

**Item 1 – Cover Page**

# **Essex Financial Services, Inc.**

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## **Firm Brochure (Part 2A of Form ADV)**

**December 23, 2011**

This Brochure provides information about the qualifications and business practices of Essex Financial Services, Inc.. If you have any questions about the contents of this Brochure, please contact us at (860)-767-4300 or via email at [info@essexfinancialservices.com](mailto:info@essexfinancialservices.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.

Essex Financial Services, Inc. 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 Essex Financial Services, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure dated December 23, 2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Michael O’Rourke, Chief Compliance Officer, at (860) 767-4300 or [info@essexfinancialservices.com](mailto:info@essexfinancialservices.com). Our Brochure is also available on our web site [www.essexfinancialservices.com](http://www.essexfinancialservices.com) free of charge.

Additional information about Essex Financial Services, Inc. is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Essex Financial Services, Inc. who are registered, or are required to be registered, as investment adviser representatives of the firm. You can search this site by a unique identifying number, known as a CRD number. The CRD number for EFS is 127549.

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## **Item 4 – Advisory Business**

Essex Financial Services, Inc. (hereinafter “EFS”) is a Securities and Exchange Commission (“SEC”) Registered Investment Adviser and Financial Industry Regulatory Authority (“FINRA”) registered Broker-Dealer and Member. EFS is also licensed as an insurance agency with the State of Connecticut Insurance Department. EFS is majority-owned by Essex Savings Bank and John W. Rafal, the President and founder. EFS originally operated under the name of John W. Rafal & Associates, Inc., which was established in 1982. EFS, in its current structure, was formed in April 2003 and became operational in October 2003 when accounts were migrated from Raymond James Financial Services to the current custodian and clearing firm, Pershing, LLC (“Pershing”).

EFS provides portfolio management and financial advisory services to its clients. The services include, but are not limited to investment management, personal financial planning and consulting, employee benefit retirement plan services, and the sponsoring of certain “wrap-fee programs”.

As of September 30, 2011, EFS discretionary assets under management were approximately \$453.93 million and non-discretionary assets were approximately \$1,386.10 billion.

### **INVESTMENT MANAGEMENT SERVICES:**

#### **Flagship Program**

EFS provides investment management services to its clients on both a discretionary and non-discretionary basis. The primary management program is referred to as the Essex Financial Services Flagship Program (the “Flagship Program”), and an account opened under this program is referred to as an Essex Financial Services Flagship Account (“Flagship Account”). In general, the investment management services provided by EFS to its clients in connection with the Flagship Program are based on a client profile completed by the EFS Financial Advisor with the assistance of the client. The client profile describes, among other things, the client’s investment objectives, time horizon, risk tolerance, tax bracket and income needs. After identifying the client’s objectives, the Financial Advisor constructs a strategic allocation of assets among several investment categories. These categories may include large capitalization stocks, mid-capitalization stocks, small capitalization stocks, equity options, government, corporate, and municipal bonds, international equities, exchange traded funds (“ETF’s”), mutual funds, and, on a limited basis, certain private funds. Upon completion of the asset allocation, the Financial Advisor

will select investments and build a portfolio based on criteria such as historical performance, rate of return, correlation characteristics, and performance relative to an index.

In connection with EFS's investment management services, clients may place reasonable restrictions on the investments in the portfolio or the allocation of assets among various classes. The Financial Advisor will assist the client in understanding and evaluating the potential impact of these restrictions on the portfolio.

### **FINANCIAL PLANNING AND CONSULTING SERVICES**

EFS may, from time to time, provide clients with certain financial planning services or other consulting services. EFS Financial Advisors may prepare a financial plan for clients based upon, among other things, the client's net worth, cash flow, tax situation, retirement needs, employment benefit plans, current investments, and education planning.

Clients may also receive investment advice on a more limited or project-by-project basis. This may include advice on isolated areas of concern such as estate planning or valuation, retirement planning, or any other specific topic. It may also include specific consultation or administrative services regarding financial and investment concerns of the client or the client's business concerns.

### **EMPLOYEE BENEFIT RETIREMENT PLAN SERVICES**

EFS provides advisory services to participant-directed employee retirement benefit plans. EFS analyzes the plan's current investment platform and assists the plan and its participants in creating an investment policy statement defining the types of investments to be offered and the restrictions that may be imposed. EFS will recommend investment options to achieve the plan's objectives, provide participant education meetings, and monitor the performance of the plan's investment vehicles.

### **SPONSORED WRAP-FEE PROGRAMS**

Essex Financial Services, pursuant to an agreement with Lockwood Advisors, Inc. ("Lockwood"), an investment management company based in Malvern, Pennsylvania, offers, through its SELECT Program, a Separately Managed Accounts (SMA Account) together with Lockwood's AdvisorFlex portfolio modeling product.

#### **A. SMA Account**

The SMA option allows clients, in conjunction with EFS's Investment Advisory Representatives (Financial Advisors) to independently select the discretionary investment advisory services of certain professional portfolio management firms for the individual management of client accounts.

#### **B. AdvisorFlex Account**

AdvisorFlex offers a series of objectives-based portfolio modeling strategies, selected and managed by Lockwood, that provide investors with access to professionally managed solutions and seeks to address the unique challenges presented at each phase of the investor lifecycle, from wealth accumulation, to the transition into retirement, and ultimately, the management and distribution of income.

The AdvisorFlex product includes three (3), objectives-based strategies, Appreciation, Income and Preservation (the "Strategies"), with multiple models within each strategy, as described further in EFS's Wrap Fee Brochure, which can be obtained from EFS upon request.

### **SPECIALTY MANAGERS**

In certain limited circumstances and with the clients' needs and objectives considered, EFS will outsource the management of a client account to a third-party manager. Such managers tend to be focused in specialty areas to which the EFS Financial Advisor and client have determined exposure is desirable and appropriate. With regards to these accounts, EFS remains the sole and exclusive broker dealer and maintenance of custody shall be through Pershing. More information on specialty managers can be obtained by request.

### **INSURANCE SERVICES**

As a registered broker-dealer and as a licensed insurance agent, EFS sells products and services consistent with those businesses, including securities and insurance policies. In addition, EFS, as an insurance agency, offers fixed annuities and other insurance products. Financial Advisors who are licensed as insurance agents may offer these products to clients for separate and typical compensation. No client is obligated to use EFS or the Financial Advisors to purchase fixed annuities or other insurance products.

## Item 5 – Fees and Compensation

The specific manner in which fees are charged by EFS is established in a client's written agreement with EFS. In certain instances when a third-party manager is used in the context of a wrap fee program sponsored by Lockwood Advisors, Inc., the client may have written agreements containing fee definitions with both EFS and the third-party manager.

In general, all fees discussed in this section are negotiable based a number of factors.

### Flagship Program Fees

Advisory fees for Flagship Accounts are charged quarterly in advance and, unless EFS otherwise agrees in writing, are automatically deducted by Pershing from the Account. The advisory fee is based upon a percentage of the market value of all assets in the Flagship Account on the last trading day of each preceding quarter. The standard fee schedule may, in certain circumstances, be negotiable or vary based upon, among other things, the size of the Flagship Account and other accounts with EFS. In any partial quarter, the advisory fee will be provided based upon the number of days that the Flagship Account was open. In addition to the investment advisory and transaction charges, clients may incur a nominal charge per transaction for handling and postage. Clients may also incur charges for other account services provided by EFS not directly related to the execution and clearing of transactions including, but not limited to, IRA custodial fees, safekeeping fees, interest charges on margin loans, and fees for legal or courtesy transfers of securities.

The aggregate net value of the managed account shall be determined on the basis of such asset statements as are provided by the custodian of the account or by any investment vehicle utilized in the account. Flagship Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

The following fee schedule for "Flagship Accounts" may vary as discussed above and is negotiable by the Financial Advisor.

<u>Account Value</u>		<u>Quarterly Fee</u>	<u>Annualized Fee</u>
Under	\$1 million	.25%	1.00%
From	\$1-5 million	.187%	.75%
Greater Than	\$5 million	.125%	.50%

Certain of the open-end mutual funds which may be acquired in the Flagship Account may, in addition to assessing management fees, internally assess a distribution, administrative and other service fees. EFS may collect such fees for each year in which a balance is maintained in the mutual fund for the Flagship Account. These fees are in addition to EFS's investment advisory and transaction fees and are generally in an amount equal to .25% or more of the mutual fund balance in the Flagship Account. Such fees are included in the calculation of operating expenses of a mutual fund. The existence of such fees is disclosed in the prospectus for each mutual fund. For ERISA and IRA accounts, distribution and related fees received by EFS will be credited to the client.

Clients should be aware that all mutual funds incur expenses for portfolio management services and fund administrative services. These internal fees are disclosed in the mutual fund prospectus. The advisory fee charged by EFS will be in addition to mutual fund internal expenses and the distribution and related fees collected by EFS.

EFS may charge fees to clients which do not comport with the fee schedule set out above. EFS reserves the right to charge a fee which is less than the amount on the fee schedule. It will not charge its clients more than the amount in the fee schedule. In addition EFS may reduce or waive the transaction fee it charges for transactions executed in client accounts. The consideration for modifying the transaction fee may involve the amount of the fee paid for investment advisory services set out above.

EFS, in its capacity as a registered broker-dealer and member of the FINRA, will be the primary broker-dealer through which securities transactions for Flagship Accounts will be processed. Clients who want to participate in the Flagship Program are required to utilize EFS for such purposes. EFS clears its securities transactions on a fully disclosed basis through Pershing. In addition, Pershing will act as the sole custodian for all the assets in the Flagship Account. In addition to its annual advisory fee, EFS will charge the client a transaction fee for executing transactions. Equity trades will have a \$30 transaction charge. Options, bonds, and certificates of deposit will have a \$50 transaction charge. Mutual fund purchases will have a \$30 transaction charge. The actual expense incurred by EFS for effecting transactions may be more or less than the charges described above. In the event a Flagship Account is maintained on behalf of a plan subject to the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*") or similar government regulation, transaction and clearing fees shall be charged by EFS in an amount equal to its actual cost without mark-up.

Item 12 "Brokerage Practices" further describes the additional practices and fees related to EFS in its capacity as a broker dealer.



## **FINANCIAL PLANNING FEES**

The fees for these services may be a fixed amount based upon the issues to be addressed by the Financial Advisor, or may be based on an hourly charge. Fees for plans will typically range from \$250 to \$5,000. Hourly fees will generally range from \$75 to \$250, depending upon the experience of the Financial Advisor. Fees for financial planning and other services are generally negotiable by the Financial Advisor.

## **RETIREMENT PLAN SERVICES**

Fees for Employee Benefit Retirement Plan services are negotiable and based on a number of factors including plan assets under management and the scope of the engagement.

## **WRAP FEE SCHEDULES**

Clients should be aware that fees for wrap programs are not rebated if the client terminates the account prior to a one-year period. Fees for wrap fee services through Lockwood are described in greater detail in the Wrap Fee Brochure, which can be obtained upon request.

## **SPECIALTY MANAGERS**

Fees for the limited number of accounts which are outsourced to specialty or third-party managers are defined in the Services Agreement between EFS and the client. Further information about third-party manager services, including the fee schedule, can be obtained by request from EFS.

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

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

## **Item 7 – Types of Clients**

Essex Financial Services Inc. (EFS) provides portfolio management services to a variety of clients including individuals, high net worth individuals, corporations, corporate pension and profit-sharing plans, Taft-Hartley plans, trusts, estates, charitable institutions, foundations, endowments and municipalities.

EFS generally requires a minimum of \$25,000 for Flagship Account clients. Account minimums for wrap fee SMA Accounts generally range from \$100,000 to \$250,000. The minimum for ADVISORFLEX Accounts is \$50,000, with minimum, subsequent contributions of \$1,000.

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

### **ANALYSIS AND SCREENING PROCESS**

Analysis and investment strategies for individual “Flagship Accounts” are part of a customized process based on interview and understanding of clients’ needs and objectives. Financial Advisors work closely with individual clients to determine suitability of investments and portfolio construction.

The EFS Investment Committee is comprised of a number of the firm’s Financial Advisors who provide investment advisory services. The Investment Committee actively screens investment opportunities, including mutual funds, individual stocks, Exchange Traded Funds (“ETF”s) and debt securities utilizing third party services and in-house criteria. Investment Committee screening aims to produce actionable “Research Lists” which can be further reviewed in light of a clients’ needs and objectives. “Research Lists” are examined and updated on an ongoing and at least monthly basis.

Mutual Funds and, to a lesser extent, Exchange Traded Funds (“ETF”s) are reviewed using the following criteria:

- The fund’s performance versus benchmarks for 1,3,5, and 10-year periods;
- The percentage rank during the same periods;
- Expense ratios and fee structures;
- The fund or vehicle’s management team and tenure;
- The fund’s historical risk and return characteristics; and
- Any other factors considered relevant.

Individual stocks are reviewed using fundamental criteria such as earnings-based rankings to create similar “Research” lists.

Individual bonds and debt securities are reviewed through various research and pricing platforms utilized by EFS.

The Investment Committee employs its review and screening process across the spectrum of investment vehicles to narrow the universe from which Investment Advisors structure client accounts.

Investment Advisors may also serve to guide clients toward appropriate strategies, given clients' needs and objectives, amongst wrap fee alternatives with Lockwood.

Technical Analysis, including Charting and the active monitoring of markets and individual positions, is used as a means of confirming fundamental screening analysis. Various technical tools in trading and research platforms are monitored for relative strength analysis of individual positions versus group and sector performance.

## **RISKS**

All investing involves a risk of loss that clients should be prepared to bear. EFS's management strategies, including both the Flagship Program and wrap fee alternatives, involve such risk of loss.

All investments present the risk of loss of principal – the risk that the value of securities (mutual funds, ETFs, options, debt securities, and alternative investments in private funds), when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities at the time of sale is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

Mutual funds and ETFs utilized by EFS may include funds invested in domestic and international equities, including real estate investment trusts (REITs), corporate, government, and municipal fixed income securities, and commodities. Equity securities may include large capitalization, medium capitalization, and small capitalization stocks. Mutual funds and ETF shares invested in fixed income securities are subject to the same interest rate, inflation and credit risks associated with the underlying bond holdings.

Among the riskiest mutual funds used in EFS's investment strategies funds are the U.S. and International small capitalization and small capitalization value funds, emerging market funds, and commodity futures funds. Conservative fixed income securities have lower risk of loss of principal, but most bonds (with the exception of Treasury Inflation Protected Securities or TIPS) present the risk of loss of purchasing power through lower expected returns. This risk is greatest for longer-term bonds.

Certain funds utilized by EFS may contain international securities. Investing outside the United States involves additional risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be greater with investments in developing countries.

More information about the risks of any particular mutual fund, private fund and market sectors can be reviewed in mutual fund and private fund prospectuses.

## **Item 9 – Disciplinary Information**

In March of 2007 EFS was censured and fined for failing to maintain and preserve all of its electronic communications as required by specific Exchange Act Rules. This violation involved the failure to retain all relevant email communications as defined by the Rule. EFS consented to the findings and has implemented solutions.

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

EFS is a majority-owned subsidiary of Essex Savings Bank (“*Bank*”). Certain of EFS’s directors are also directors of the Bank. Financial Advisors may recommend the use of the Bank to clients in need of banking services. No client is obligated to use the Bank for any banking service. Any compensation received by the Bank for providing banking services is entirely separate and distinct from the advisory fees charged by EFS. Financial Advisors receive no compensation for recommending the Bank to advisory clients.

In 2011, EFS entered a joint-marketing agreement with Farmington Bank to offer broker dealer and investment advisory services to the bank. Accounts may be referred to EFS by Farmington Bank personnel.

EFS also has a relationship with Michael Silverberg LLC., an insurance agency which refers potential clients to EFS.

The relationships with both Farmington Bank and Michael Silverberg LLC are further discussed under Item 14, “Client Referrals and Other Compensation”.

In addition to offering investment advisory and broker-dealer services, EFS is also licensed as an insurance agency with the State of Connecticut Insurance Department. It is expected that EFS and its executive officers will spend more than fifty percent of their time on investment advisory services and less than fifty percent of their time on brokerage and insurance related activities. As a registered broker-dealer and as a licensed insurance agent, EFS sells products and services consistent with those businesses, including securities and insurance policies.

EFS offers to a limited number of clients alternative investment opportunities through Central Park Group, LLC. Central Park Group, LLC, together with its affiliates, is an independent investment advisory firm that specializes in alternative investment strategies. The Firm offers investments managed by private equity, hedge fund, real estate and fund-of-funds sponsors.

### **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

EFS has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at EFS must acknowledge the terms of the Code of Ethics annually or as amended.

EFS anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which EFS has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which EFS, its affiliates and/or clients, directly or indirectly, have a position of interest. EFS's employees and persons associated with EFS are required to follow EFS's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of EFS and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for EFS's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of EFS will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of EFS's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between EFS and its clients.

EFS's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the Chief Compliance Officer, Michael O'Rourke.

EFS or any related person(s) may have an interest or position in certain securities which may also be recommended to a client. These situations represent a conflict of interest. EFS has established the following restrictions in order to ensure its fiduciary responsibilities:

1. A director, officer or employee of EFS shall not buy or sell securities for their personal portfolio where their decision is substantially derived, in whole or in part, by reason of his or her employment with EFS unless the information is also available to the investing public on reasonable inquiry.
2. EFS maintains a list of all securities holdings (except mutual funds and government securities) for itself and its related persons. These holdings are reviewed on a regular basis by the Compliance Department.
3. All clients are fully informed that certain individuals associated with EFS may receive compensation when effecting transactions for clients.
4. EFS emphasizes the unrestricted right of the client to decline to implement any investment advice.
5. In connection with its Financial Planning Services, EFS emphasizes the unrestricted right of the client to select and choose any broker or dealer and/or insurance company through which to implement recommendations.
6. EFS requires all related persons to act in accordance with all applicable Federal and State regulations governing investment advisory services, including the Insider Trading and Securities Fraud Enforcement Act of 1988, as amended.

Any individual not in observance of the above may be subject to termination or other disciplinary action by EFS.

In its capacity as an investment advisor, EFS's policy is that the firm will not participate in principal or agency cross transactions. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person

on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## **Item 12 – Brokerage Practices**

EFS, in its capacity as a registered broker-dealer and member of FINRA, will be the primary broker-dealer through which securities transactions for Flagship Accounts will be processed. Clients who want to participate in the Flagship Program are required to utilize EFS for such purposes. EFS clears its securities transactions on a fully disclosed basis through Pershing. Clients should understand that EFS and its Financial Advisors have a conflict of interest with respect to transactions effected through EFS.

EFS does not accept directed brokerage business from clients or account instructions to transact through other broker dealers.

EFS, as a registered broker-dealer, and the Financial Advisors, as registered representatives of EFS, may receive separate and typical compensation from any brokerage transaction they implement on behalf of EFS. Except with respect to the Flagship Program, no investment advisory client is obligated to use EFS or the Financial Advisors for brokerage services.

Because EFS requires that clients utilize Pershing for clearing of securities transactions and custody of the Flagship Accounts, economic benefits are received which may not be received if EFS did not give investment advice to clients. These benefits may include receipt of duplicate confirmations and duplicate statements, access to a trading desk, ability to have investment advisory fees deducted directly from client accounts, access to an electronic communications network for client account information and receipt of compliance publications.

In addition, in its capacity as broker-dealer, EFS and the Financial Advisors may receive certain 12(b)-1 fees and other distribution and administrative fees from mutual funds in which client funds are invested as described in Item 5. These fees are in addition to EFS's investment advisory and transaction fees.

Client accounts are transacted on an individual basis based on the Financial Advisor's recommendation. For clients with discretionary accounts, EFS requests that it be provided with written authority to determine which securities and the amounts of securities that are bought or sold. This authority is contained in the Investment Management Agreement each client is required to sign. Any limitations on this discretionary authority shall be included

in this written authority statement. Clients may change or amend these limitations as required. Such amendments shall be submitted to EFS in writing.

In certain limited circumstances for fixed income transactions, EFS may request that it be provided with written authority to determine the broker-dealer to use for client transactions and the commission costs that will be charged to clients for these transactions. In this instance EFS will monitor the fixed income trading services to assess the quality of broker-dealer services and client fixed income transactions and approve the selection of those brokers or dealers which will provide the best services at the lowest commission rates possible. EFS will assess the broker-dealer's ability to provide professional services, competitive execution, and any other services which will aid EFS in providing enhanced investment management services to its clients.

EFS, as a matter of policy and practice, does not have any formal or informal arrangements or commitments to utilize research, research-related products and other services obtained from broker dealers, or third parties, on a soft dollar commission basis. Soft dollars generally refers to arrangements whereby a discretionary investment adviser is allowed to pay for and receive research, research-related or execution services from a broker dealer or third party provider, in addition to the execution of transactions, in exchange for the brokerage commissions from transactions for client accounts.

It is the policy of EFS that in all circumstances involving trade errors, clients are made whole. If the error is the responsibility of EFS, the client transaction will be corrected and EFS will be responsible for any client loss based on an inaccurate or erroneous error.

### **Item 13 – Review of Accounts**

Financial Advisors will periodically monitor the Flagship Accounts and, when appropriate, suggest a reallocation of the portfolio based upon changing economic conditions or changes in the client's individual circumstances. These suggested reallocations will be implemented in discretionary accounts without prior approval or notice to the client.

EFS provides reports to clients based on this periodic review.

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

EFS may pay certain professionals for referrals. The professional who refers the account will receive a portion of the advisory fee but in no case will the client pay more because of the referral fee. The referral fees will be on a cash only basis. The client will be given



proper disclosure about the advisory and referral fees. The professional will be either an investment advisor representative or a solicitor of EFS. Any solicitor will be required to execute a solicitor agreement and each client who is a referral from a solicitor must execute an acknowledgment of the solicitor relationship.

In addition, Essex Savings Bank may from time to time pay referral fees to Bank employees which refer customers to EFS. These referral fees are paid one time, in a nominal, fixed amount, and are not dependent upon whether the customer ultimately opens an account with EFS. In addition, the existence of the referral fee program is disclosed to each customer that opens an account. The referral fee program will comply in all respects with the Interagency Statement on Retail Sales of Nondeposit Investment Products issued by federal bank and thrift regulators.

EFS has a referral relationship with Michael Silverberg LLC. This entity is an insurance agency and refers potential clients to EFS. EFS, in turn, may refer potential insurance clients to Michael Silverberg LLC. Michael Silverberg is a broker-dealer and investment advisory agent of EFS.

EFS has a third party marketing agreement with Farmington Bank where bank personnel may refer broker dealer and investment advisory services. Farmington Bank will receive a portion of the advisory and other fees of referred clients.

## **Item 15 – Custody**

The SEC deems an investment adviser to have custody of client assets any time an adviser has access to clients' funds or securities, including when an adviser directly or indirectly holds client assets, has the authority to obtain possession of client assets, or has the ability to appropriate client assets. For these purposes, SEC registered advisers are deemed to have custody based solely on the ability to debit advisory fees or serve as Trustee.

EFS is deemed to have "custody" of client assets because it has arrangements with clients whereby EFS may directly debit advisory fees from Client accounts, and because a related person, Essex Savings Bank, serves as Trustee for certain advisory accounts and is not operationally independent by virtue of the fact that the entities have directors in common. Therefore, it must comply with Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). The Custody Rule requires that such clients' assets be maintained with a Qualified Custodian.

The Custody Rule provides that advisory clients must receive quarterly account statements directly from the Qualified Custodian. EFS has a reasonable belief that account statements

are provided to clients by the Qualified Custodian on a monthly basis. Clients should carefully review the statements they receive from the Qualified Custodian and should contact Essex if they are not receiving statements or have other questions.

### **Item 16 – Investment Discretion**

EFS usually 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 stated investment objectives for the particular client account.

When selecting securities and determining amounts, EFS observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, EFS's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to EFS in writing.

### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, where EFS is the Adviser to an account, it does not have any authority to and 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. Clients will receive applicable proxies directly from the issuer of securities held in clients' investment portfolios. EFS may provide advice to clients regarding the clients' voting of proxies.

EFS does vote proxies for an ERISA account where such action is required by the Plan.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about EFS's financial condition. EFS 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.