

# CUSO FINANCIAL SERVICES, LP

## Firm Brochure

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**This Brochure provides information about the qualifications and business practices of CUSO Financial Services, LP (“CFS”). If you have any questions about the contents of this Brochure, please contact the CFS Compliance Department at 858/530-4400. 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.**

**CFS is a registered investment advisor. Registration of an investment advisor does not imply any level of skill or training.**

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

## **Item 2 – Material Changes**

This Brochure contains changes from the last annual update of this Brochure on March 31, 2011. The following is a summary of the material changes. Regarding the CAM Program described in Item 4, FundQuest is now known as Envestnet. Also in Item 4 there is a change in STAR products. In Item 14, an additional disclosure was added regarding compensation from third parties for solicitations.

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#### **Item 4 – Advisory Business**

CUSO Financial Services, L.P. ("CFS") provides financial planning and investment advisory services through individuals associated with CFS as Investment Advisor Representatives ("IARs") consistent with the individual clients' financial and tax status and risk/reward objectives. Since, 1997, CFS has been registered as an investment advisor ("RIA") with the Securities and Exchange Commission and a broker/dealer member of the Financial Industry Regulatory Authority ("FINRA"). CFS, as an investment advisory firm offers a Wrap Program (CUSO Asset Management, "CAM") through Envestnet Portfolio Solutions, Inc. ("Envestnet"), an unaffiliated RIA and also offers the following advisory programs: Financial Planning, First Mercantile Trust Company, Genworth Financial, Loring Ward, Morningstar, Retirement Plans Your Way, SEI and STAR.

CUSO Financial Services, LP is a California limited partnership. The General Partner of CUSO Financial Services, LP is CUSO Financial Services, Inc. a California corporation. The principal owner of CUSO Financial Services, Inc. is Black Diamond Services, Inc. ("BDSI"), a California corporation. Two individuals, Valorie Seyfert and Amelia Beattie both own 50% of BDSI.

Total non-discretionary assets under management as of December 31, 2011 were \$469,215,000. CFS does not have discretion over advisory accounts.

#### **CUSO Asset Management Program ("CAM")**

The CAM Program offers clients access to mutual fund and separately managed accounts through Envestnet, a registered investment advisor. Envestnet acts in the capacity of service provider and Account Manager to the CAM Account (excluding CAM Direct), monitoring performance, providing statements, generating research and analysis in relation to sub-advisor selection, when applicable. CFS acts as the investment adviser for CAM.

In opening a CAM account, clients complete an Investment Strategy Report to provide the IAR with the client's necessary financial data including investment goals, income requirements, time horizon and risk tolerance. The IAR then assists the client in setting appropriate investment objectives and goals. The IAR will meet with the client periodically to determine whether the investment strategy should be modified or continued and whether individual circumstances or market conditions warrant any changes in asset allocation, tax sensitivity or risk tolerance. Based on the information obtained, Envestnet will construct and manage a portfolio for the client. Envestnet periodically monitors each client's portfolio and when deemed appropriate makes changes in both asset allocation and security selection. Client shall retain the ability to modify their investment strategy at any time.

Envestnet shall have unlimited investment discretion with respect to any changes to investments in the Program Accounts, within the parameters of the selected portfolio model. This includes discretion to adjust asset allocations and replace or reduce ETFs in the Program Accounts. All transactions in the Program Accounts shall be initiated by Envestnet. Subject to the limitations described in the client's responses to the Profile or other appropriate suitability analysis (including any reasonable restrictions the client may place on Program Account investments) the Account Manager shall have full authority to supervise and direct the investment of the monies contributed by client to the Program Account without prior consultation except as set forth below. CFS and its IAR's shall not have discretionary investment authority in the Program Accounts. CAM Direct is a non discretionary account therefore the client must approve all transactions.

There are several different CAM Programs available, each using a different investment vehicle as follows:

1. CAM Funds – variety of mutual funds from various fund families.
2. CAM ETF- exchange-traded funds.
3. CAM Index Fund- mutual funds (including index mutual funds) and exchange-traded funds.
4. CAM UMA- general securities, mutual funds, Exchange Traded Funds stocks, and bonds.
5. ActivePassive Funds- mutual funds from the Envestnet ActivePassive Fund Family.
6. CAM Direct
  - a) Equities, convertible preferred securities, convertible bonds, shares of closed-end investment companies and American Depositary Receipts.
  - b) Equity index options and equity options, and any warrants or rights on equities.
  - c) Market linked investments.
  - d) Front-end load fund shares that are transferred to, but were not purchased in the CAM Direct Account.
  - e) Cash, assets in deposit accounts that may be maintained or established by or for the Client, and money market fund shares.
  - f) No-load fund shares or shares that have had the front-end load waived.
  - g) Fixed income instruments such as U.S. Treasury and federal agency securities, corporate rate medium term notes and bonds, zero coupon bonds, commercial paper, municipal bonds, mortgage-backed securities and other collateralized mortgage obligations and non-convertible preferred securities.

### Financial Planning Services

CFS, through its IARs, provides financial plans and investment advice consistent with a client's financial status, investment objectives and tax status. IAR will obtain the necessary financial data from the client to prepare the financial plan or provide investment advice.

The financial plan or advice may include information regarding retirement planning, education planning, planning for a major purchase, life and disability insurance needs, long-term care needs and estate planning issues. Client may receive a written financial plan from IAR.

CFS is not licensed to engage in the practice of law or accounting and, consequently, will not offer legal or accounting advice when preparing the personal financial plan or providing financial advice. None of the fees for services under this program relate to legal or accounting services. If such services are necessary, it shall be the responsibility of the client to obtain them. Clients are not required to implement their financial plan through CFS and may elect any broker/dealer.

#### First Mercantile

Pursuant to an agreement between CFS and First Mercantile Trust Company, ("First Merc") CFS clients have access to First Merc's trustee, custodian and investment agent services for employee benefit plans. CFS promotes and distributes First Merc services and assists clients in (i) completing account documents, (ii) selecting the initial and ongoing Asset Allocation Model, and (iii) reviewing investment reports and performance.

#### Genworth Financial

The Genworth Financial Program offers clients access, through CFS IARs, to Asset Mark Investment Services ("Genworth"), an unaffiliated investment advisor. Genworth offers consulting services for mutual funds and exchange traded funds (ETFs) as well as Genworth's Privately Managed Accounts. The CFS IAR obtains the necessary financial data from the client, assists the client in determining suitability of asset management and assists the client in setting the appropriate investment objective.

Mutual Funds and ETFs- Genworth has established relationships with independent investment management firms (the Strategists), to create a variety of strategic asset allocation model portfolios (Models) comprised with mutual funds (both independent and affiliated) and ETFs. The Strategist will select and monitor the performance of the mutual funds and ETFs in their Models and will periodically adjust and rebalance the portfolios in accordance with their investment strategies.

The Strategists are selected by Genworth to provide a wide range of investment options. Each Strategist will provide a range of Models corresponding to a specific risk-return profiles ranging from conservative to aggressive. The Models will be generally rebalanced quarterly. Any proprietary Genworth funds will be fully identified when the client is making their model selection.

Privately Managed Accounts-Additionally, Genworth may offer Privately Managed Accounts, in which clients will engage Genworth to act as an overlay manager. In this situation, Genworth will contract with institutional investment management firms (Sub-Advisors) to provide model portfolios of individual securities. As overlay manager, Genworth has

limited discretionary authority to execute transactions on behalf of clients to track the model portfolios, provide tax management transactions, or to implement client-requested restrictions.

Clients will retain discretion to choose the Models, mutual funds and ETFs for their account, and will have the opportunity to periodically rebalance their portfolio, and to change investment components within the selected Models. All transactions will be effected automatically through software administered by Genworth.

#### Loring Ward

The Loring Ward Adviser Services Program, formerly Assante offers clients access, through CFS IARs, to Loring Ward's Synervest Wealth Management Program. Loring Ward Advisor Services is a division of LWI Financial Inc. and is not affiliated with CFS. Loring Ward offers a range of investment solutions to build customized, well-diversified portfolios that consist of investment strategies targeted toward achieving a balanced and diversified portfolio. The CFS IAR assists the client with selecting investments based on the client's financial objectives, risk preferences, tax situation and personal circumstances. Neither Loring Ward nor CFS will have trading discretion.

#### Morningstar

The Morningstar Program offers clients access, through CFS IARs, to Morningstar Investment Services ("MIS") an unaffiliated investment advisor. The primary purpose of MIS' investment adviser operations is to provide discretionary investment advice on portfolios consisting of no-load and load-waived open-end mutual funds and/or exchange-traded funds ("Funds"). MIS delegates certain services to the CFS IAR such as assisting each client in completing a questionnaire and/or other applicable account opening forms for determining suitability. The questionnaire helps in determining such things as client risk tolerance, investment objectives, and financial goals and identifies any reasonable restrictions that clients wish to place on the management of their account assets. Additionally, the CFS IAR will meet periodically with clients to obtain any changes in their financial situation and acting as liaison.

Pursuant to the discretionary authority granted by the client to MIS, MIS initiates transactions in fund shares to rebalance and/or to reallocate account assets to be consistent with the client's selected portfolio and restrictions, if any, and as frequently as MIS deems necessary. The CFS IAR will not have discretion.

#### Retirement Plans Your Way

CFS offers Retirement Plans Your Way®, a web-based, daily valuation platform for self-directed retirement plans including 401(k), 403(b) and 457 plans. The platform is operated by ExpertPlan, Inc., a third party retirement plan recordkeeper, and provides administrative and reporting functions for retirement plan sponsors ("Plan Sponsors") and their

participants. The platform also makes available a selection of no load and load waived mutual funds to the retirement plans (the “Plan”).

Through Retirement Plans Your Way ®, CFS provides certain investment advisory services to the Plan Sponsors. CFS, through its IARs, will assist the Plan Sponsor in establishing a service agreement with ExpertPlan. The IAR obtains the necessary financial data, investment goals and objectives from the Plan Sponsor. Additionally, the IAR will assist the Plan Sponsor in selecting a menu of mutual funds across diverse asset classes to be offered to the self-directed participants of the Plan by providing information to the Plan Sponsor. The final decision as to which mutual funds to offer in the Plan to participants is the responsibility of the Plan Sponsor. Neither CFS nor the IAR have any discretionary trading authority. The IAR will meet with the Plan Sponsor periodically to review investment choices, performance, plan objectives and any requested changes.

The IAR will also provide periodic educational enrollment meetings to Plan participants to acquaint them with their investment choices, online asset allocation tools provided through ExpertPlan, and enrollment procedures. All investment decisions will be self-directed by the Plan participants, and the participants are able to change their investment selections at any time either online or via telephone by contacting ExpertPlan directly. The IAR may not provide investment advice to the Plan participants and may not be involved in directing or placing any transactions on behalf of Plan participants. The IAR will be available on an ongoing basis as a resource to Plan participants to provide general investment-related educational information.

## SEI

SEI is an independent and unaffiliated third party custodian. CFS acting as the investment advisor may use the SEI Asset Management Program. In the SEI Management Program, CFS (i) assists clients in completing a suitability questionnaire, (ii) educates the clients about SEI asset allocation investment styles, (iii) recommends an appropriate allocation of SEI model portfolios and (iv) provides ongoing client assistance in monitoring performance. Clients retain the authority to change the portfolio selected.

## STAR™ Program

CFS, through its IARs, offers the Partnervest Advisory Services (“Partnervest”) STAR Program. There are five STAR products: (1) STAR II Strategic Tactical Allocation Risk, (2) STAR III Structured Target Return Alpha, (3) STAR III Structured Target Return Alpha Q, (4) STAR III Structured Target Return VEGA and (5) STAR III Structured Target Return VEGA Enhanced (collectively, “STAR”) programs. Partnervest is a registered investment advisor, and is responsible for management of all STAR accounts. STAR accounts are managed by Partnervest on a discretionary basis. Neither CFS nor the IAR will have trading discretion. All CFS clients opening a STAR account will also receive a copy of the Form ADV Part 2A, or



relevant substitute disclosure document, for Partnervest. Please refer to Item 8 below and the Partnervest disclosure document for further information about the STAR program.

## **Item 5 – Fees and Compensation**

All advisory fees are subject to negotiation. CFS retains a portion of the advisory fee and pays a portion to the IAR managing the account.

Specific program fees are discussed below. In general, the fee charged by CFS is established in a client's written agreement with CFS. CFS will bill its fees on a quarterly basis. Clients will be billed in arrears each calendar quarter for all advisory programs with the exception of Genworth, which charges its fees in advance as specified in the advisory agreement. Clients will be billed directly for fees by authorizing CFS to directly debit fees from client accounts. Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). 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. Accounts may be terminated by providing written notice to CFS.

CFS's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses, which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment advisors and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

When Pershing is the custodian and executing broker/dealer, CFS receives a portion of the following fees: outgoing transfers, wired funds, inactive accounts, stop payments, direct registration of securities, margin extensions, ticket charges, IRA maintenance and termination fees, as well as asset-based fees on money market positions, uninvested cash balances, margin balances and cash sweeps to bank accounts. The IAR does not receive a portion of these fees.

In addition to the investment advisory fees and transaction charges, accounts may also incur certain charges imposed by third parties in connection with investments made through the program. These may include, but are not limited to, the following: mutual fund or money market 12b-1 fees, mutual fund, money market or ETF management fees and administrative expenses, mutual fund transaction fees, other transaction charges and service fees, IRA and qualified plan fees, and other charges required by law. CFS and IAR may receive a portion of these fees. Further information regarding charges and fees assessed by a mutual fund are available in the appropriate prospectus.

Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to CFS's fee, and CFS shall not receive any portion of these commissions, fees, and costs. Clients may generally avoid additional fees by purchasing funds directly from a fund family and not receiving investment advice.

A customized program account may cost the client more or less than purchasing program services separately. Factors that bear upon the cost of the account in relation to the cost of the same services purchased separately include: the type and size of the account, the historical and/or expected size or number of trades for the account, and the number and range of supplementary advisory and client related services provided to the account.

The costs associated with a program account may be more than costs associated with a traditional brokerage account arrangement where the client pays a commission for each transaction but does not receive ongoing investment advice. This is particularly true for clients that intend to have a low number of transactions or follow a buy-and-hold approach. In the CAM Direct account, the client is paying for ongoing investment advice from the IAR. The IAR recommending a program account to the client receives a portion of the Account Fee as a result of the client's participation in the program. This compensation may be more than what the IAR would receive if the client participated in other investment advisory programs or brokerage accounts available through the IAR. As a result, the IAR may have a financial incentive to recommend one program or services over other programs or services.

IARs may also be registered representatives with CFS. In such capacity, he or she may sell securities through CFS and receive normal and customary commission as a result of purchases and sales as well as 12b-1 fees from mutual funds held in client accounts. To the extent that the IAR recommends that a client invest in a security, which results in a commission being paid to IAR in their capacity as a registered representative, this presents a potential conflict of interest. CFS conducts ongoing review of IAR commissions and advisory fees to ensure suitability for source of funds for new advisory deposits. The focus of the review includes the IAR's past compensation on the advisory assets.

### CAM Fees

CAM clients pay an annualized fee ("Account Fee") not to exceed 2.3% and is based on the type of CAM account and the total assets under management (AUM). Please refer to the grids below for clarification. The Program Fee is shared equally between CFS and Envestnet.

#### *CAM Funds, ETF and Index Plus*

| Account Size | Program Fee | IAR Fee | Total Account Fee |
|--------------|-------------|---------|-------------------|
|              |             |         |                   |

|              |       |              |               |
|--------------|-------|--------------|---------------|
| First \$250k | 0.50% | 1.00%-1.75%  | 1.50% - 2.25% |
| Next \$250k  | 0.43% | 1.00%-1.55%  | 1.43% - 1.98% |
| Next \$500k  | 0.34% | 1.00% -1.30% | 1.34% - 1.64% |
| Next \$1MM   | 0.29% | .85% -1.05%  | 1.14% - 1.34% |
| Over \$2MM   | 0.27% | .80% - 1.00% | 1.07% - 1.27% |

*UMA*

| <b>Account Size</b> | <b>Program Fee</b> | <b>IAR Fee</b> | <b>Total Account Fee</b> |
|---------------------|--------------------|----------------|--------------------------|
| First \$250k        | 1.10%              | 1.00%-1.10%    | 2.10% -2.20%             |
| Next \$250k         | 1.05%              | .95%-1.05%     | 2.00% -2.10%             |
| Next \$500k         | 1.00%              | .90% -1.00%    | 1.90% -2.00 %            |
| Next \$1MM          | 0.85%              | .85% -.95%     | 1.70% - 1.80%            |
| Next \$3 MM         | 0.65%              | .75% -.85%     | 1.40% - 1.50%            |
| Over \$5MM          | 0.55%              | .65% -.75%     | 1.20% - 1.30%            |

*CAM Managers*

| <b>Account Size</b> | <b>Program Fee</b> | <b>IAR Fee</b> | <b>Total Account Fee</b> |
|---------------------|--------------------|----------------|--------------------------|
| First \$750k        | .96%               | 1.00%-1.23%    | 1.96% -2.19%             |
| Next \$250k         | .93%               | .86%-1.06%     | 1.79% -1.99%             |
| Next \$1 MM         | .84%               | .56% -76%      | 1.40% - 1.60%            |
| Next \$1MM          | .79%               | .49% -.56%     | 1.25% - 1.35%            |
| Over \$3MM          | .74%               | .16% -.26%     | .90% - 1.00%             |

*ActivePassive Portfolios®*

| <b>Account Size</b> | <b>Program Fee</b> | <b>IAR Fee</b> | <b>Total Account Fee</b> |
|---------------------|--------------------|----------------|--------------------------|
| First \$250k        | .15%               | 1.00%-1.75%    | 1.15% -1.90%             |
| Next \$250k         | .10%               | 1.00%-1.55%    | 1.10% -1.65%             |
| Next \$500k         | .08%               | 1.00% -1.30%   | 1.08% - 1.38%            |
| Next \$1MM          | .06%               | .85% -1.05%    | .91% - 1.11%             |
| Over \$2MM          | .05%               | .80% -1.00%    | .85% - 1.05%             |

### *CAM Direct*

| <b>Account Size</b> | <b>Program Fee</b> | <b>IAR Fee</b> | <b>Total Account Fee</b> |
|---------------------|--------------------|----------------|--------------------------|
| First \$250k        | 0.40%              | 1.00%-1.70%    | 1.40%-2.10%              |
| Next \$250k         | 0.30%              | 1.00%-1.40%    | 1.30%-1.70%              |
| Next \$1 MM         | 0.28%              | 1.00%-1.10%    | 1.28%-1.38%              |
| Over \$1.5 MM       | 0.28%              | .90%-1.00%     | 1.18%-1.28%              |

The Account Fee is negotiable with minimums and is payable quarterly in arrears based on the average daily balance of the aggregate client accounts during the preceding calendar quarter. For purposes of calculating Account Fees and providing performance reports, the account quarter begins on the day on which the account is funded. The initial Account Fee is due at the end of the calendar quarter following execution of the CAM Investment Advisory Agreement and may include a prorated fee for the initial quarter. Subsequent Account Fee payments are due and assessed at the end of each quarter based on the average daily value of the assets under management as of the close of business on the last business day of that quarter as valued by an independent pricing service, where available, or otherwise in good faith reflected on the client's quarterly portfolio evaluation report.

Account Fees will be deducted from the clients' accounts on or about the fifteenth calendar day or later following the date of the report. In addition to the Account Fee, the account may be assessed a transaction charge to defray the costs associated with trade execution. Transaction charges represent a reimbursement of transaction costs charged to CFS by its clearing firms. The transaction fees vary per product and range in amount from \$10-\$100.

### Financial Planning Fees

The fee for Financial Planning Services is \$250 per hour up to a maximum of \$2,500. Fees and services for financial planning are agreed upon with the customer prior to the commencement of the planning process. Fees for financial planning services are determined as a flat fee or as an hourly fee and are negotiable and charged as services are rendered. Financial Planning services may be terminated upon written notice without penalty. There are no provisions for refunds since the fee is paid as services are provided. However, for certain programs/advisors, the financial planning fee may be refunded to clients who open an investment account through their IAR within 12 months of payment.

Financial plans or investment advice may include generic recommendations as to general types of investment products or specific securities, which may be appropriate for the Client to purchase given his financial situation and objectives. The Client is under no obligation to purchase such securities through CFS and the IAR in his/her capacity as a registered representative of CFS. However, if Client desires to purchase securities or advisory services in order to implement the financial plan, this may result in the payment of normal and customary commissions or advisory fees to CFS and IAR. To the extent that IAR recommends that the Client invest in products that will result in compensation being paid to the IAR, this presents a conflict of interest. CFS conducts periodic reviews of the IAR commissions received from financial planning clients to ensure that all fees and compensation are reasonable.

#### First Mercantile

Fees range from .40%-1.49% based on the Trust Fund Model selected.

#### Genworth

##### *Mutual Fund Program*

| <b>Amount Invested</b> | <b>Maximum Fee</b> |
|------------------------|--------------------|
| First \$250,000        | 1.45%              |
| Next \$250,000         | 1.30%              |
| Next \$500,000         | 1.10%              |
| Next \$1,000,000       | 0.80%              |
| Over \$2,000,000       | 0.50%              |

##### *Privately Managed Account Program*

| <b>Amount Invested</b> | <b>Maximum Client Fee</b> |
|------------------------|---------------------------|
| First \$1,000,000      | 1.45%                     |
| Next \$2,000,000       | 1.15%                     |
| Next \$2,000,000       | 0.95%                     |

|                  |       |
|------------------|-------|
| Over \$5,000,000 | 0.75% |
|------------------|-------|

*Exchange Traded Program*

| <b>Amount Invested</b> | <b>Maximum Client Fee</b> |
|------------------------|---------------------------|
| First \$250,000        | 1.45%                     |
| Next \$250,000         | 1.30%                     |
| Next \$500,000         | 1.10%                     |
| Next \$1,000,000       | 0.80%                     |
| Over \$2,000,000       | 0.50%                     |

CFS Fees for Genworth Programs

*For all investment Programs except 100% Fixed Income*

| <b>Amount Invested</b>    | <b>CFS Fees for Genworth Programs</b> |
|---------------------------|---------------------------------------|
| First \$500,000           | 1.0%                                  |
| \$500,000 – \$1 Million   | 0.80%                                 |
| \$1 Million - \$5 Million | 0.50%                                 |
| Over \$5 Million          | 0.30%                                 |

*100% Fixed Income Programs Only*

| <b>Amount Invested</b>    | <b>CFS Fees for Genworth Programs</b> |
|---------------------------|---------------------------------------|
| First \$500,000           | 0.50%                                 |
| \$500,000 - \$1 Million   | 0.50%                                 |
| \$1 Million - \$5 Million | 0.25%                                 |

|                  |       |
|------------------|-------|
| Over \$5 Million | 0.15% |
|------------------|-------|

### Loring Ward

Loring Ward does not charge clients an advisory management fee. However, Loring Ward does receive the internal expenses of their funds which are approximately 1.15%. Additionally, CFS charges a 1% management fee based on the assets under management. Fees are charged quarterly in arrears and debited from the client account. The fees are based on the daily average balance for the quarter.

### Morningstar

|             | <b>0-\$500k</b> | <b>Next \$500k</b> | <b>Next \$1 M</b> | <b>Over \$2 M</b> |
|-------------|-----------------|--------------------|-------------------|-------------------|
| Morningstar | 0.40%           | 0.35%              | 0.30%             | 0.20%             |
| CFS         | 1.10%           | 1.05%              | 1.00%             | 0.90%             |
| Total       | 1.50%           | 1.40%              | 1.30%             | 1.10%             |

### Retirement Plans Your Way ®

The Plan will pay fees to ExpertPlan and CFS in connection with Retirement Plans Your Way ®. The fees paid to and retained by ExpertPlan are listed below, and are subject to agreement between the Plan Sponsor and ExpertPlan in the service agreement. The fees due to ExpertPlan and applicable to the Plan Sponsor are billed separately by ExpertPlan to the Plan Sponsor as incurred. The fees due to ExpertPlan and applicable to the Plan participants are deducted from participant's account on a quarterly basis by ExpertPlan.

|                        | <b>One Time Set Up Fee</b> | <b>Or Conversion Fee</b> |
|------------------------|----------------------------|--------------------------|
| Plan Sponsor Paid Fees | \$750                      |                          |
| \$0 -\$3,999,999.99    |                            | \$1,250                  |
| \$4 M and over         |                            | No Fee                   |

And

|                  |       |
|------------------|-------|
| Annual Admin Fee | \$975 |
|------------------|-------|



|   |                 |
|---|-----------------|
| De-conversion Fee                       | \$1,000         |
| Over 20 Funds Fee                       | \$250 annually  |
| Post Plan Set Up Mapping of Investments | \$250 per event |

### Participant Paid Fees

|  | <b>Annual Fee</b> |
|--|-------------------|
| \$0-\$9,999,999.99                       | \$26.00           |
| \$1 M to \$3,999,999.99                  | \$16.00           |
| \$4 M and over                           | \$0               |
| Loan Set-up Fee                          | \$75.00           |
| Annual Loan Maintenance                  | \$50.00           |
| Distribution Process Fee                 | \$65.00           |
| Recordkeeping fee varies per Fund Family | 0-30 bps/yr       |

### SOLO 401(k) Plans

|                        | <b>One Time Set Up Fee</b> | <b>Or Conversion Fee</b> |
|------------------------|----------------------------|--------------------------|
| Plan Sponsor Paid Fees | \$250                      | \$250                    |

*And*

|                   |       |
|-------------------|-------|
| Annual Admin Fee  | \$250 |
| De-conversion Fee | \$250 |

### Participant Paid Fees

|  | <b>Annual Fee</b> |
|--|-------------------|
| Loan Set-up Fee                          | \$75.00           |
| Annual Loan Maintenance                  | \$50.00           |
| Distribution Process Fee                 | \$65.00           |
| Recordkeeping fee varies per Fund Family | Varies per Fund   |

|                   |       |
|-------------------|-------|
| De-conversion Fee | \$250 |
| Over 20 Funds Fee | \$250 |

In addition to the fees noted above, ExpertPlan will receive subtransfer/transfer agent fees on average of 25 basis points from the mutual funds in which Plan assets are invested. For those mutual funds that do not pay ExpertPlan a subtransfer/transfer agent fee, ExpertPlan will assess an annual asset based wrap fee of 25 basis points.

The fees paid to CFS and IAR are listed below.

Plan Participants pay an annualized asset based advisory fee according to the following schedule. The fee is charged quarterly, in arrears, and is deducted on a proportionate basis from each Plan participant's individual account. The total amount of the fee paid to CFS will not exceed 1.25% of the Plan's total assets in Retirement Plans Your Way ®.

|                         | <b>Fee</b> |
|-------------------------|------------|
| \$0-\$500,000           | 1.25%      |
| \$500,000-\$1 Million   | 1.00%      |
| \$1 Million-\$3 Million | 0.75%      |
| Over \$3 Million        | 0.50%      |

## SEI

| <b>Maximum Fee</b> | <b>Amount Invested</b>                            |
|--------------------|---|
| 1.20%              | For the first \$1 Million assets under management |
| 1.10%              | For the next \$2 Million assets under management  |
| 1.00%              | For the next \$2 Million assets under management  |

## STAR™ Program

### STAR™ II Fees

Conservative, Balanced, Moderate Growth and Growth Portfolios

| <b>Maximum Fee</b> | <b>Amount Invested</b>                           |
|--------------------|--|
| 1.60% - 2.25%      | For the first \$250,000 assets under management  |
| 1.50% - 2.05%      | For the next \$250,000 assets under management   |
| 1.35% - 1.90%      | For the next \$500,000 assets under management   |
| 1.25% - 1.75%      | For the next \$1,500,000 assets under management |
| 1.10% - 1.40%      | For the next \$2,500,000 assets under management |

#### Conservative Income Portfolio

| <b>Maximum Fee</b> | <b>Amount Invested</b> |
|--------------------|------------------------|
| .50%-.75%          | All Assets             |

#### STAR™ III Fees

The Fee for STAR III accounts is negotiable in the range of 2.00% to 2.75% per year for all assets under management. There is an additional 0.25% Fee per year for a STAR III VEGA Enhanced account that selects an additional management service known as a Reinvestment Option Election as described above.

In addition to the Fees, STAR accounts will pay a transaction charge to the custodian to cover the cost of trade execution. Neither the IAR nor Partnervest will receive any portion of the transaction charges. CFS may receive a portion of these fees. The transaction charges are as follows:

| Trade Execution                   | Transaction Charge           |
|-----------------------------------|------------------------------|
| Equities                          | \$15.00                      |
| Options                           | \$15.00 plus \$0.75/contract |
| Fixed Income                      | \$30.00                      |
| Mutual Funds                      | \$14.00                      |
| Mutual Fund Surcharge*            | \$10.00                      |
| Mutual Fund Exchanges (per trade) | \$5.00                       |

|                                     |         |
|-------------------------------------|---------|
| Systematic Purchase and Redemptions | \$2.00  |
| Short Term Redemption Fee           | \$50.00 |
| Foreign Securities                  | \$85.00 |

\* The Mutual Fund Surcharge applies to a transaction in any mutual fund where Pershing as custodian does not receive networking fees. This is in addition to the transaction charge noted above for Mutual Funds.

The STAR™ III Account will be charged by the custodian for margin interest on any credit extended to the account. Partnervest will not receive a portion of the margin interest. CFS will receive a portion of the margin interest. This is in addition to the investment advisory fee charged for the STAR™ Account. The investment advisory fee will be charged on the account's total Account value, including the margined securities.

STAR accounts without any transactions during a 12-month period based on anniversary will also be responsible for paying an annual inactive account fee of \$25.00 for accounts holding solely mutual funds and \$50.00 for accounts holding a combination of mutual funds and other securities.

#### CFS Margin Interest Rates

| <b>Margin Account Balance</b> | <b>CFS Margin Interest Rates</b> |
|-------------------------------|----------------------------------|
| Less than \$9,999.99          | 2.75% above Base Lending Rate    |
| \$10,000 to \$29,999.99       | 2.00% above Base Lending Rate    |
| \$30,000 to \$49,999.99       | 1.50% above Base Lending Rate    |
| \$50,000 and up               | 0.75% above Base Lending Rate    |

Advisory programs offer varying pricing structures, which may or may not result in a higher fee to the client. For additional program information, please refer to Item 12 – Brokerage Practices.

## Item 6 – Performance-Based Fees

CFS 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**

CFS provides portfolio management services to individuals, corporate pension and profit-sharing plans, charitable institutions, corporations, foundations, endowments, and trusts.

### **Minimum Account Size**

|           |  |
|-----------|--|
| None      | First Mercantile, Retirement Plans Your Way, Financial Planning                |
| \$25,000  | CAM Active Passive   |
| \$50,000  | CAM Funds, CAM ETF, CAM Index, Genworth Mutual funds, Morningstar, PFG STAR II |
| \$100,000 | CAM DIRECT, Genworth ETF's, Loring Ward, PFG STAR III                          |
| \$250,000 | CAM UMA, SEI   |
| \$750,000 | CAM Managers   |

CAM Direct should not be used for day trading or other high volume or extremely speculative trading activity, including, without limitation, excessive options trading or trading in mutual funds based on market timing. If CFS, in its sole discretion, determines that the trading activity in a CAM Direct Account is excessive, CFS reserves the right to restrict trading or terminate the account if the quantity of trades exceeds sixty (60) trades per annum, and to impose a surcharge equal to the maximum commission rate on those trades beyond the maximum stated above that would have applied based on rates applicable if the trades had been made in a standard CFS brokerage account.

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

### **Analysis and Strategies**

Advisors may utilize varying techniques in formulating investment advice or managing assets for clients. The third party managers determine the method and source of their analysis and investment strategies. Please refer below and to the ADV brochure for the third party managers for more information.

### **CAM**

IARs obtain detailed financial and other pertinent data from clients. This assists in determining the appropriate investment strategy for the account. All security analysis methods, sources of information with respect to securities, and investment strategies are determined by CFS IARs for the CAM Direct Program and Financial Planning Services.

### CAM Funds

Clients may elect to purchase and sell equity options and/or equity index options within the CAM Direct account. All CAM Direct accounts that wish to invest in options of any type must be approved for option trading in advance of any option transactions. Buying and selling options entails additional risks. These risks will be disclosed in writing to clients prior to signing an option approval form to receive approval for options. Clients should fully understand and agree to the risks associated with the type of option transactions that they will authorize in the CAM Direct account prior to signing the option approval form.

Clients may also elect to purchase structured products within the CAM Direct account. Structured products are securities derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance and/or a foreign currency. Structured products have a fixed maturity, but typically contain two components – a note and a derivative (which may be an option). Structured products are issued by financial institutions, such as investment banks, and are senior, unsecured debt of the issuing institution. As such, structured products are subject to the credit worthiness of the issuer even if they are structured to offer principal protection, and any payments due at maturity are dependent on the issuer's ability to make payment. In addition to this credit risk, other risks of investing in structured products include, but are not limited to, liquidity risk, limitations on upside participation, and the tax treatment may be different from other investments in the CAM Direct account.

### Financial Planning Services

CFS, through its IARs, provides financial plans and investment advice consistent with a client's financial status, investment objectives and tax status. IAR will obtain the necessary financial data from the client to prepare the financial plan or provide investment advice.

### First Merc

First Merc establishes and maintains collective trust funds for retirement plans. First Merc provides the Asset Allocation Models and periodically rebalances the funds to target specific weightings. Neither CFS nor First Merc has discretion over client assets.

### Genworth

Genworth has established relationships with independent investment management firms (the Strategists), to create a variety of strategic asset allocation model portfolios (Models) comprised with mutual funds (both independent and affiliated) and ETFs. The Strategist

will select and monitor the performance of the mutual funds and ETFs in their Models and will periodically adjust and rebalance the portfolios in accordance with their investment strategies.

The Strategists are selected by Genworth to provide a wide range of investment options. Each Strategist will provide a range of Models corresponding to a specific risk-return profiles ranging from conservative to aggressive. The Models will be generally rebalanced quarterly. Any proprietary Genworth funds will be fully identified when the client is making their model selection.

Additionally, Genworth may offer Privately Managed Accounts, in which clients will engage Genworth to act as an overlay manager. In this situation, Genworth will contract with institutional investment management firms (Sub-Advisors) to provide model portfolios of individual securities. As overlay manager, Genworth has limited discretionary authority to execute transactions on behalf of clients to track the model portfolios, provide tax management transactions, or to implement client-requested restrictions.

#### Loring Ward

Loring Ward offers a range of investment solutions to build customized, well-diversified portfolios that consist of investment strategies targeted toward achieving a balanced and diversified portfolio. The CFS IAR assists the client with developing a customized portfolio based on the client's financial objectives, risk preferences, tax situation and personal circumstances.

#### Morningstar

Morningstar assembles portfolios by analyzing Funds using quantitative analyses and screening techniques. The foundation of the MIS Program is a range of asset allocation portfolios strategically built to meet different investment time horizons and risk levels ("Asset Allocation Strategy"). Each Asset Allocation Strategy strives to achieve long-term risk and return objectives through diversification among multiple asset classes. Examples of Asset Allocation Strategy portfolios are Conservative, Income and Growth, Moderate Growth, Growth and Aggressive Growth.

#### Retirement Plans Your Way ®

Through Retirement Plans Your Way ®, CFS provides certain investment advisory services to the Plan Sponsors. CFS, through its IARs, will assist the Plan Sponsor in establishing a service agreement with ExpertPlan. The IAR obtains the necessary financial data, investment goals and objectives from the Plan Sponsor. Additionally, the IAR will assist the Plan Sponsor in selecting a menu of mutual funds across diverse asset classes to be offered to the self-directed participants of the Plan by providing information to the Plan Sponsor. The final decision as to which mutual funds to offer in the Plan to participants is the responsibility of the Plan Sponsor. Neither CFS nor the IAR have any discretionary trading

authority. The IAR will meet with the Plan Sponsor periodically to review investment choices, performance, plan objectives and any requested changes.

## SEI

SEI provides asset allocation advice to Clients based on the financial objectives, investment objectives, risk tolerance and investment restrictions of the Client. SEI uses a proprietary asset allocation model to make its recommendation. The model uses estimates developed by SEI of the long-term rates of return, volatility and correlations of various asset classes. SEI also provides comparisons of performance to relevant benchmarks. Client's assets are invested in pooled investment vehicles, including the SEI Funds, and collective funds and partnerships to which affiliates of SEI Investment Management Corporation provide services or are separately managed by other registered investment advisers who have contracted with SEI. SEI performs quarterly rebalancing based on standard variances.

## STAR™ Program

The following describes the investment strategy and methodology used by Partnervest in managing assets within each of the various STAR™ programs. For further information, client should refer to the Form ADV Part 2A or other relevant disclosure document for Partnervest.

### *STAR™ II – Strategic Tactical Allocation Risk*

Based on the client's investment objectives, time horizon, and risk tolerance, Partnervest determines an appropriate mix of asset classes and investment styles. The resulting strategic asset allocation model provides target ranges for each asset class or investment style. A wide variety of securities may be used in each investment style, including potentially, no load or load-waived mutual funds, Exchange Traded Funds (ETFs), individual equities, fixed-income securities, and other securities.

The securities are sorted and ranked according to Partnervest's investment model comprising several criteria which may include: rates of return, fund inception, correlations, Sharpe Ratio, maximum drawdown, standard deviation, and other factors. Portfolio allocations are dynamic and can vary depending upon several factors, including client needs and circumstances, market conditions, and other factors. Partnervest uses a tactical asset allocation to obtain a Mean-Variance optimization and identify the optimal portfolios on the efficient frontier curve. Partnervest then selects the proper mix of the asset classes.

### *STAR™ III - Structured Target Returns*



STAR™ III comprises Partnervest's proprietary directly managed investment strategies. Currently, there are four strategies within STAR™ III; Alpha, Alpha Q, VEGA and VEGA Enhanced.

#### STAR™ III Alpha

The Alpha Strategy combines three non-correlated Exchange Traded Funds (ETF's), Exchange Traded Notes (ETN's), and other securities or options on these securities (collectively "securities") in the same portfolio, seeking to ensure the protection of principal across all market cycles. In attempting to achieve this goal, a majority of the assets are placed in a fixed income security using the iShares 20+ year Treasury Bond ETF (TLT) or similar securities. A portion of the account is provided market appreciation potential from both the S&P 500 and Gold securities, or other securities, while at the same time seeking to reduce the price volatility. There may be times when an account does not purchase all desired securities, for example when Partnervest deems a particular security to be overvalued or trading at a premium. There may also be times when more than three securities are purchased in order to achieve the objectives of the strategy.

Alpha is designed to generate quarterly income from options. Call options are sold on the securities held in the Account. As call option positions are closed and/or expire, a new strike price is calculated for each security and additional options on the underlying securities are sold.

As an alternative or in addition to purchasing securities and selling covered call options, Partnervest may sell cash-secured puts as a means to receive income premium. Partnervest, at its discretion, may also utilize the purchase of puts.

#### STAR™ III Alpha Q (Retirement)

The Alpha Q Strategy combines three Exchange Traded Funds (ETF's), Exchange Traded Notes (ETN's) or other securities (collectively "securities") in the same portfolio, seeking to ensure the protection of principal. A majority of the assets are placed in a fixed income security. The strategy may utilize the iShares 20+ year Treasury Bond ETF (TLT) or similar securities. There may be times when an account does not purchase all desired securities. There may also be times when more than three securities are purchased in order to achieve the objectives of the strategy.

Alpha Q is designed to generate quarterly income. Call options are sold on the securities held in the Account. Partnervest may sell cash-secured puts as a means to receive income premium while setting a lower underlying security purchase price. Partnervest may also utilize the purchase of puts as a means to profit and/or hedge against a downward movement in price of the underlying security to meet the strategy objectives.

#### STAR™ III VEGA

The VEGA strategy consists of Exchange Traded Funds (ETF's), Exchange Traded Notes (ETN's) or other securities (collectively "securities") designed to mimic certain global indices. There may be times when an account does not purchase all desired securities. Call options are sold on the securities held in the Account. As call option positions are closed and/or expire, a new strike price is calculated for each security and additional options on the underlying securities are sold. As an alternative or in addition to purchasing securities and selling covered call options, Partnervest may sell cash-secured puts as a means to receive income.

VEGA is designed to generate quarterly income in the form of premiums received from the sale of covered calls and/or cash-secured puts. Certain premium amounts may be required for transactional and portfolio management purposes, or a client specific request for systematic withdrawals of income. The default choice for premium accumulation is a money market fund or FDIC deposit sweep account selected by Partnervest.

The Principal Protection feature is intended as a means to protect against potential price declines of 20% or greater in the client's VEGA Enhanced Account. The cost of the protection is expected to be derived from accumulated option premium but principal may be used. The use of this enhancement entails the purchase of put options on a security representing some or all of the market holdings of a client's Account.

#### STAR™ III VEGA Enhanced

The VEGA Enhanced strategy consists of an equally-weighted portfolio of Exchange Traded Funds (ETF's), Exchange Traded Notes (ETN's) or other securities (collectively "securities") designed to mimic certain global indices. There may be times when an Account does not purchase all desired securities. Call options are sold on the securities held in the Account. As an alternative or in addition to purchasing securities and

selling covered call options, Partnervest may sell cash-secured puts as a means to receive income premium while setting a lower underlying security purchase price.

VEGA Enhanced is designed to generate quarterly income in the form of premiums received from the sale of covered calls and/or cash-secured puts.

The Principal Protection feature is intended as a means to protect against potential price declines of 20% or greater in the client's VEGA Enhanced Account. The cost of the protection is expected to be derived from accumulated option premium but principal may be used. The use of this enhancement entails the purchase of put options on a security representing some or all of the market holdings of a client's Account.

Except for premium amounts required for transactional and portfolio management purposes, Partnervest, in its discretion, will allocate the accumulated premium in the VEGA Enhanced strategy which includes Principal Protection, and may include Reinvestment Option Elections described below if selected by client on the Investment Policy Guideline.

1) Treasury Option Income Election: Periodic reinvestment of accumulated premium into the representative Treasury ETF, and sale of periodic call options on the same.

2) Volatility-Based Reinvestment Election: May be implemented on a systematic or periodic basis, by reinvesting accumulated option premium back into the underlying VEGA Enhanced account as the level of implied volatility rises and/or securities' prices decline. The CBOE Volatility Index (VIX) is used as a measure of current volatility.

Except for premium amounts required for transactional and portfolio management purposes, Partnervest usually does not reinvest the premium back into the original securities, unless client requests one of the elections described below. In normal circumstances, the use and/or investment of accumulated premium is determined by client selected Reinvestment Option elections. Unless otherwise specified, the default choice for premium accumulation is a money market fund or FDIC deposit sweep account selected by Partnervest. Due to minimum 100 share lot purchase requirement per security, total account equity per Account can be a factor considered by Partnervest when determining premium reinvestment elections.

As stated above, the STAR™ II and STAR™ III Accounts use Exchange Traded Funds ("ETFs"). Although ETFs are typically registered under the Investment Company Act of

1940, similar to a mutual fund, ETFs differ from traditional mutual funds. In particular, an ETF is listed on a securities exchange and can be bought and sold during the trading day similar to equity securities. In addition, ETFs may be traded at a premium or discount to their net asset value. Many ETFs that invest in commodities are not registered under the Investment Company Act of 1940.

The STAR™ III programs also invest in Exchange Traded Notes (“ETNs”). An ETN is a senior, unsecured, unsubordinated debt security issued by an underwriting bank. An ETN is designed to track the performance of a market index or benchmark, less investor fees. ETNs are traded on an exchange at the prevailing market price; they are not mutual funds and they do not have a net asset value. Similar to other debt securities, ETNs have a maturity date and are backed only by the credit of the issuer. Payments upon maturity are dependent upon the issuer’s ability to pay and the value of an ETN will be negatively impacted if there is a reduction in the credit rating of the issuer.

The STAR™ III Account requires margin approval (non-qualified accounts only). Client will be required to sign a margin approval form to receive the approval. There are additional risks associated with margin borrowing including; greater losses if the securities on margin go down in value and greater gains if the securities on margin go up in value.

## **Investment Characteristics**

Clients need to be aware that investing in securities involves risk of loss that the client needs to be prepared to bear. Risks related to investing include, but are not limited to, the possible loss of principal. The risk of specific investments and strategies are described below.

### *Margin Accounts*

If an account is approved for trading on margin and the client enters into a margin agreement with the account custodian, the client will be charged margin interest on any credit extended to or maintained by the client. CFS will retain a portion of any margin interest charged on the CAM Programs. This interest charge is in addition to the annual investment advisory fee charged. Moreover, the total account value including the margined securities is used to determine the annual advisory fee.

Clients should be aware that borrowing on margin involves additional risks. Margin borrowing will result in increased gain if the value of the securities go up, but will result in increased losses if the value of the securities in the account go down. The custodian, acting as the client’s creditor, will have the authority to liquidate all or part of the account to repay any portion of the margin loan, even if timing would be disadvantage to the client.

### *Option Trading*

Partnervest employs the use of options in its management strategy and, thus, all STAR™ III Accounts must be approved for option trading. Option trading may be highly speculative in nature. On certain days, option trading may cease which could result in financial loss. The risks of covered call writing include the potential for the market to rise sharply. Writing or selling an option contract (such as call, put, or straddle) without depositing the underlying security, the risk of loss is potentially unlimited. The risks of cash-secured put writing include when the underlying security declines significantly and the put writer is assigned, the purchase price for the shares can be above current market price. The client must be willing and able to assume the financial risks and hazards of option trading. The risk of buying long puts is limited to the loss of the premium paid for the purchase of the put. Option Transactions are subject to the rules, regulations, customs, and usages of The Options Clearing Corporation and of the registered national securities exchange, national securities association, clearing organization, or market where such transaction was executed.

#### *Structured Products*

The risks associated with many structured products, especially those products that present risks of loss of principal due to market movements, are similar to those risks involved with options. In the case of a "principal protected" product, these products may only be insured by the issuer, and thus have the potential for loss of principal in the case of solvency problems with the issuing company. Additionally, there may be a relative lack of liquidity due to the highly customized nature of the investment.

#### *Exchange Traded Funds*

ETFs are typically registered investment companies whose shares represent an interest in a portfolio of securities that track an underlying benchmark or index. Unlike traditional mutual funds, shares of ETFs typically trade throughout the day on a securities exchange at prices established by the market. An ETF is only as good as the index it tracks. Equity-based exchange traded funds are subject to risks similar to those of stocks; fixed income-based ETFs are subject to risks similar to those of bonds. Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Foreign investments have unique and greater risks than domestic investments.

#### *Performance*

There is no assurance that any advisory program strategy will be successful or result in a profit for the client.

## **Item 9 – Disciplinary Information**

CFS is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of CFS or the integrity of CFS's management. CFS has no information applicable to this Item.

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

CFS is a registered broker-dealer and a member of FINRA (CRD 42132). This is the primary business of CFS. In addition, a CFS related entity, CUSO Financial Services, Inc. (dba CUSO Insurance Services) is qualified to sell insurance products in California and various states. All CUSO insurance licenses fall under CUSO Financial Services, Inc. with the following exceptions in the states as specified: CUSO Financial Insurance Agency, Inc. (in Massachusetts). CFS has financial services arrangements with other institutions that include credit unions.

CFS is affiliated with Sorrento Pacific Financial, LLC, a California limited liability company ("SPF"). SPF is an SEC registered investment adviser and a registered broker-dealer with FINRA (CRD 127787). CFS and SPF share common owners and officers. CFS and SPF entered into a Services Agreement whereby CFS provides to SPF back-office brokerage and advisory support.

CFS recommends the service of a third party manager who has agreed to share a portion of its management fee with and/or provide additional advisory services and discounts ("benefits") to CFS as opposed to other managers who have not agreed to the same. IARs do not receive any of these fees. Compensation and benefits provided to CFS from third party managers may vary. The fees for such third party managed programs may be higher or lower than if clients directly obtained the services of the third party manager if available, or if clients obtained the advisory services separately. Additionally, CFS currently offers IAR's enhanced benefits on advisory fees earned whereby IAR's may obtain non-cash benefits such as reimbursement of expenses to attend educational and sales conferences.

IARs may also be registered representatives with CFS. CFS conducts ongoing review of IAR commission and advisory fees to ensure suitability for source of funds for new advisory deposits. The focus of the review includes the IAR's past compensation on the advisory assets.

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

CFS places significant value on ethical conduct for all advisory business. In addition to CFS's obligation to comply with the federal securities laws, CFS has also established a standard of business conduct required of all our Supervised Personnel in the CFS Code of Ethics. The CFS Code of Ethics is designed to protect clients by deterring misconduct and preventing fraud by reinforcing fiduciary principles that must govern the conduct of CFS and our personnel. An Adviser, as a fiduciary to its clients, is responsible for providing professional, continuous, and unbiased investment advice. Fiduciaries owe their clients a duty of honesty, good faith, and fair dealing. In order to ensure that our IARs and employees strictly adhere to the highest of conduct and integrity in conducting business on behalf of our clients, we require that each sign our Code of Ethics.

In addition, the Code of Ethics governs personal trading by each employee of CFS deemed to be an Access Person and is intended to ensure that securities transactions effected by Access Persons of CFS are conducted in a manner that avoids any actual or potential conflict of interest between such persons and clients of the adviser or its affiliates. CFS collects and maintains records of securities holdings and securities transactions effected by Access Persons. These records are reviewed to identify and resolve potential conflicts of interest.

CFS will furnish a copy of its Code of Ethics to clients upon request. Clients can contact their IAR or the CFS home office at 858-530-4400.

On occasion, IARs may recommend a security in which they or CFS own shares or have some other financial interest. When the IAR recommends a security, CFS's procedures require the IAR to determine that the investment is suitable to the client's needs and risk profile. In the event that a IAR wishes to buy or sell for himself/herself a security that has also been recommended to a client, the client's order(s) are given priority.

No agency cross transactions or principal trades will be effected in an advisory account.

## **Item 12 – Brokerage Practices**

Depending on the advisory program selected by the client, the broker/dealer for execution of trades varies. There are three possible scenarios. First, CFS may require a specific broker/dealer as in the CAM accounts. Second, the third party managers may select the broker/dealer. Third, clients may have the option to elect a broker/dealer as with Genworth.

CFS is also a broker/dealer, and in such capacity clears its securities transaction through Pershing, LLC. ("Pershing"). Pershing is a BNY Mellon company and is located at One Pershing Plaza, Jersey City, NJ 07399. For the CAM programs, CFS requires that the client appoint CFS as the broker/dealer for trade execution. The client should understand that not all advisors require their clients to direct brokerage. This presents a conflict of interest because of the clearing relationship between CFS and Pershing. By directing brokerage to

CFS, CFS may not be able to achieve most favorable execution of client transactions, and this practice may cost the client more money.

CFS makes every reasonable attempt to obtain the best execution possible, but it may not be possible given the requirement to trade through Pershing. Best execution is the full range and quality of a broker's services in placing brokerage, encompassing not only the overall cost of a client's trade, but also qualitative factors such as the broker's areas of expertise, the price at which the trade was executed relative to other trades in the security, and the broker's integrity and responsiveness. To carry out this ongoing evaluation of best execution practices, the CFS Pricing and Best Execution Committee investigates and evaluates the costs and services available from other clearing or execution firms in an effort to secure lower trading costs and more efficient and accurate clearing services. As part of our obligation to providing our clients with exemplary service, our Committee regularly reviews CFS reports, and produces an annual best execution report that reviews execution quality and execution speed of CFS and its clearing firm.

In the CAM Program, CFS is appointed sole and exclusive broker-dealer with respect to handling of securities transactions for client accounts as directed by the IAR. No agency cross transactions or principal trades will be effected in the CAM Program.

Advisor may combine orders into block trades when more than one account is participating in the trade. This blocking or bunching technique must be equitable and potentially advantageous for each such account (e.g. for the purposes of reducing brokerage commissions or obtaining a more favorable execution price). Block trading is performed when it is consistent with the duty to seek best execution and is consistent with the terms of Advisor's investment advisory agreements. Equity trades are blocked based upon fairness to client, both in the participation of their account, and in the allocation of orders for the accounts of more than one client. Allocations of all orders are performed in a timely and efficient manner. All managed accounts participating in a block execution receive the same execution price (average share price) for the securities purchased or sold in a trading day. Any portion of an order that remains unfilled at the end of a given day will be rewritten on the following day as a new order with a new daily average price to be determined at the end of the following day. Due to the low liquidity of certain securities, broker availability may be limited. Open orders are worked until they are completely filled, which may span the course of several days. If an order is filled in its entirety, securities purchased in the aggregated transaction will be allocated among the accounts participating in the trade in accordance with the allocation statement. If an order is partially filled, the securities will be allocated pro rata based on the allocation statement. Advisor may allocate trades in a different manner than indicated on the allocation statement (non-pro rata) only if all managed accounts receive fair and equitable treatment.

ExpertPlan provides all transaction capability for Retirement Plans Your Way ®. The Plan Sponsor, through execution of the service agreement with ExpertPlan, will appoint MG



Trust Company as the custodian of Plan assets. All transactions placed by Plan participants will be processed through Matrix Settlement and Clearing Services (MSCS). MG Trust and MSCS are subsidiaries of Matrix Capital Bank, but are not affiliated with ExpertPlan or CFS.

CFS does not have soft dollar arrangements.

### **Item 13 – Review of Accounts**

For asset management accounts, each IAR is responsible for reviewing copies of periodic account statements and quarterly performance reports for his/her clients. The accounts are reviewed to ensure that the allocations and selected investments continue to fit the risk profile and investment objective of each client. Changes to asset allocations or investments are made when deemed appropriate by the IAR or the third party investment advisor responsible for managing the account as described in the relevant program description in Items 4 and 8 above.

CFS also reviews CUSO Asset Management (“CAM”) Direct Program accounts using exception reports triggered by various criteria such as number of trades, percent stock allocation, percent cash allocation, position concentration, and account performance. The reviews are conducted on a quarterly basis by Compliance Department Analysts. Analysts are not assigned a specific number of exceptions or accounts to review.

Financial planning services terminate upon delivery of the financial plan. Thus, there are no ongoing reviews conducted by CFS. However, Advisor offers clients the opportunity for reviews as desired. The client may also choose to engage CFS for subsequent services to review and update the written plan at any time due to major life events or changes in the economic environment. Upon re-engaging CFS for an updated plan, the client would enter into a new investment advisory agreement for services. All financial planning updates or reviews are conducted by an IAR.

Clients will receive, at a minimum, quarterly account statements describing positions and activity. CFS does not provide the statements. All statements are provided by the custodian of the account. CFS urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Performance reports are provided by the third party manager. For any month there is additional activity in the account, the client will receive monthly statements detailing that month's activity. Moreover, clients will receive quarterly performance reports detailing asset allocation and returns.

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

### Solicitation Activities and Receipt of Referral Fee

CFS also acts as a solicitor for various third party investment advisors pursuant to solicitation agreements. In connection with these arrangements, CFS and IAR will receive solicitation compensation for referring clients to the third party investment advisors for investment advisory services. The amount of compensation is disclosed to the client in writing at the time of the referral.

Some third party investment advisors may pay additional compensation for solicitations and may provide marketing support or other services to assist CFS in promoting their products. These additional payments will not increase the fees assessed to the client. Marketing support may take the form of payment of certain expenses, such as fees to allow the third party advisor to participate in sales conferences, expenses of presenting workshops and seminars for prospective and existing clients, or expenses of attendance by IARs at informational meetings held at the third party advisor's expense.

### Revenue Sharing

CFS and SEI, an independent advisory firm, entered into a Revenue Sharing Agreement whereby SEI pays to CFS two basis points (0.02%) payable quarterly for gross receipts received by SEI for Mutual Funds held outside an SEI fee-based account and one basis point (0.01%) payable quarterly for total assets invested in SEI excluding the assets of SEI's Select Advisor Council accounts. This compensation is not paid based on assets within an SEI advisory program and CFS does not share this compensation with the IAR. As a result, the IAR has no incentive to recommend the SEI advisory program over other advisory programs.

## **Item 15 – Custody**

Pershing, LLC serves as a qualified custodian of assets for all CAM, Loring Ward and STAR advisory accounts. While CFS does not hold client funds or securities, CFS assists in effecting client requests on behalf of Pershing, which deems CFS to have technical custody per the definitions of securities regulations. Such activity includes the withdrawal of advisory fees, withdrawal or transfer of funds and securities from the account and transfers of funds and securities between CFS accounts requested by clients. Requests for withdrawals and account asset transfers must be made in writing by the client. Additionally, clients are reminded to make all checks and securities payable/endorsed to Pershing, the qualified custodian of the advisory program, and not to CFS.

Clients will receive at least quarterly statements from the broker-dealer, third party advisor or other qualified custodian that holds and maintains client's investment assets. See below

for specific programs. CFS urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. Please keep in mind that these reports do not take replace the official statements you receive from the custodian of your Program account assets.

#### CAM

Clients will receive statements Pershing monthly and quarterly performance reports from Envestnet.

#### First Mercantile

First Mercantile will act as custodian. Statements may be monthly or quarterly depending on the account activity.

#### Genworth

For the Genworth program, clients may elect one the following custodians: Schwab, First Trust, and Resources Trust. Statements may be monthly or quarterly depending on the selected custodian. Genworth provides a quarterly performance report.

#### Loring Ward

Clients will receive from Pershing monthly or quarterly statements depending on activity and quarterly performance reports from Loring Ward.

#### MorningStar

Custody of investor assets will be at the fund company in omnibus ("house") accounts held in the name of Morningstar Managed Portfolios. Clients will receive initial trade confirmations as well as statements and performance reports, which are provided quarterly.

#### Retirement Plans Your Way

For Retirement Plans Your Way, Plan Sponsor and Plan participants can view account information (i.e., account balances, transactions, and performance) via the online system made available by ExpertPlan. In addition, ExpertPlan provides the Plan Sponsor and Plan participants with a statement at the address of record maintained on the Retirement Plans Your Way system on an annual basis.

#### SEI

SEI will act as the custodian of assets. Clients will receive monthly account statements and quarterly performance reports.

## STAR

CFS will be listed on the STAR account as broker/dealer of record. Clients will receive periodic accounts statements directly from Pershing on a monthly or quarterly basis, depending on activity. Clients will receive quarterly performance reports from Partnervest.

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

CFS does not exercise discretion over client assets. Third party advisors may be granted the authority to select investments for customers on a discretionary basis. Discretionary authority includes the authority to determine the security and the amount to be bought or sold without obtaining the prior consent of the client. This discretionary authority is obtained by the third party as part of a written client agreement and is signed by the client.

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

Neither CFS nor the IAR will vote proxies for any advisory program. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios except on CAM separate managed accounts under which a client may elect to have proxies voted by the designated separate account manager. For the CAM UMA Program, the client may elect to have proxies voted by Envestnet.

Clients will receive proxy solicitations from their custodian and/or transfer agent. Clients should contact the person identified by the issuer in the proxy materials with any questions about a particular solicitation.

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

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