining universe in order to determine the relationship of a stock's price to its theoretical value. Equity securities that are priced at a discount to this value are candidates for further investigation and research. This process helps control risk, improve return, and assure financial quality and market liquidity in the companies we consider. There is no guarantee that a company's stock price will approach its theoretical value.

During the course of investigation and research, we speak with or visit company management, attend industry events and conferences, review research published by major Wall Street brokerage firms, perform competitor and peer group analysis, evaluate corporate strategies and, in general, do sufficient due diligence to develop confidence in our estimates of earnings, earnings growth, valuation and attendant risks.

The equity securities so selected are utilized in one or more of our three principal equity strategies. Our core strategy, the Core Growth strategy, seeks competitive return with the broad equity market over a market cycle by emphasizing financial quality, liquidity and attractive valuation. Portfolios are constructed to achieve diversification by economic sector, company size, equity style (i.e., both "growth" and "value" stocks are included), and by geography. For taxable accounts, we practice tax efficiency; for all accounts, we seek to minimize costs through low turnover and reasonable investment management fees. We use exchange-traded funds and, occasionally, mutual funds, to gain exposure to asset classes that we find difficult to reach directly, including the equities of international developed markets, emerging markets and small cap companies. For our typical client, we currently employ ETFs up to 20% of the value of their total equity exposure. For some clients, we may use ETFs for substantially all of their equity exposure. All ETFs are chosen for low-cost, tax efficiency, liquidity and appropriateness of the indices they are designed to track.

Our Dividend Value strategy employs the same basic stock selection methodology as our Core Growth strategy while placing a higher value on current dividend yield and dividend growth potential. Dividend stocks selected for this strategy meet all the foregoing criteria as well as having a minimum dividend yield. Our Dividend Value strategy is designed to be implemented in one of two ways: by adding selected dividend stocks to our Core Growth portfolios to increase overall portfolio yield, or by using the full selection of our dividend stocks as a separate equity strategy in lieu of, or as a supplement to, our Core Growth portfolios.

Our Custom Portfolio Services are available to clients with needs that require more flexibility than provided by our core investment models. These services are available to clients who own low basis stock, who wish to provide direct input to us about security selection, or who have other special needs or preferences regarding their investments.

Securities that are selected for use in our custom portfolios are evaluated within our core investment approach and are subject to rigorous selection criteria and review, though they may not meet all the screening criteria of securities selected for one of our model portfolios. Custom Portfolio Services may be provided on a standalone basis or in conjunction with our model portfolio strategies.

For fixed income and balanced portfolios, we generally select individual fixed income instruments for each portfolio. We also use exchange-traded funds and/or mutual funds that invest in fixed income securities.

When analyzing fixed income securities, two fundamental principles apply:

- Yields should increase with time to maturity, and
- Yields should increase to compensate for other risks.

We seek yield advantage by accepting modest risk. Risks inherent in fixed income include interest rate risk, credit risk, liquidity risk, currency risk, market volatility, political and legal risks, and other risks. We base our methods on understanding and measuring risks of all kinds, emphasizing yield, stability, and value.

Market volatility affects equity, fixed income, and cash asset classes, and investing in securities involves risk of loss that you should be prepared to bear. While our disciplined process is designed to identify a combination of asset classes to bring you sufficient return without unnecessary risk, you should know that no portfolio, asset class or individual asset is without risk of loss. We assess your tolerance for risk at the onset of our relationship and periodically reassess as your life circumstances and market conditions change.

## 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 HeadInvest or the integrity of our management. Neither HeadInvest nor any of our management persons has ever been involved with or been the subject of a legal or disciplinary event applicable here.

## 10. Other Financial Industry Activities and Affiliations

Prior to August 2013, HeadInvest was owned by Androscoggin Bank of Lewiston, Maine. We operated as an independently-managed firm but did in some cases recommend the use of the bank's trust department for custody and trustee services, always and only to the extent it was in the best interest of the client. We addressed any potential conflicts that arose with respect to shared control over the clients' assets, in part by undergoing an internal controls audit each year, as required by the SEC.

In August 2013, HeadInvest was acquired by its management group. As a result, the firm no longer has any other financial industry activities or affiliations. Some of our clients' assets continue to be held in custody or trust at Portland Trust Company, an affiliated business of Androscoggin Bank, our former owner.

On rare occasions, we recommend other investment advisers to our clients for services we are unable to provide. In such cases, we may enter into a fee-sharing arrangement with such advisers to compensate us for our oversight services. We always uphold our fiduciary duty to our clients and the selection of a third party investment adviser is done in the client's best interest and with the client's full knowledge and prior approval.

## 11. Code of Ethics, Participation or Interest in Client Transactions & Personal Trading

At HeadInvest, we must safeguard our most important asset – our reputation for integrity, honesty, and professionalism. In working with clients and the public we are guided by a high standard of what is right, not merely legal or permissible. We practice ethics as well as competence when dealing with the public, clients, prospects, employers, and fellow employees. We use reasonable care and exercise independent professional judgment. As a fiduciary, we have an affirmative duty of care, loyalty, honesty, and good faith to act in your best interest.

Some key provisions of our Code of Ethics include:

- We avoid any actual or potential conflicts of interest and also try to avoid situations that have even the appearance of conflict or impropriety.
- We do not tolerate any form of discrimination or harassment in the workplace.
- We conduct our personal financial transactions in a manner consistent with the guidelines established in our Code of Ethics and will never use nonpublic information to profit personally, directly or indirectly.
- We comply with the guidelines in place to protect the privacy of all of our clients.

- We will not participate in any form of deceitful or manipulative behavior with respect to any client or securities.
- We will not engage in the favoritism of one client over another nor will we solicit or accept inappropriate gifts, favors, entertainment, etc. that could influence our decision-making or make us feel indebted to a person or firm.

These standards guide us in our everyday actions and we reaffirm our duty to abide by these standards every year. Procedures are in place to monitor compliance with the Code. Compliance with the Code of Ethics is a condition of employment.

We will provide a copy of our Code of Ethics to any client or prospective client upon request.

The personal trading and investment activities of our employees are subject to various federal securities laws, rules and regulations. While we believe that individual investment activities should be encouraged, the overriding principle is the avoidance of conflicts of interest, or even the appearance of conflict, between client services and personal investments. This inevitably causes us to place some restrictions on our employees to invest freely.

Although our employees may trade for their own accounts in securities which we recommend to and/or purchase for our clients, they must follow our Code of Ethics. Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with making and implementing decisions in the best interest of our clients. In any situation where potential for conflict exists, your transactions will always take precedence over our employees' transactions.

We do not permit our employees to, directly or indirectly, purchase securities from or sell securities to you, our client.

We require all of our employees to report upon hire and annually thereafter, all of their personal brokerage relationships and securities holdings, and on a quarterly basis all personal securities transactions. Certain classes of securities have been designated as exempt transactions, based upon applicable regulations. Our Compliance Officer reviews these reports to ensure there are no conflicts or potential conflicts of interest with respect to your holdings and transactions.

We require all of our employees to receive pre-clearance before trading in any of the firm's core holdings to avoid conflicts or potential conflicts with trades in your accounts. If we find a potential conflict exists, we will not permit the employee to execute the transaction for his or her personal account until you have had the opportunity to purchase or sell that security.

We also require our employees to receive pre-clearance before investing in initial public offerings or private placements.

If any employee has a material financial interest in another business or company, we require him or her to disclose that information upon hire. If an employee wishes to obtain a material financial interest or position in another business or company, the Chief Compliance Officer and senior management must first review the request and grant approval. If we find a conflict or potential conflict of interest, we may deny the employee's request. We always consider your interest a priority when responding to any and all conflicts of interest.

We encourage our employees to engage in community service, including serving on boards of nonprofit organizations. In one such case, the nonprofit organization compensates a HeadInvest adviser for his board service and is also a current HeadInvest client. This arrangement gives rise to a potential conflict of interest. Our Code of Ethics, however, requires that we do not engage in favoritism and otherwise fulfill our fiduciary duty to our clients.

## 12. Brokerage Practices

HeadInvest does not maintain custody of your assets, although we may be deemed to have custody if you give us authority to withdraw funds, such as our fees, from your account. Your assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or a bank as designated by the SEC. While we recommend custodians, the choice of custodian is yours and you will open your account directly with them; and, we can generally assist you in doing so.

We will usually execute your trades more efficiently if they are placed with the brokerage firm that has custody of your assets. When possible, we execute trade orders in a block. When trades are aggregated in a block, all clients participating in the aggregate order receive the average share price on a pro-rata basis. Occasionally, we choose third party brokers for their ability to perform executions and other services efficiently and cost effectively.

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers. We consider a wide range of factors, including the following:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear and settle trades
- Capability to facilitate transfers and payments to and from accounts
- Breadth of available investment products

- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services
- Reputation, financial strength and stability
- Prior service to us and our other clients

Because we consider all of these factors, you may not receive the lowest possible commission rate or fee for a particular transaction on a particular day. We review our custodians annually and, based on the factors above, occasionally recommend that you consider different custodians.

Custodians and brokers generally provide products and services to us that directly or indirectly benefit all or a substantial number of our clients, whether their assets are held at that particular custodian or other custodial firms. These products and services include economic and market data, equity and credit research relating to the companies we analyze and invest in on behalf of our clients, portfolio strategies and portfolio risk assessment, mutual fund information and corporate governance information.

We also receive other services from custodians that are intended to help us manage and further develop our business. These services include software that provides access to client account data and facilitates trading, client billing and other back office functions. The services also include access to compliance, legal and business consulting, publications, and conferences. Custodians may also provide other benefits such as educational events or occasional business entertainment for our personnel. Some custodians make third party vendors available to us at little or reduced cost to assist us in the types of services they render.

The availability of these types of services benefits us because we do not have to produce or purchase them. We may have an incentive to recommend certain custodians based on our interest in these services. In all cases, however, we believe that our recommendations are in the best interests of our clients.

Charles Schwab & Co., Inc. (“Schwab”) has agreed to pay for certain technology, research, marketing, and compliance consulting products and services on our behalf. The fact that we receive these benefits from Schwab is an incentive for us to recommend the use of Schwab as your custodian. This is a conflict of interest. We believe, however, that taken in aggregate our recommendation of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab’s services and not Schwab’s services that benefit only us.

## 13. Review of Accounts

Our Chief Investment Officer and the Investment Committee constantly review the firm's model portfolio of securities and other holdings of our clients. The committee meets periodically to discuss matters related to securities we currently hold as well as companies we identify as potential purchases through our security selection process.

Our portfolio managers review our clients' portfolios on an ongoing basis. We review every account at least quarterly and also upon the purchase or sale of any security. We review accounts periodically for consistency with your current objectives and risk tolerances and we formally review all accounts at least once a year for consistency with your established target allocations among asset classes.

Along with a letter written by your portfolio manager, we send reports to you on at least a quarterly basis. These contain, at a minimum:

- Assets held arranged by asset class
- Market value of each asset
- Cost of each asset when available
- Total value of each asset class
- Total portfolio value

We provide annually, or at any time upon request, details of transactions, income received, realized gains and losses if applicable, and cash movements.

In addition to HeadInvest reports, your custodian will also send directly to you valuation and transactional statements, either on a monthly or quarterly basis.

## 14. Client Referrals and Other Compensation

We entered into an agreement with Charles Schwab & Co., Inc. (Schwab), an independent and unaffiliated broker-dealer, to participate in the Schwab Advisor Network, an advisor referral service designed to help investors find an independent investment advisor. Our participation in the program may raise potential conflicts of interest.

As of 2007, we no longer participate in the Service but do continue to honor the terms of the contract with Schwab for those clients who were previously referred through the Service. We pay Schwab a participation fee on all referred clients' accounts that are maintained in custody at Schwab and a non-custody fee on all accounts that are maintained at, or transferred to, another custodian. The participation fee, which amounts to 15% of the client's management fee, is paid by us and not by the client.

## 15. Custody

Under government regulations, we may be deemed to have custody of your assets if, for example, you authorized us to instruct your custodian to deduct our advisory fees directly from your account or if you grant us authority to move funds to a third party. Your chosen custodian maintains actual custody of your assets. You will receive account statements directly from your custodian at least quarterly. They will be sent to the email or postal mailing address you provided to your custodian. You should carefully review those statements promptly. We also urge you to compare the custodian's account statements with the periodic statements you receive from us.

## 16. Investment Discretion

The majority of our clients grant us discretionary authority over their assets. We are given the authority to make decisions with respect to trading and the authority to execute trades on your behalf. In all cases, we exercise that discretion in a manner consistent with your stated investment objectives. We are also, in most instances, granted the authority to make disbursements to you as you request them, and to debit management fees directly from your account. The broker-dealer or bank who custodies your assets requires both we and the client sign a Limited Power of Attorney for each account in order to grant this authority to us. On occasion, a client may ask that we consult him or her before making decisions with respect to trading. We respect and honor any such requests.

## 17. Voting Client Securities

If you so choose, HeadInvest accepts authority to vote client securities on your behalf. Typically, you will indicate that you wish for HeadInvest to vote your securities in your agreement with your custodian, who will then forward the appropriate information to us. If you grant us authority to vote your proxy, you cannot direct our vote in a particular solicitation, though you may at any time rescind the authority you have granted us.

For clients who wish to vote their own proxies, we make them aware that they will receive their proxies or other solicitations directly from their custodian or a transfer agent. If a client wishes to receive guidance on the voting of a particular proxy, or needs clarification of a particular solicitation, he or she may contact us with any questions.

HeadInvest has adopted proxy voting policies and procedures designed to ensure that it votes proxies in the best interest of its clients and that it provides clients with information about how their proxies are voted. In light of our fiduciary duty to

clients, and given the complexity of the issues that may be raised with proxy votes, we have retained Broadridge Investor Communication Solutions, Inc. (“Broadridge”) to provide access to a selection of third-party providers who are available to provide proxy vote recommendations and research.

Generally, votes are cast through the Broadridge ProxyEdge® platform (“ProxyEdge®”) which provides access to proxy voting recommendations and historical voting information. With the assistance of Broadridge, Egan-Jones Proxy Services (“Egan-Jones”) has been selected to provide vote recommendations based on its own internal guidelines. The services provided to us by Egan-Jones include access to Egan-Jones’ research, analysis and voting recommendations. Services provided to us through ProxyEdge® include reporting, auditing, recordkeeping and consulting assistance for the handling of proxy voting responsibilities

At times, HeadInvest and/or ProxyEdge may not be able to vote proxies on behalf of clients when clients’ holdings are in countries that restrict trading activity around proxy votes or when clients lend securities to third parties. HeadInvest attempts to identify any conflicts of interests between your interests and our own interest within our proxy voting process. If we determine that our firm or one of our employees faces a material conflict of interest in voting your proxy (e.g., an employee of Headinvest may personally benefit if the proxy is voted in a certain direction), our procedures provide for Egan-Jones as an independent party to determine the appropriate vote. We will use our best judgment to vote proxies in the best interests of our clients and will typically follow the recommendations of Egan-Jones.

In the event that we decide to vote a proxy (or a particular proposal within a proxy) in a manner different from the Egan-Jones recommendation, we will document the reasons supporting the decision. In the event that we intend to deviate from the proxy voting recommendation of Egan-Jones and where the public company is an entity with which we have a significant business relationship, then we shall bring the proxy voting issue to the attention of affected clients for guidance on how to vote the proxy.

Clients may obtain a copy of Egan-Jones Proxy Voting Policies and Procedures and information about how their proxies were voted by contacting us at 207-773-5333 or by writing to us at 7 Custom House Street, 4th Floor, Portland ME, 04101.

## **18. Financial Information**

Registered investment advisers are required to provide you with certain financial information or disclosures about our financial condition. HeadInvest has no financial condition or hardship that is likely to impair our ability to meet contractual commitments to our clients, nor have we been the subject of a bankruptcy proceeding.