



SOMMERS FINANCIAL MANAGEMENT

144 S. 14th Street – P.O. Box 1552 - Saint Helens, Oregon 97051
(503) 397-1545 - www.sommersfinancial.com

Performance-Based Fee Addendum

Relating to Account Number 240-_____

Description:

The following fee schedule is exclusively for _____, who would rather pay management fees based upon a percentage of the performance in the account referenced in the title of this addendum, rather than a fixed management fee based upon the market value of his account at the end of each calendar quarter.

Eligibility:

To be eligible for the performance fee option, Sommers Financial Management requires the client to deposit a minimum of \$1,000,000 into the performance-based fee account. The client must not withdraw any funds that will cause his account value to drop below the minimum balance of \$1,000,000 at any time, or this Performance-Based Fee Addendum is void, and the account will be charged the rate stated in base client agreement on the previous pages.

Brokerage/Custodian Fees:

Management fees are separate from all brokerage commissions and custodian fees. Regardless of which Sommers Financial Management fee structure you choose, brokerage firms will charge brokerage commissions and trust companies will charge custodian fees based upon their own fee schedules.

Percentage Amount & Example:

There is a quarterly base management fee of 0.05% calculated on the ending quarter account balance. The annual performance-based fee is calculated at the end of each calendar year as follows: 7.5% of any increase in the account value, exclusive of deposits and withdrawals. Please see the example below. *Although brokerage and custodian fees will still be charged by the custodian, they have not been included in the example below.*

Example:

Beginning of the year account value \$1,000,000

Let us assume an average growth of 20,000 per quarter, after base fees and commission costs, with no deposits or withdrawals.

March 31st Account value: \$1,020,000

0.05% of Ending quarter balance: $0.0005 \times \$1,020,000 = \510 quarterly base management fee

June 30th Account value: \$1,040,000

0.05% of Ending quarter balance: $0.0005 \times \$1,040,000 = \520 quarterly base management fee

September 30th Account value: \$1,060,000

0.05% of Ending quarter balance: $0.0005 \times \$1,060,000 = \530 quarterly base management fee

End of year account value: \$1,080,000

0.05% of ending quarter balance: $.0005 \times \$1,080,000 = \540 quarterly base management fee

7.5% of increase in account balance over the year: $.075 \times \$80,000 = \$6,000$ "performance fee"

\$540 base fee + \$6,000 performance fee = \$6,540 Fee Deducted from account.



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Billing Periods:

In accordance with the Security and Exchange Commission rules and regulations, performance-based fees may only be assessed once per year, in arrears, as compared to a fixed-percentage management fee which may be assessed and charged quarterly in advance. While the performance-based fee will be assessed annually, quarterly base management fees of 0.05% will be assessed quarterly, in arrears. Sommers Financial Management’s performance-based fee portion will be assessed at the end of each calendar year.

Changing Management Fee Option:

At the end of each annual billing cycle (December 31st for performance-based fees), the client will have the option of remaining under the performance-based management fee structure or choosing the one-time option of converting to the fixed percentage management fee structure. The client will have 30 days from the end of the annual billing cycle to make this election. The fixed fee structure will be at Sommers Financial Management’s most current fixed fee billing schedule. This may differ from the billing schedule at the time of the client’s inception with Sommers Financial Management. Once the client has elected to change the fee structure, the client will not be allowed to switch back. This new fee structure will go into effect for future billing cycles and may not be used in arrears as a way of reducing a higher management fee generated from the performance-based fee option.

Performance-Based Fees vs. Fixed-Percentage Fees:

The benefit of a performance-based fee structure is that fees are commensurate with performance. Under the fixed-percentage management fee structure, the client will pay an annual fixed-percentage management fee, usually 0.80% of the account for balances over \$1,000,000, regardless of the performance. The break-even point where the fixed fee and the performance-based fee are approximately the same is when an account that pays a fixed management fee of 0.80% has an annual return of 8%.

Termination:

This agreement may be terminated by either party at any time without penalty upon written notice. Such termination shall not, however, affect liabilities or obligations incurred or arising from transactions initiated under this agreement prior to such termination. In the event that client terminates his or her relationship with Sommers Financial Management before the end of an annual billing cycle the client agrees to pay Sommers Financial Management a pro-rata performance fee based, in addition to the base-fee of 0.05% per quarter, as in the formula below.

Example: Beginning Year Account Value \$1,000,000

Assume after-base-fee (0.05% per quarter) Rate of Return (**for this example only**) 6.00%

(Period January 1-June 30th, and assuming no deposits or withdrawals)

Account Value as of June 30th \$1,060,000

Performance-based fee calculation on June 30th would be 7.5% of \$60,000, or $0.075 \times \$60,000 = \$4,500$.

$0.075 \times \$60,000 = \$4,500$ Management Fee

CLIENT HAS READ AND UNDERSTANDS THE ABOVE MANAGEMENT FEE STRUCTURE

Client Signature

Date

Advisor Signature

Date