



## **FORM ADV PART 2A- APPENDIX 1 WRAP FEE BROCHURE**

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This brochure provides information about the qualifications and business practices of First Allied Securities, Inc. If you have any questions about the contents of this brochure, please contact us at 800-223-0989. 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.

First Allied Securities, Inc. is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

This wrap fee brochure details important disclosure information about certain wrap fee programs that we offer. We do offer other wrap fee programs that are not discussed in this brochure.

Additional information about First Allied Securities, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Item 2- Summary of Material Changes

The following items explain material changes that you should be aware of as a current or prospective client of our advisory programs or services. Each year you will receive either a summary of material changes that were made to the brochure over the previous year or an updated brochure. You can always request a full copy of any of our current disclosure brochures by calling 800-223-0989.

The changes that have been made to this document since our annual amendment in March 2011 are summarized below:

- *Consolidation Announcement*

First Allied Securities, Inc., a registered investment adviser and broker-dealer, will be transferring its investment advisory business to its affiliate First Allied Advisory Services, Inc., on June 30, 2012. Both firms are wholly owned subsidiaries under the ultimate ownership of First Allied Holdings. Clients that are affected by this consolidation will receive notice of this transfer on or around April 30, 2012, sixty (60) days prior to the consolidation date. Clients that are affected by this consolidation will receive notice regarding how they are impacted and what their options are. After the consolidation, First Allied Securities will continue its business as a registered broker/dealer and remain a wholly-owned subsidiary of First Allied Holdings and affiliated with First Allied Advisory Services.

- *Management Change*

In January 2012, Frank Campanale, a senior member of the management team at First Allied Securities, Inc. and affiliate First Allied Asset Management, Inc., announced his resignation from the management team. Mr. Campanale will continue to advise us on the development of fee-based programs as well as provide strategic insight on the advisory services marketplace. Mr. Campanale will also assist in business development initiatives.

- *Ownership Change*

On November 1, 2011, First Allied Securities, Inc. was acquired by First Allied Holdings, Inc. ("Holdings"). Holdings is controlled by Lovell Minnick Partners, LLC, an independent private equity firm providing equity capital for leveraged buyouts and private company recapitalizations and growth capital for developing companies. In the same transaction, Holdings also acquired affiliates First Allied Advisory Services, Inc., First Allied Asset Management, Inc., and First Allied Wealth Management, which itself owns First Allied Retirement Services, Inc. and FASI Insurance Services, Inc. While the ultimate ownership has changed for each of these firms, the management structure for each of these firms remains the same.

- *New Advisory Programs*

We have created new advisory programs since our last annual update. Detailed information about each of our advisory programs is included in the appropriate disclosure brochure. We have several wrap fee brochures. This brochure details only some of our wrap programs. If you would like to receive additional wrap brochures, or any of our non-wrap program brochures, please speak to your financial advisor.



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## Introduction

First Allied Securities, Inc. ("First Allied"), a New York corporation, is a broker/dealer registered with the Financial Industry Reporting Authority ("FINRA") and a registered investment adviser registered with the Securities and Exchange Commission ("SEC"). Being registered does not mean that First Allied is endorsed by any regulatory authority; it simply means that First Allied is required to follow the rules established by FINRA for brokerage business and the SEC for advisory business. Representatives of First Allied's investment adviser are registered to conduct advisory business in each state where clients reside, according to each state's requirements. In addition, most representatives of First Allied's investment adviser are registered to conduct brokerage business in each state where clients reside. Throughout the remainder of this text, "we," "us," and "our" refers to First Allied.

First Allied is not a custodian of any accounts. Accounts are custodied at Pershing, LLC ("Pershing"), J.P. Morgan Clearing Corp ("JP Morgan"), or other approved custodians. The use of other custodians is limited, and may be allowed on a case by case basis with the approval of our management team.

First Allied primarily conducts trading and clearing services through Pershing and JP Morgan. First Allied is also a member of the Securities Investor Protection Corporation ("SIPC") and the National Futures Association ("NFA").

First Allied, headquartered in San Diego, CA, was founded in 1994. On November 1, 2011, First Allied Holdings, Inc. ("Holdings") purchased First Allied from Advanced Equities Financial Corp. ("AEFC"), who had owned First Allied since 2005. In the same transaction, Holdings acquired several affiliated companies that offer financial products and services (see Other Financial Industry Activities and Affiliations section of Item 9- Additional Information, starting on page 12 for more information). Holdings is controlled by Lovell Minnick Partners, LLC ("Lovell Minnick"), an independent private equity firm providing equity capital for leveraged buyouts and private company recapitalizations and growth capital for developing companies.

### *Our Corporate Structure*

First Allied has approximately 500 investment adviser representatives ("IARs"). Our IARs are independent contractors and business owners. Each IAR is responsible for maintaining his own client relationships. The IARs contract with us to utilize our advisory programs in an effort to help their clients meet financial goals and needs. We provide services to you through these advisory programs.

You pay us fees for our programs and services. We pay a portion of these fees to your IAR. The IAR's share of the fee may vary from one advisory program to another. This presents a conflict of interest for our IARs because they may have an incentive to recommend advisory programs that may be more profitable to them. Additional information about this conflict of interest is included in Item 9- Additional Information, starting on page 12. The fees we retain may also be different between IARs, depending on their agreement with us.

Our back office operations are in San Diego, CA. Our IARs have branch offices across the United States. Each of our IARs is supervised by another individual registered with our firm. The supervisor is called a designated registered principal ("DRP") or designated supervisory principal ("DSP"). DRPs are registered individuals that have contracted to work with us, and are often IARs and representatives themselves. DSPs are our employees and located in our home office in San Diego.

### *Our Principal Officers*

Adam Antoniades is the Chief Executive Officer of First Allied. He was formerly employed with First Allied as President, CEO and Corporate Secretary from 1994 until 2004. Mr. Antoniades also served as President of Advanced Equities Financial Corp. from 2004 to 2009. Prior to his employment at First Allied, Mr. Antoniades was employed by Bishop Saxony Corporation as Corporate Secretary and with Berkeley Safe Deposit as Head Currency Trader.

Robert J. Moses is Senior Managing Director and General Counsel for First Allied. Mr. Moses has been with First Allied since 1994. Mr. Moses previously served as General Counsel for Advanced Equities Financial Corp. and held a position as Associate General Counsel of Josephthal & Co. Incorporated, which he joined in 1991.

Mark Quinn joined First Allied as Chief Risk Officer in February 2010. Prior to joining First Allied, he spent approximately 10 years as Senior Vice President and General Counsel of Royal Alliance Associates, Inc., which is a registered broker/dealer and investment adviser.

Vere Reynolds-Hale is First Allied's National Sales Manager and has been with First Allied since October 2007. Mr. Reynolds-Hale previously served as the Executive Vice President of Product Marketing and Development at Summit Brokerage Services and as Vice President of Sponsor Relations at LPL Financial Services.

Tiy O'Neal is the Chief Operations Officer of First Allied and is responsible for back office operations including the areas of brokerage and advisory operations and trading, administration, escalation, integration, technical support and others. Ms. O'Neal has been with First Allied since its inception in 1994.



Donna Bartlett is the Senior Managing Director of Brokerage Compliance at First Allied and serves as the Chief Compliance Officer of First Allied's broker/dealer. She was formerly employed as A.V.P. Compliance with Bishop Saxony Corporation, for four years; and, prior to that as Due Diligence Coordinator of Sentra Securities Corporation. Ms. Bartlett has been with First Allied since its inception in 1994.

Luanne Borowski, Managing Director of Investment Advisory Compliance, has been the Chief Compliance Officer of First Allied's investment adviser since February 2007 and Chief Compliance Officer of First Allied Advisory Services since July 2010. Since February 2007, Ms. Borowski has also served as Chief Compliance Officer of First Allied Asset Management, Inc. Ms. Borowski first joined First Allied as an investment advisory compliance analyst in February 2002. Ms. Borowski previously served as Chief Compliance Officer of Asset Planning Solutions, a broker/dealer, and Ken Stern & Associates, a registered investment adviser, from August 2000 until January 2002.

Janice Doza is the Chief Financial Officer of FAAS and has served in that position since June 2008. Ms. Doza also became the Chief Financial Officer of First Allied in March 2011. Ms. Doza previously served as Chief Financial Officer and Controller for FFP Securities, Inc. until 2008. From April 2003 through March 2006, Ms. Doza served as Controller for First Financial Planners, Inc.

Gregg Glaser was named an Executive Vice President of First Allied in January 2009. Mr. Glaser previously served as the Chief Financial Officer of Advanced Equities Financial Corp. from 2004 until 2011. Mr. Glaser also formerly served as the Chief Financial Officer of the Independent Brokerage Group of Wachovia Securities.

Joel Marks is Chairman of First Allied and has served in an executive leadership position since 2005. Mr. Marks previously served as Vice Chairman and Chief Operating Officer of Advanced Equities Financial Corp. and was a co-founder of JWGenesis Financial Corp. where he served as its Vice Chairman and Chief Operating Officer until it was acquired by Wachovia Securities in January 2001. Following the Wachovia acquisition, Mr. Marks served as Senior Vice President and Managing Director of Wachovia Securities through May 2002.

Garrett Merrill is the Managing Director of Supervision at First Allied. Mr. Merrill previously held the positions of Vice-President – Director of Supervision and Vice President – West Coast Region for First Allied's Supervision Department. Prior to joining First Allied, Mr. Merrill previously worked in the accounting and compliance departments at Howe Barnes Investments and served as Second Vice President of Compliance at The Northern Trust Company.

#### *Devotion of Resources*

Because we are both a broker/dealer and a registered investment adviser, many of our home office employees devote a portion of their time to broker/dealer activities as well as registered investment adviser activities. Your IAR may also divide his time between broker/dealer activities and advisory activities and have responsibilities to both entities. Depending on your IAR's individual business mix and client base, he may spend more or less time devoted to broker/dealer activities than other IARs.

In addition to broker/dealer activities and responsibilities, your IAR may also be engaged in one or more outside business activities. These outside activities may or may not be related to the financial services industry. Your IAR will provide you with a copy of his Form ADV Part 2B brochure supplement, which describes his business background and outside business activities.

#### *Our Broker/Dealer Activities*

Our broker/dealer activities are separate from our investment advisory activities. As a broker/dealer, we place trades for clients for purchases and sales of stocks, bonds, options, mutual funds, variable insurance products and private placements. We sometimes participate in initial public offerings. We offer our clients the opportunity to participate in private funding through unaffiliated broker/dealer(s).

As a broker/dealer, we buy and sell securities for our own account. We also buy and sell securities on behalf of other clients. Our main activities include retail and institutional client services. We generally use our own execution services for advisory clients and brokerage clients, for accounts custodied at Pershing or JP Morgan, though for clients of certain of our advisory programs, another party's execution services are used. For all advisory programs described in this brochure, our execution services are used.

#### *Our Advisory Activities*

Through our IARs, we offer a variety of investment advisory programs and services for a fee. The following list includes some of our more common offerings:

- Assistance in selecting a portfolio manager
- Ongoing evaluation and review of portfolio managers
- Evaluation and review of portfolio composition
- Management of accounts
- Financial planning
- Consultation on client assets
- Active portfolio management

Portfolio management includes designing a portfolio through buying and selling stocks, bonds, mutual funds, options, managed futures, insurance products, private placements, and other securities. Our employees, including your IAR may personally buy and sell the same securities that you buy and sell. This conflict of interest is discussed fully in the Code of Ethics section of Item 9- Additional



Information, starting on page 12. Our IARs are permitted to offer you advisory programs that are managed by themselves or by a third-party manager. The third-party manager may be a related party or an unrelated party.

We take into account your investment goals and needs when recommending any advisory program or service. Our intention is to provide you with programs and services that will help you to meet your goals and needs. We will gather personal information when helping you choose a program or service. This information may include:

- Your investing experience
- How soon you need the money
- Your retirement goals
- Your current financial situation and future needs
- Your annual income
- Your ability to withstand losing money
- Your ability to withstand market fluctuation
- Your personal instructions on how to invest

**Please contact your IAR any time this information changes so that your IAR can review your existing accounts to see if any changes need to be made.** You may impose reasonable investment restrictions in any of our advisory programs by written notification to and acceptance of both us and the third-party manager (if applicable).

We offer both wrap and non-wrap programs. A wrap program is one in which you pay a single “wrapped” fee for both investment advisory and brokerage execution services. This wrap fee is not based on the number of transactions made in your account. It is based on the size of the account(s) we manage for you. If you invest in a non-wrap program, you may be subject to charges for each transaction in addition to the advisory fee. Because wrap programs do not have fees or charges associated with each transaction, wrap fees may be higher for similar services than non-wrap fees.

Certain wrap programs that we offer are described in Item 4- Services, Fees and Compensation, starting on this page. We offer additional wrap programs that are not detailed in this brochure and we also offer several non-wrap programs that are detailed in our Form ADV Part 2A disclosure brochure. Your IAR can provide you with these other brochures upon request. Some non-wrap programs that we offer are similar to the wrap programs that we offer. Your IAR will work with you to decide which program will best serve your needs.

#### *Information on All Advisory Programs*

Regardless of which advisory program or service you choose, your IAR will work with you to collect suitability information that will aid in the creation of recommendations. This suitability information is maintained on internal systems and documents. Your IAR is required to submit the completed suitability information to his supervisor for review and approval. It is your responsibility to notify your IAR if your financial circumstances change so that your IAR may work with you to determine if a change in your investment(s) may benefit you. Your IAR is also responsible for the ongoing review of your account(s) and regular communication with you.

Custody of all accounts will be at Pershing, JP Morgan, or another approved custodian. The custodian will provide you with confirmations of all transactions and monthly or quarterly account statements. You may have the option of directing the custodian to not send you confirmations. This suppression will not impact the delivery of account statements. For some programs, First Allied will provide you with quarterly performance reports. These performance reports will contain statistical information about your account. In some cases, if you have more than one account at First Allied, we may be able to combine multiple accounts on the same performance report.

Regardless of the program chosen, your IAR is responsible for ongoing review of your account(s), regular communication with you, and determining that the portfolio selected is appropriate for you based on your investment objective(s).

## Item 4- Services, Fees and Compensation

### *Fee Overview*

The fees you pay for advisory programs or services we offer will depend on several different factors. The fees for advisory programs are generally based on the “Assets Under Management.” This means the account is charged a fee based on the account balance as of a certain date. These fees are negotiable between you and the IAR offering the service.

Most programs charge an advisory fee, paid quarterly, based on the account’s balance on the last day of each calendar quarter (March 31, June 30, September 30, and December 31). If the last day of the calendar quarter falls on a day that the New York Stock Exchange is closed, we use the account balance on the last business day of the calendar quarter to calculate the advisory fee. This fee is generally charged in advance (or pre-paid) for the management to be provided over the next calendar quarter. We will only charge you an advisory fee for the portion of a quarter that the account is under management. For new accounts, we will bill the account when it is opened for the remaining days in the quarter. For accounts that are terminating management, we will automatically credit you back any pre-paid fees for the portion of the quarter remaining after management has terminated. Advisory fees are generally deducted from the account. The account statements you receive from the custodian will reflect the deduction of these fees. Fees are deducted from the client account in the month following quarter end. For some programs, fees may be paid to First Allied by check, as outlined in the advisory agreement. In this case, we will send an invoice to the client for the fees owed.





In the event a deposit of \$5,000 or more on a single day or withdrawal of \$5,000 or more on a single day occurs in your Select or PCS program account, we will calculate the fee owed or refund due and adjust the normal fee charged at the end of the calendar quarter. For MAC program accounts, a net deposit or withdrawal of \$20,000 or more in a single quarter will trigger the fee adjustment.

Some assets in your managed account may not be included in the calculation of your advisory fee. For example, assets that you recently paid a commission on may be exempt from this advisory fee. With approval from our management, we allow you to “hold” the asset in your advisory account, but this asset would not be charged an advisory fee.

If your account is billed on assets under management, the advisory fee is generally split between a program (or platform) fee and a management fee.

#### *Program Fees*

The program fee will vary depending on which program or service you select. The program fee is paid to either First Allied entirely, or is split between us and a third-party manager. A portion of the program fee is also paid to service providers that we hire to help us administer the advisory program selected. This program fee is not negotiable. However, the program fee may be different based upon your IAR’s relationship with First Allied. For example, we may allow your IAR to have a lower program fee because his clients’ combined accounts exceed a certain amount of assets under management. If your IAR has a different program fee, this will not change the total advisory fee you pay, but it may present a conflict of interest (we address this conflict of interest in Item 9- Additional Information, starting on page 12).

#### *Management Fee*

The management fee is paid to the IAR servicing the account. You and your IAR will negotiate this fee for each program account and it may not be the same for each account. It may also be different than the fees your IAR has negotiated with other clients. We retain a portion of the management fee as compensation for various services that we provide to your IAR and to you.

#### *Total Advisory Fee*

You and your IAR will agree on your total advisory fee for each account prior to establishing the account. The total advisory fee is the sum of the program fee and the management fee. At any time, you and your IAR may agree to amend the original fee and submit a new advisory agreement with a different fee schedule. There are maximum allowable advisory fees for each program and we will not allow you to be charged more than this amount. The maximum allowable advisory fee will differ between programs, but is consistent for each IAR. This maximum advisory fee is noted on the investment advisory agreement and in the fee schedules listed in this section.

#### *Fee Schedules*

Each advisory program that requires an account has its own fee schedule. The fee schedule will outline the program fee and the management fee. Generally, the management fee is negotiable with your IAR. The program fee is paid to us and is non-negotiable. The amount of your advisory fee, as a percentage, may remain the same regardless of the size of your account, or the percentage may decrease as your account balance increases. Your advisory fee will not increase, as a percentage, as your account balance increases. Fee schedules and other information about account charges for each wrap program we offer is listed here.

#### **First Allied Select (“Select”) Program Overview**

Our Select program offers you a choice of different strategies for your account. The Select program is a third-party managed account program, for which we have hired an affiliate, First Allied Asset Management (“FAAM”) to manage the strategies. The strategies available in the Select program are:

- ETF Select
- Yield Select
- U.S. Large Cap Select

Your IAR will work with you to determine the most appropriate Select strategy for your needs. Your IAR will obtain sufficient client information to be able to assist you in determining what strategy will best suit your investment objectives and financial goals.

The manager, FAAM, will be granted full trading authorization, meaning that they will execute the trades without first asking your permission. The Select strategies mainly use exchange-traded funds (“ETFs”) and closed-end funds (“CEFs”). The manager may include other securities in the account.

FAAM will vote client proxies for Select program accounts. You may revoke this authorization at any time by sending us written instructions naming another person who will vote proxies in the account(s). Information about FAAM’s proxy voting policy is available in FAAM’s Form ADV Part 2A disclosure brochure that your IAR will provide to you upon offering you the Select program.

Each Select program has a minimum amount that must be invested in the account. This amount differs between strategies, and is noted in the strategy descriptions below. Under certain circumstances, this minimum can be waived by acceptance of First Allied.



### **ETF Select**

ETF Select is designed as a comprehensive asset allocation strategy giving clients exposure to an actively managed blend of stocks, bonds, and alternative assets. ETFs are used to obtain asset class exposures. ETFs offer many advantages over mutual funds including precision, tax efficiency, liquidity, and lower expenses. In the ETF Select strategy, assets are strategically allocated across a wide range of asset classes, utilizing primarily ETFs, through a comprehensive investment process. There are five models available for ETF Select, ranging from the Income portfolio, which has an allocation of 20% equities and 80% fixed income, to the Equity Growth portfolio that is allocated to almost 100% equities. The minimum for ETF Select accounts is \$50,000.

The following table details the fee schedule for ETF Select accounts:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.80%	1.60%	2.40%
\$250,000 - \$500,000	0.75%	1.15%	1.90%
\$500,000 - \$1,000,000	0.65%	0.85%	1.50%
\$1,000,000 and over	0.63%	0.62%	1.25%

### **Yield Select**

The Yield Select strategy invests in highly liquid U.S.-listed securities, including equities, American Depositary Receipts (“ADRs”), and closed-end funds (“CEFs”). Its primary objective is to offer a balance between current income and future growth, with a bias toward risk management. The portfolio will be comprised of two parts: the first invests in CEFs representing both equity and fixed income asset classes and the second invests in individual stocks that have a high current dividend yield plus the potential for dividend growth. Between the two pieces, the goal is to establish a portfolio of approximately 40 positions that is diversified by asset class, sector and size that will generate current income through dividends, interest income and royalty payments plus offer the potential for long-term appreciation. The minimum for Yield Select accounts is \$25,000.

The following table details the fee schedule for Yield Select accounts:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.65%	1.75%	2.40%
\$250,000 - \$500,000	0.60%	1.30%	1.90%
\$500,000 - \$1,000,000	0.55%	0.95%	1.50%
\$1,000,000 and over	0.50%	0.75%	1.25%

### **U.S. Large Cap Select (“USLCS”)**

USLCS is a separately managed account strategy investing in highly liquid U.S.-listed equities. FAAM manages this program for investors seeking a risk-managed approach that strives to build and maintain wealth. USLCS seeks to outperform the S&P 500 index with a bias toward downside risk management. The strategy is designed to accommodate growing concern about market risk while still providing the participation in growth that is available through equity investing. In USLCS accounts, FAAM employs a disciplined methodology to identify opportunities to purchase stocks in large U.S. companies that the portfolio management team believes are poised for enhanced performance with a favorable risk/reward tradeoff. The minimum for U.S. Large Cap Select accounts is \$25,000.

The following table details the fee schedule for USLCS accounts:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.80%	1.60%	2.40%
\$250,000 - \$500,000	0.75%	1.15%	1.90%
\$500,000 - \$1,000,000	0.65%	0.85%	1.50%
\$1,000,000 and over	0.63%	0.62%	1.25%

### **Prime Asset Management II (“PAM II”) Program**

The PAM II program allows your IAR to manage your assets with limited or full trading authorization. This trading authorization may be limited to investment company securities (limited trading authorization) or extend to any security traded on a national or regional exchange (full trading authorization). IARs who wish to have full trading authorization in your account must be approved by First Allied to offer full trading authorization and must receive your permission on the investment advisory agreement. Since PAM II program accounts are managed by our IARs, we require that an investor profile be completed prior to the opening of any PAM II program account. In addition to the responsibilities listed above, when you invest in the PAM II program, your IAR will be responsible for managing the account as necessary.

The minimum account size for the PAM II program is \$50,000. Under certain circumstances, this minimum can be waived by First Allied. You should know that we offer a non-wrap version of the PAM program that has a different program minimum and fee





structure than PAM II. Your IAR should consider which version of the PAM program would suit you better. If you would like more information about the non-wrap version, please request it from your IAR.

The following table details the advisory fee schedule for the PAM II program. The management fee may be discounted upon agreement with your IAR. Your IAR may have an agreement with us whereby the program fee is less than the amounts listed.

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$150,000	0.45%	2.05%	2.50%
\$150,000 - \$250,000	0.30%	2.20%	2.50%
\$250,000 - \$400,000	0.30%	1.95%	2.25%
\$400,000 - \$750,000	0.10%	2.15%	2.25%
\$750,000 to \$900,000	0.10%	1.65%	1.75%
\$900,000 to \$2,000,000	0.05%	1.70%	1.75%
\$2,000,000 and over	negotiable	negotiable	negotiable

#### **Private Client Services (“PCS”) Program**

We created the PCS program to provide higher net worth clients the opportunity to have some, or all, of their assets managed in one place. PCS is open to clients that will have at least \$500,000 invested in the program. We have hired FAAM to manage the PCS program. Our IAR will work with you and FAAM to determine the most efficient allocations of your current accounts. The strategies available include a combination of the ETF Select, U.S. Large Cap Select, and Yield Select strategies described above used in combination with some customized strategies that FAAM can develop for you. These customized strategies may include:

- A laddered municipal bond portfolio designed to meet your specific investment time horizon. FAAM will purchase multiple municipal bonds with staggered maturity dates in an attempt to diversify interest rate risk while providing regular cash flow.
- A structured products portfolio to provide limited downside protection and extra participation on the upside. Structured products come in many forms, but are typically short term investments (typically 18 to 36 months) that resemble bonds, but are issued by a bank and track an index. They do not pay interest like bonds, but instead pay a return at maturity if the index it is tracking increases, or returns a discounted amount of principal if the index is down over the time period.
- A covered call, or options, portfolio consisting of a bucket of individual covered call positions. A covered call involves the simultaneous purchase of a stock and sell of a call option, which means that someone can buy your stock at a specific price (“strike price”) when they choose to. It provides some protection against loss in exchange for participation in gains, as limited by the call’s strike price. Positions are diversified by sector, strike price, and expiration date. FAAM attempts to select stocks that have attractive covered call opportunities.
- An options portfolio based on your current holdings that may have a low cost-basis or consist of a large percent of your holdings, such as company stock. FAAM use options strategies to help provide cash flow from these low-basis positions. FAAM can also help create option strategies that provide a systematic exit plan from highly concentrated positions. FAAM may employ more complicated option techniques for these strategies. These techniques may involve the simultaneous purchase and sale of options at different expiration months and strike prices.

FAAM will vote client proxies for PCS program accounts. You may revoke this authorization at any time by sending us written instructions naming another person who will vote proxies in the account(s). Information about FAAM’s proxy voting policy is available in FAAM’s Form ADV Part 2A disclosure brochure that your IAR has provided to you. The fee schedule for the PCS program is:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$1,000,000	0.65%	1.35%	2.00%
\$1,000,000 - \$2,500,000	0.65%	1.10%	1.75%
\$2,500,000 - \$5,000,000	0.60%	1.00%	1.60%
\$5,000,000 - \$7,500,000	0.50%	0.75%	1.25%
\$7,500,000 - \$10,000,000	0.45%	0.65%	1.10%
Over \$10,000,000	0.40%	0.60%	1.00%

#### **Managed Account Command (“MAC”) Program**

The MAC program is our custom version of Pershing’s Managed Account Solutions (“PMAS”) platform. PMAS provides us with software that allows your IAR to create a proposal and select a third-party manager to manage your account.

You will provide your IAR with information regarding your financial situation, including your investment objectives and goals. This data will be entered into PMAS by your IAR to create a statement of investment policy. This policy statement will outline your selected managers and strategies.

The MAC program allows you and your IAR to choose from a variety of managers and strategies. These strategies are either equity strategies or fixed income strategies. The minimum for MAC accounts invested in an equity strategy is \$100,000. The minimum for



MAC accounts invested in a fixed income strategy is \$250,000. The different fee schedules for equity and fixed income strategies are listed below.

The selected manager will be responsible for the trading in your MAC account. The manager is granted full trading authorization in the account, meaning that you will not be contacted prior to trades being executed in the account. Each strategy selected will require its own account.

The selected manager will vote proxies for MAC accounts. You may revoke this authorization at any time by sending us written instructions naming another person who will vote proxies in the account(s). Records of how your proxies are voted are maintained by the manager.

The fee schedule for equity accounts is as follows:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.90%	0.60% - 2.10%	1.50% - 3.00%
\$250,000 to \$499,999	0.90%	0.40% - 2.10%	1.30% - 3.00%
\$500,000 to \$999,999	0.85%	0.25% - 1.65%	1.10% - 2.50%
Over \$1,000,000	0.80%	0.10% - 1.45%	0.90% - 2.25%

The fee schedule for fixed income accounts is as follows:

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.65%	0.65% - 1.35%	1.30% - 2.00%
\$250,000 to \$499,999	0.65%	0.50% - 1.35%	1.15% - 2.00%
\$500,000 to \$999,999	0.65%	0.30% - 1.35%	0.95% - 2.00%
Over \$1,000,000	0.60%	0.15% - 0.90%	0.75% - 1.50%

Each of the tiers for the MAC program has ranges because the different managers that you can choose from have different management fee schedules. Depending on the manager you choose, your management fee and total advisory fee could be on the lower end of the range, or on the higher end of the range.

#### **SEI Investment Management Corp. ("SEI") Program**

We have entered into an agreement that allows your IAR to offer portfolio management services in an SEI account. SEI is a company that creates mutual funds and mutual fund portfolios. SEI is an unaffiliated registered investment adviser. In the SEI program, your IAR selects the mutual fund allocation for your SEI program account. SEI program accounts are custodied at SEI Private Trust Company, a firm related to SEI Investment Management Corp.

The fee schedule for SEI program accounts is below. Your advisory fee for your SEI program account(s) is negotiable and may be less than the amounts listed below.

Account Size	Program Fee (annually)	Management fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.00%	1.50% - 2.00%	1.50% - 2.00%
\$250,000 to \$499,999	0.00%	1.25% - 1.50%	1.25% - 1.50%
\$500,000 to \$999,999	0.00%	1.00% - 1.25%	1.00% - 1.25%
\$1,000,000 to \$2,499,999	0.00%	0.85% - 1.00%	0.85% - 1.00%
\$2,500,000 and over	0.00%	0.75%	0.75%

In addition to the SEI program advisory fee noted, you may pay other fees associated with the SEI program, including an annual custodial fee. SEI is not compensated via a program fee. Instead, SEI receives compensation through the SEI mutual funds that are included in your portfolio. You may pay less overall if you were to invest in SEI funds in a different program or directly with SEI. SEI program accounts are billed according to SEI's procedures.

#### ***Other Fees***

Mutual funds often charge investors additional advisory or management fees for the services provided by the fund manager. A portion of these fees, called mutual fund trailers, are paid to First Allied. In certain accounts, we may retain a portion of these fees and your IAR may also receive a portion of these fees.

Each custodian may charge additional transaction fees depending on the type of security purchased or sold. Electronic funds and wire transfer fees, transfer taxes, account maintenance fees, margin fees, transaction charges, exchange fees, and odd lot differentials are examples of fees that may be charged by the custodian. These fees are charged by the custodian and are not included in the advisory fee that you pay to us for management of your account. First Allied may receive a portion of these fees in its capacity as introducing broker/dealer. An account service schedule detailing all these fees will be provided to you upon account opening.



### *Verification of Fees*

You are always responsible for verifying that the fee you are charged is accurate. The custodian will not determine whether the fee is properly calculated. Should you find an error, please contact your IAR immediately. If you are not satisfied with the action your IAR takes, you may contact us at the number on the cover page of this document.

## Item 5- Account Requirements and Types of Clients

Most programs we offer have account minimums (if the program requires an account). We offer wrap programs with a minimum as low as \$15,000. The programs described in this brochure have a minimum investment of \$25,000. If you have questions about the wrap programs offering a lower minimum, or other wrap programs not listed in this brochure, please ask your IAR to provide you with our other wrap fee brochures.

We generally will not allow accounts into a wrap fee program that do not meet the minimum, however we can make exceptions. If the account will be managed by a third-party manager, the third-party manager must be willing to take the account below the minimum.

Our IARs open accounts for individuals, high net worth individuals, banking institutions, pension plans, profit sharing plans, charitable organizations, and other corporations and businesses. The majority of these accounts are opened for individuals not considered high net worth individuals. Our clients may have both advisory accounts and brokerage accounts. Our representatives may offer you advisory services, brokerage services, or both, depending on your needs.

## Item 6- Portfolio Manager Selection and Evaluation

A review is conducted of each third-party manager or platform that provides management services to our clients. We call this process "due diligence." Our due diligence process starts with the third-party manager completing a comprehensive questionnaire designed to provide us with information about the third-party manager and its investment process. We review each third-party manager against our guidelines, based largely on its answers to the questionnaire.

Along with reviewing the questionnaire, a more detailed review of the critical data is conducted, including:

- The ownership structure
- Employees, including investment professionals, marketing and client service staff
- Regulatory, legal, and compliance issues of the third-party manager
- The third-party manager's performance, both current and historical
- In some cases, the third-party manager's financial statements

We have an internal review committee that reviews this information and decides if the third-party manager will be approved to manage our program accounts. We also conduct a regular review of the third-party managers we have previously approved. Our review process follows the same general guidelines as the initial process, including the third-party manager completing a questionnaire. Unless material information is discovered during this review, additional approval is not required to continue the relationship with the third-party manager.

## Item 7- Client Information Provided to Portfolio Managers

The information that we provide to the managers varies depending on the amount of information the manager requests. Non-public information is information about you that is not available to the public. Your social security number, your net worth, and your annual income are examples of non-public information. Public information is information about you that is readily accessible to the public. Public information may include your name, phone number, and address.

Should you select a program in which FAAM, one of our affiliates, serves as the manager, we will provide FAAM with all identifying information about your account, including non-public information. For accounts in the MAC program, different managers request different information from us to set up the management of your account. We will furnish both public and non-public information to these managers as requested.

For all accounts, including those in the PAM II program, your IAR will have access to all of the non-public information you provided when opening the client account. This information is protected in accordance with our Privacy Policy. A copy of our Privacy Policy is available on our website (<http://www.firstallied.com/privacyPolicy.php>). A copy is provided to you after you open an account with us and annually thereafter.

## Item 8- Client Contact with Portfolio Managers

Your IAR serves as the contact point for any questions or changes you have related to your accounts. The third-party managers are not generally available for you to speak with. However, your IAR may be able to facilitate contact with the manager on your behalf.



## Item 9- Additional Information

### **Conflicts of Interest**

Your IAR will receive compensation as a result of your participation in the programs described in this brochure. The amount of this compensation may be more or less than the amount of compensation your IAR would receive if you were to pay separately for investment advice, brokerage, and other services. However, we attempt to design all of our advisory programs with pricing competitive with what a client might pay for investment advice, brokerage, and other services separately.

Your IAR may receive a higher percentage of management fees for certain programs. This presents a conflict of interest in that your IAR may benefit from recommending certain programs based on the difference in compensation he receives. If your IAR qualifies for reductions in the program fee paid to us, this results in additional compensation to your IAR. To mitigate this conflict of interest, we require that any program you invest in must be suitable for your investment goals and financial needs. In addition, the increased percentage that your IAR may receive for certain programs will not increase the total advisory fee that you pay for those programs.

Your IAR may also be registered as an independent contractor registered representative with our broker/dealer. This may create a conflict in that your IAR may be able to choose between offering you advisory programs or services and brokerage products. The amount and manner of compensation that your IAR receives in either of these capacities presents a conflict of interest. To mitigate this conflict of interest, we require that any advisory program or advisory service that you are offered is suitable for your investment goals and financial needs. Our broker/dealer conducts suitability reviews for brokerage product solicitations.

Your IAR may have a material financial interest in certain securities. We do not permit our IARs to solicit for or use discretionary trading authority in any purchases or sales in a security in which that IAR has a material financial interest. Your IAR may purchase or sell the same security he solicits for or uses discretionary trading authority for his client accounts as long as he does not have a material financial interest in the security. This presents a conflict of interest. Our Code of Ethics mitigates this conflict by detailing policies designed to ensure that clients are not disadvantaged by an IAR's trading activity.

Neither First Allied nor our IARs accept mutual fund trailers in accounts subject to the Employee Retirement Income Security Act (ERISA) or similar rules. This includes IRA, 401k, or other employer-sponsored retirement accounts. These trailers are credited back to the client when received or credited to the balance due for the next advisory fee. However, we and our IARs will accept trailers from mutual fund companies in non-ERISA accounts. This presents a conflict of interest in that the receipt of these mutual fund trailers may give your IAR an incentive to recommend mutual funds based on compensation to be received. We help mitigate this conflict of interest by ensuring that the mutual fund sponsor companies that we have agreements with each have versions of advisory-share class mutual funds that are available for use, when appropriate, to avoid these fees.

You have the option to purchase investment products that our IARs recommend through other brokers that are not affiliated with us.

Certain of our IARs and employees have an ownership interest in Holdings, which presents a conflict of interest with respect to their selection of advisory programs and services in that certain programs and services are more profitable to Holdings and its subsidiaries than other programs and services. As owners of Holdings, these individuals have an interest in its highest profitability. We help mitigate this conflict by requiring that all IARs and employees abide by our Code of Ethics, which is described more fully in the Code of Ethics section of this Item, starting on page 15.

### **Performance-Based Fees**

Performance-based fees are fees that are based on a share of capital gains on or capital appreciation of the assets in an account. Your IAR is not permitted to charge performance-based fees.

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

#### *Types of Risk*

Various types of risk are involved when investing in securities. Economic risk, market risk, currency risk, inflation risk, liquidity risk, and credit risk are examples of the types of risks to which your account may be subject.

#### *Assessing Risk*

While some types of risk can be mitigated by investment strategies, many of these risks cannot be eliminated completely. Your IAR will work with you to make sure that you are comfortable with the risks associated with the type of investments that are in your account.

#### *Risk of Loss*

You should know that all types of securities investing involve risk. Your account value can both increase and decrease over time. You should not invest in any product if you are not prepared to bear a potential loss. Past performance does not guarantee future results.

#### *Our IARs*

If your account is managed by one of our IARs, his specific management style is discussed in the Form ADV Part 2B Brochure Supplement that he will provide to you in conjunction with this brochure. Generally, our IARs use various securities to allocate your



portfolio according to your investment objective. These securities may include stocks, bonds, mutual funds, exchange-traded funds, unit investment trusts, certificates of deposit, Treasury securities, insurance products and alternative investments.

Each of our IARs is permitted to use his own method(s) of analysis. Many of them use asset allocation software to help them determine objectives and risk tolerance. This software seeks to optimize your portfolio and diversify risk across asset classes appropriately. Some asset allocation software can even aid in selecting specific securities.

Some IARs analyze securities individually to determine if those securities should be included in your account.

#### *Third-Party Managers*

If your account is managed by a party other than First Allied or one of our IARs, a third-party asset manager is managing your account. Certain third-party managers may be affiliated or related to us. If your account is managed by a third-party manager, the third-party manager is responsible for its own methodology and investment strategy. If your account is managed by a third-party manager, your IAR will provide you with a copy of the third-party manager's Form ADV Part 2A disclosure brochure.

#### **Disciplinary Information**

First Allied has been the subject of various regulatory and disciplinary findings by various states and regulatory bodies. The information in this section may impact your decision to do business with us.

In late 2009, the SEC filed an enforcement action against a former First Allied representative. The SEC alleged that the representative engaged in unauthorized and fraudulent trading in two customer accounts. The SEC also alleged that we violated certain SEC rules and that First Allied failed to reasonably supervise this registered representative.

After considering the surrounding circumstances, First Allied determined that it was in its best interests to settle the matter. The alleged rule violations were in connection with First Allied's supervision of the representative and deficiencies in its e-mail system.

As part of the settlement, First Allied agreed to accept a censure and pay disgorgement and interest (approximately \$1.46 million) and a fine (\$500,000). In addition, the SEC's order requires First Allied to cease and desist from committing or causing any future violations of certain books and records provisions. First Allied also agreed to hire an independent consultant to review our policies and procedures and our system for implementing policies and procedures.

First Allied consented to the issuance of the order without admitting or denying the SEC's findings. A copy of the SEC order is available online at <http://www.sec.gov/litigation/admin/2010/34-61655.pdf>.

In addition to the incident above, at least one of First Allied's IARs has been charged with, but not convicted of, a non-investment related felony in the last ten years; at least one of First Allied's IARs has been charged with and convicted of a non-investment-related misdemeanor charge. First Allied has been censured by multiple state insurance authorities for failure to renew our state insurance licenses. In addition, certain IARs have been censured and suspended by non-SEC regulators for violations related to supervision deficiencies, marketing approval deficiencies, improper disclosure of outside business activities, and continuing education deficiencies. First Allied, as a firm, has also been found to have failed to supervise adequately in certain instances, by the same regulatory bodies. Some of the firms that First Allied has purchased have also been censured by regulatory bodies.

In late 2009, the Securities Division of the state of Indiana found FFP Advisory Services, Inc., and certain principal officers who are now principal officers of FAAS, to be in violation of code 23-2-1 of the Indiana Securities Act. The specific violations involved inadequate and incorrect disclosures for investments in various insurance products. These violations occurred when the principal officers were employed by FFP Advisory Services, Inc., a registered investment adviser. FFP Advisory Services, Inc. was never affiliated with First Allied or FAAS. After considering the circumstances, FFP Advisory Services, Inc. decided that it was in its best interests to settle the matter with the state of Indiana. As part of the settlement, FFP Advisory Services, Inc. agreed to pay a penalty of \$187,500 to the state of Indiana.

In 2011, FAAS entered into a Consent Agreement with the Securities Division of the State of Indiana, whereby FAAS resolved allegations regarding violations the Indiana Uniform Securities Act, Ind. Code 23-19-1, concerning the registration of certain investment adviser representatives in the State of Indiana. Without admission or finding of a violation, FAAS paid a fine in the amount \$9,000, and a reimbursement payment of the cost of the investigation in the amount of \$1,000.

In addition to the incidents above, certain FAAS IARs have been censured or censured and suspended by non-SEC regulators for violations related to suitability deficiencies, delinquency of payment of state taxes, insurance deficiencies, sales of unregistered securities. In one case, a FAAS IAR's insurance application was denied by a state.

More information on all of these items, and other items not summarized above, can be found on FINRA's BrokerCheck® (<http://brokercheck.finra.org>). The Form ADV Part 2B brochure supplement that your IAR will provide to you along with this document contains information regarding any disciplinary items that we deem material to your decision to select your IAR to provide you with advisory services. Additional information about your IAR's disciplinary history can also be viewed on BrokerCheck®.





## **Other Financial Industry Activities and Affiliations**

### *Broker/Dealer Affiliation*

As mentioned previously, we are a dual registrant. A dual registrant is an entity that is both an investment adviser and a broker/dealer. Because we are a dual registrant, many of our officers and principals are engaged in business both with our investment adviser and with our broker/dealer. Some of our officers spend up to 90% of their time on broker/dealer activities, and the remaining 10% on investment advisory activities. Other officers devote 100% of their time to investment advisory activities.

As a broker/dealer, we place trades for clients for the purchase and sale of stocks, bonds, options, mutual funds, variable insurance products, and private placements. Our broker/dealer also sometimes participates in initial public offerings, and offers our clients the opportunity to participate in private funding through an unaffiliated investment adviser. Since the majority of our IARs are registered with our broker/dealer, these services may be available to you if your IAR is a registered representative.

Because we are both an investment adviser and a broker/dealer, a conflict of interest exists. The conflict involved the determination of whether advisory business (fee-based) or brokerage business (commission) is more suitable for the client. Because most of our IARs can offer both, your IAR could be conflicted about which business to recommend to you. We attempt to mitigate this risk by reviewing the suitability of the advisory program selected by each client. Ultimately, our IARs will discuss with you which type of business will best help you meet your goals.

### *Related Financial Industry Entities*

We are also affiliated with other registered investment advisers. Our parent company, Holdings, owns two other investment advisers (besides us):

- First Allied Asset Management, Inc. ("FAAM")
- First Allied Advisory Services, Inc. ("FAAS")

We work closely with both FAAM and FAAS. We co-sponsor programs with FAAS and we use FAAM as a third-party asset manager in many of our programs.

A conflict of interest exists due to these affiliations. We attempt to mitigate this risk by ensuring that policies and procedures are in place requiring our IARs to exercise their fiduciary responsibilities when recommending investments to clients. Our IARs' recommendations must only take into account what programs or services are best for clients.

In addition to the firms listed above, Holdings also owns First Allied Retirement Services, Inc. ("FARS"). FARS is a pension administration firm that provides pension services to pension plan sponsors. Neither First Allied nor our IARs receive any compensation for referring clients to FARS. Greenbook Pension Services is another name under which FARS operates. FARS owns Associates in Excellence, which is another pension administration firm that provides pension services to pension plan sponsors.

Holdings also owns FASI Insurance Services, Inc. ("FAIS"). FAIS is an insurance general agency that offers insurance products through licensed agents. Many agents offering insurance through FAIS are also First Allied registered representatives.

Our principals, employees and representatives may have responsibilities to any of these listed affiliates. Certain administrative and payroll expenses for employees of any affiliate may be allocated among all of the affiliates. Allocation of these expenses is not determined by assets referred to any affiliate.

Certain affiliates may make markets in securities, and may buy and sell for their own accounts. These affiliates and their personnel may own an interest in or buy or sell for their own accounts, the same securities which may be purchased or sold for the account of advisory clients.

### *Other Financial Industry Activities*

In addition to the related entities noted above, we also conduct business with other investment advisers that are owned or operated by registered representatives of our affiliated broker/dealer. These investment advisers may enter into a selling agreement with us to offer our programs. We are not responsible for supervising or managing these investment advisers beyond their representatives' activities with our broker/dealer.

Some of our IARs may work in a bank or credit union locations. We do not supervise any IAR's bank or credit union responsibilities. If the bank or credit union will receive any fees that you pay, our IARs are required to disclose this to you. Some of our IARs may be real estate agents. Activities related to real estate are not undertaken as part of the IAR's representation of our RIA.

In addition to being investment adviser representatives, some of our IARs are also accountants. We do not supervise their accounting activities. Any tax advice you receive from your IAR is part of an outside business activity and is totally separate from the IAR's affiliation with us.

Some of our IARs may be involved in other outside businesses. Activities related to these outside businesses are not undertaken as part of the IAR's representation of us. The amount of time that IARs devote to outside business activities varies.





Your IAR's material outside business activities are reported on the Form ADV Part 2B brochure supplement that your IAR will deliver to you when he starts discussing advisory programs and services with you.

We are involved in several industry advocacy groups. These groups generally provide a forum for industry professionals to gather and discuss current and proposed regulations. Our membership in these groups helps us to better educate and supervise our IARs.

## **Code of Ethics**

### *Overview*

Pursuant to SEC rule 204A-1, we have adopted a Code of Ethics ("COE") to establish rules of conduct for all supervised persons. Supervised persons are individuals that are associated with our firm who are involved with offering or providing advisory services. Supervised persons may also include our home office employees. Your IAR and all individuals in your IAR's branch office are supervised persons. The COE recognizes our IARs fiduciary responsibility to clients. The COE instructs our IARs to conduct their affairs in such a manner as to avoid:

- Serving their own interests ahead of clients' interests
- Taking inappropriate advantage of their position
- Engaging in unacceptable actual or potential conflicts of interest

A copy of our COE is available upon request by calling our Compliance department at 800-223-0989.

We do not permit our IARs to solicit for or use discretionary trading authority in any purchases or sales in a security in which that IAR has a material financial interest. Our supervised persons may, however, invest in the same securities that the IAR or another supervised person recommends to clients. This presents a conflict of interest. This conflict is mitigated by our COE and Compliance Manual. Our IARs are not permitted to disadvantage clients while trading their own accounts. We also have surveillances in place that allow us to ensure that this conflict is avoided.

Our supervised persons are not permitted to recommend securities to or use discretionary trading authority on behalf of clients at or about the same time that the IAR or another supervised person in the IAR's branch office or responsible for supervising the IAR buys or sells the same securities for their own account(s). In addition, our IARs are not permitted to use discretionary trading authority on behalf of clients to buy or sell securities at or about the same time that the IAR (or another supervised person associated with the IAR) buys or sells the same securities for their own account(s). We have established surveillance systems that check trading patterns between supervised persons and clients. These surveillances allow us to ensure that even if a supervised person unintentionally trades in the same security as a client, the client will not be disadvantaged.

## **Brokerage Practices**

### *Soft Dollar Benefits*

Some firms in the industry receive benefits in exchange for delivering business to a broker/dealer or other third-party. These benefits are known as "soft dollars." Soft dollar benefits are generally defined as benefits (besides normal fees) received from a firm in exchange for doing business with the firm. These benefits may include access to software, hardware, research, and/or office space. We do not receive any soft dollar benefits from choosing the broker/dealer through which we effect trades.

### *Directed Brokerage*

We do not permit clients to direct us to execute transactions through a specified broker/dealer other than First Allied. Because we are both an investment adviser and a broker/dealer, all client transactions are effected through our broker/dealer relationships. We believe that First Allied allows us to achieve best execution because of their business relationships with Pershing and JP Morgan, our access to First Allied's trading department, our ability to rely on First Allied's financial stability, and First Allied's overall service to us and our IARs. Best execution factors include timeliness of execution, trader expertise, better pricing, and responsiveness. In addition, certain advisory programs are only available through us and our affiliates and these programs allow your IAR to offer you a program or service that you cannot obtain elsewhere.

### *Aggregation of Client Trades*

In an effort to both obtain best execution and deliver the best possible service to you, we will aggregate client trades when appropriate. Aggregating trades is generally defined as "bunching" or combining trade orders for the same securities. Aggregating trades will not affect the transaction charges on such transactions. We try to average price our trades, which means that all clients that purchased the same security at the same time receive the same price, regardless of the number of shares. It is not always possible to average price trades, and some clients may receive a better price than other clients based on execution.

When an aggregated trade order cannot be filled completely, we will generally attempt to distribute the shares received proportionately based on the number of shares that were meant for each account.

In certain circumstances average pricing an order that has not been filled entirely may not be in the best interest of each client. In these instances we will allocate the shares among the clients in a manner we believe to be fair to each client. We are under no obligation to aggregate trade orders or to average price transactions.



## Review of Accounts

As mentioned previously, each of our IARs is supervised by another of our representatives. When one of our IARs creates a financial plan for a client, this plan is reviewed by the IAR's supervisor. Evidence of this review is kept in the branch office location. During this review, the supervisor verifies that appropriate projections are used for any asset classes utilized. The supervisor also ensures that appropriate disclosures are present on the financial plan.

Advisory accounts are also reviewed by an IAR's supervisor. We have created several different electronic surveillances to aid in this supervision. The surveillances include checks for:

- registration status
- loss in equity of accounts
- inappropriate use of discretionary trading authority
- purchase of low-priced securities
- trading activity in personal accounts
- having an excessive margin balance
- holding a disproportionate amount of a security in an account

Many of these surveillances are run daily and others are run monthly or quarterly. The frequency of the surveillance is determined by the nature of the underlying event. All of the surveillances listed above may not be used on all advisory accounts. We take into account who is managing your advisory account. If one of our IARs is the manager, all of these surveillances will be used. If a third-party manager is managing your account, some of these surveillances will **not** be used.

After the end of each calendar quarter, we create and send performance reports to each client that is invested in our PAM or PCS programs. These reports have performance information about either one account or multiple accounts of the same investor. We only deliver performance reports for accounts that are invested in the PAM and PCS programs. If your account is managed by an unaffiliated third-party manager, any reports will be created and delivered by either the third-party manager or a company designated by the third-party manager. The advisory agreement that you sign will detail which party is responsible for delivering reporting information. The third-party manager may choose to not provide performance reports.

The reports we create will differ slightly based on which program you have purchased. Generally, we will list the beginning balance of the period, the ending balance of the period, the percentage change in asset level between the beginning and end of the period, and any deposits or withdrawals during the period. There is also information about your account's holdings as of the end of the period, a list of one or more comparable indexes and benchmarks, and important disclosure information.

The following indexes and benchmarks will be listed on the performance reports we provide to PAM and PCS clients:

- S&P 500 Index- an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors), designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.
- MSCI EAFE Index- a free float-adjusted market capitalization index that is designed to measure equity market performance of developed markets, excluding the U.S. and Canada).
- Barclays Capital U.S. Aggregate Bond Index- an unmanaged index composed of the Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index and is generally representative of the U.S. bond market.
- Consumer Price Index- an index of prices used to measure the change in the cost of basic goods and services in comparison with a fixed-base period.
- FAAM blended benchmark- a combination of market indexes in varying percentages, depending on the underlying strategy chosen. The indexes FAAM uses to create all of its blended benchmarks are the S&P 500 Index, MSCI World Index, Barclay's Capital U.S. Aggregate Index, Russell 3000 Value Index (an index designed to measure the performance of the broad value segment of U.S. equity value universe), Merrill Lynch High Yield Master Index (a market capitalization weighted index of all domestic and Yankee high-yield bonds with maturities of at least one year and a credit rating lower than BBB-Baa3, but are not in default), and the 3-Month U.S. Treasury Bill rates. Not all of these indexes will be used for each blended benchmark. The exact indexes and percentage weighting is determined by the underlying strategies in which you are invested.

In the PAM program, your IAR also has the ability to select an additional index or a blended benchmark to which your account will be compared. This index or benchmark must be approved by us before your IAR is permitted to use it on your performance reports.

Your IAR may also provide you with reports created by Albridge Wealth Reporting Solutions ("Albridge"). Albridge is a reporting vendor that we have contracted with to enable your IAR to create reports for your accounts. These reports may encompass different information than the quarterly performance reports we deliver to you and may include information about brokerage accounts, variable annuities and alternative investments.



The custodian of your account will also send you account statements on a monthly or quarterly basis. Although the information we provide in the performance reports we deliver to you has been retrieved from sources believed to be reliable, we urge you to compare the holdings listed on the custodian's statement to those listed on reports we deliver to you. Should you note any discrepancies, please contact us at 800-223-0989. In addition, the reports that we deliver to you should not be relied upon for tax calculations or any other legal representation.

### **Client Referrals and Other Compensation**

Solicitors are individuals who introduce clients to an investment adviser with which the solicitor is not affiliated. Solicitor's arrangements allow individuals to receive compensation for referring a client to us. The compensation paid to a solicitor is a portion of the advisory fee that you pay. All solicitation arrangements that our IARs are involved in must be approved by our Compliance department.

#### *Solicitors to First Allied*

We have solicitor's arrangements with persons who are not our IARs. If a solicitor is going to receive any portion of the advisory fee that you pay, the solicitor will provide you with disclosure when he refers you to an IAR. You will sign this disclosure, acknowledging that you know a payment is being made for the introduction. We conduct a background check on solicitors to ensure they have not been disqualified from the securities industry. We mitigate any conflicts of interest in relation to these arrangements by ensuring that you will not pay higher fees because of the solicitor's agreement.

#### *First Allied Acting as a Solicitor*

Our IARs have the ability to refer, or "solicit," clients to other investment advisers. Our IARs can solicit advisory business for FAAS and our IARs can solicit advisory business for unaffiliated investment advisers. These unaffiliated investment advisers must be approved by us before any of our IARs are permitted to refer clients to them. If our IARs are soliciting advisory business for any investment adviser, this will be disclosed to you by issuance of a disclosure statement and a written acknowledgement. The investment advisers that we solicit for provide a variety of management services, as outlined in each investment adviser's disclosure brochure. In general, they provide management strategies and investment models to advisory clients. The investment adviser will pay a portion of the advisory fee, as disclosed to you in the written acknowledgement, to us for soliciting clients. We will share a portion of this fee with your IAR. In exchange for this fee, the IAR is providing services including investor profiling, selection of managers, and ongoing account monitoring.

#### *Other Compensation Payable to First Allied*

We offer a wide variety of approved products to our IARs to serve your needs. We have designated a subset of approved products as "Product Sponsors." Product Sponsors offer an assortment of approved products. They also train and educate our registered representatives on products and industry-related topics.

Product Sponsors pay extra compensation to us and our affiliates; however clients do not pay more to purchase these products through us than clients would pay to purchase them elsewhere. This extra compensation is based in part by the total amount of assets that our IARs refer to their products and services. There may be a financial incentive to promote certain products because of this extra compensation. Because IARs do not receive direct financial benefit from recommending Product Sponsors to you, we believe that these relationships do not compromise the advice provided by First Allied representatives.

Sometimes we receive payments from firms that are not Product Sponsors to recognize our sales efforts. All companies may pay us in connection with the sale of certain products. This compensation may include such items as gifts valued at less than \$100 annually, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings or marketing or advertising initiatives. They may also pay for training, educational meetings or training events, conferences, and entertainment for our registered representatives and/or clients, as permitted by industry rules. Additional disclosure and a listing of companies who pay additional compensation to us may be obtained at [www.firstallied.com](http://www.firstallied.com) or by contacting us at 800-223-0989. Some investments pay higher commissions than others. Commissions on equities are usually greater than those on bonds. Investments in limited partnerships generally pay higher commissions than investments in equities.

### **Custody**

As mentioned in the "Review of Accounts" section, we do not custody your account assets. Your account assets are custodied by an approved custodian, usually either JP Morgan or Pershing. In addition to the reports that you will receive from us, the custodian of your account will also send you account statements. These statements will be sent to you either quarterly or more frequently. You should review the account statements carefully and compare these account statements with the reports we send to you. Should you note any discrepancies, please contact your IAR.

Occasionally, IARs may accept stock certificates from clients and forward them to the broker/dealer for delivery to the client's account with the custodian. Also, certain of our IARs have check-writing authority as members of LLCs in which clients are also members; these IARs may have access to client LLC funds. If your IAR has check-writing authority as a member of an LLC in which clients are also members, it will be detailed in the Form ADV Part 2B brochure supplement that your IAR will provide to you. In the course of business development, we may obtain custody in other forms that are not disclosed here but will be disclosed to our



independent auditor. Because of these activities, we meet the regulatory definition of having custody of client securities and are required to hire an independent accounting firm to review our procedures. This audit is conducted each year. More information about the results of the audit can be found through the SEC's Investment Adviser Public Disclosure website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), by selecting "Investment Adviser Firm" and typing our name into the "Firm Name."

We ask that any checks you write for deposit into your account be made payable to the custodian of your account and **not** made payable to First Allied or to your IAR.

## **Investment Discretion**

### *Overview*

We do not have discretion over your assets. However, when you invest in one of our advisory programs we may attain a trading authorization. Depending on which advisory program you choose, you will grant us one of three levels of trading authorization:

- Limited trading authorization
- Full trading authorization
- No trading authorization

### *Limited Trading Authorization*

Limited trading authorization is automatically granted to your IAR when you invest in the PAM or SEI programs. Limited trading authorization allows your IAR to make decisions on your behalf regarding purchases and sales of approved investment company securities. Investment company securities include mutual funds, unit investment trusts, closed-end funds, and exchange-traded funds. By signing the account agreement for the PAM or SEI programs, you are granting limited trading authorization to your IAR.

### *Full Trading Authorization*

Our IARs can only have full trading authorization in the PAM program. Full trading authorization allows your IAR to make decisions on your behalf regarding purchases and sales of equities, fixed income products including bonds and certificates of deposit, options, and any other security traded on a national exchange, including investment company securities. You must initial the account agreement appropriately to grant full trading authorization.

### *No Trading Authorization*

When your account is managed by a third-party manager, you do not grant us or your IAR any trading authority. The account agreement that you sign details your designation of discretionary trading authorization to the third-party manager who is managing your account. In these cases you are granting trading authorization, but not to us or your IAR.

## **Voting Client Securities**

We do not accept authority to vote client proxies. However, your IAR is permitted to aid you in the completion of the client proxies you receive. Generally, you will receive proxies directly from the custodian or transfer agent. For certain advisory programs offered, the third-party manager responsible for managing the account will accept authority to vote client proxies. Some third-party manager may hire another firm to vote proxies on its behalf. In these cases, this authority will be detailed in the account agreement that you sign.

## **Financial Information**

### *Prepayment of Fees*

We do not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Generally, advisory fees for account management are paid quarterly in advance. For consulting or financial planning, fees are occasionally prepaid more than six months from delivery of services. In these instances, the amount of prepayment will not exceed \$1,200 per client.

### *First Allied's Financial Condition*

We are required to inform you of any financial conditions that are reasonably likely to impair our ability to meet contractual commitments to you. Currently, there are no financial conditions that would impair our ability to meet our contractual commitments to you. Should any arise, we will notify you according to SEC guidelines.