

Vellum Financial, LLC

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This Brochure provides information about the qualifications and business practices of Vellum Financial, LLC. If you have any questions about the contents of this Brochure, please contact us at (805) 546-1000 or via email at bryan@vellumfinancial.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Vellum Financial, LLC is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you may use to determine whether to hire or retain them. Additional information about Vellum Financial, LLC is also available on the SEC's web site at www.adviserinfo.sec.gov.

Item 2 - Material Changes

Since our last filing on March 10, 2011, we have made the following material changes to our Form ADV Part 2A:

Our Form ADV Part 2A has been revised to reflect updates to our assets under management and ownership, which can both be found under Item 4, “Advisory Business Introduction.” This brochure has also been revised to include our three new LLC owners and their information. Information about them can be found in “Item 4-Advisory Business Introduction” and “Item 10-Other Financial Industry Activities and Affiliations.” We have also added a new custodian option TD Ameritrade. Information on TD Ameritrade can be found in “Item 10-Other Financial Industry Activities and Affiliations”, “Item 12-Brokerage Practices” and “Item 15-Custody”.

We will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting Bryan Sullivan at (805) 546-1000.

Additional information about Vellum Financial, LLC is also available via the SEC’s web site www.adviserinfo.sec.gov. You can search this site by using a unique identifying number, known as a CRD number. The CRD number for Vellum Financial, LLC is 149909. The SEC’s web site also provides information about any persons affiliated with Vellum Financial, LLC who are registered, or are required to be registered, as investment adviser representatives of Vellum Financial, LLC.

Item 3 - Table of Contents

Item 2 - Material Changes	2
Item 3 - Table of Contents	3
Item 4 - Advisory Business Introduction	5
Services	5
1. Financial Planning.....	6
2. Asset Management	7
Third Party Money Managers.....	8
3. Other Services	8
Item 5 - Fees and Compensation.....	8
1. Financial Planning/Consulting Fees.....	9
2. Asset Management Fee Schedule	10
Third Party Money Managers.....	11
3. Other Fees	11
Item 6 - Performance Based Fee and Side by Side Management	11
Item 7 - Types of Client(s).....	11
Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss	12
1. Fundamental Analysis	12
2. Technical Analysis.....	13
3. Cyclical Analysis.....	14
Third Party Money Managers	14
Risks.....	14
Item 9 - Disciplinary Information	14
Item 10 - Other Financial Industry Activities and Affiliations.....	14
1. Broker-Dealer Relationship	14
2. Insurance Agent	15
Item 11 - Code of Ethics, Participation or Interest in Client Accounts and Personal Trading	15
1. General Information.....	15
2. Participation or Interest in Client Accounts	16
3. Personal Trading.....	16
4. Responsibility	17
5. Privacy Statement	17
6. Conflicts of Interest.....	17
7. Use of Disclaimers	17

8. Suitability.....	17
Item 12 - Brokerage Practices	17
1. Soft Dollars	17
2. Brokerage for Client Referrals.....	19
3. Directed Brokerage	19
Item 13 - Review of Accounts	20
1. Duty to Supervise	20
2. Reviews.....	20
3. Reports	21
Item 14 - Client Referrals and Other Compensation.....	21
Item 15 - Custody.....	22
Item 16- Investment Discretion	23
Item 17- Voting Client Securities.....	23
Item 18 - Financial Information.....	23
Item 19 - Requirements for State Registered Advisers.....	23
Glossary of Key Terms	24

Item 4 - Advisory Business Introduction

Vellum Financial, LLC ("VFL") is a Registered Investment Adviser ("Adviser") which offers investment advice, securities, insurance, and other financial services to clients. We are registered through and regulated by the United States Securities and Exchange Commission ("SEC").

We provide investment advice through investment adviser representatives ("advisor") associated with us. These individuals are appropriately licensed, qualified, and authorized to provide advisory services on our behalf. In addition, all advisors are required to have commensurate education and industry experience.

VFL was founded in 2009 by Brian Sullivan who serves as a Managing Member and Chief Compliance Officer; we are owned by our four investment advisor representatives, Greg Franklin, Kelly Smith, Bryan Sullivan and Kevin Swanson. Each individual owns 25% of the LLC as of February 2012.

We provide asset management services, financial planning and consulting and referrals to Third Party Money Managers to individuals, high net worth individuals, trusts, estates, corporate pension and profit-sharing plans, charitable organizations, corporations, trusts, and small businesses. We are dedicated to providing individuals and other types of clients with a wide array of investment advisory services. We are committed to the precept that by placing the clients' interests first, we will add value to the asset management process and earn the client's trust and respect. We value long term relationships with our clients whom we regard as strategic partners in our business.

Services

We provide asset management services, financial planning and consulting and referrals to Third Party Money Managers. Our focus is on helping you develop and execute plans that are designed to build and preserve your wealth.

As of 12/31/2011, we provided asset management services on a discretionary basis for 922 accounts, managing total assets of \$123,464,945.00. For accounts managed on a discretionary basis, you have given us the authority to determine the following without your consent:

- Securities to be bought or sold for your account
- Amount of securities to be bought or sold for your account
- Broker- dealer to be used for a purchase or sale of securities for your account
- Commission rates to be paid to a broker or dealer for your securities transaction

Trading may be required to meet initial allocation targets, after substantial cash deposits that require investment allocation, and/or after a request for a withdrawal that requires liquidation of a position. Additionally, your account may be rebalanced or reallocated periodically in order to reestablish the targeted percentages of your initial asset allocation. This rebalancing or reallocation will occur on the

schedule we have determined together. You will be responsible for any and all tax consequences resulting from any rebalancing or reallocation of the account. We are not tax professionals and do not give tax advice. However, we will work with your tax professionals to assist you with tax planning. You will have the opportunity to meet with us periodically to review the assets in your account.

1. Financial Planning

We provide a variety of financial planning and consulting services to individuals, families and other clients regarding the management of their financial resources based upon an analysis of client's current situation, goals, and objectives. Generally, such financial planning services will involve preparing a financial plan or rendering a financial consultation for clients based on the client's financial goals and objectives. This planning or consulting may encompass one or more of the following areas: Investment Planning, Retirement Planning, Estate Planning, Charitable Planning, Education Planning, Corporate and Personal Tax Planning, Cost Segregation Study, Corporate Structure, Real Estate Analysis, Mortgage/Debt Analysis, Insurance Analysis, Lines of Credit Evaluation, Business and Personal Financial Planning.

Our written financial plans or financial consultations rendered to clients usually include general recommendations for a course of activity or specific actions to be taken by the clients. For example, recommendations may be made that the clients begin or revise investment programs, create or revise wills or trusts, obtain or revise insurance coverage, commence or alter retirement savings, or establish education or charitable giving programs. It should also be noted that we refer clients to an accountant, attorney or other specialist, as necessary for non-advisory related services. For written financial planning engagements, we provide our clients with a written summary of their financial situation, observations, and recommendations. For financial consulting engagements, we usually do not provide our clients with a written summary of our observations and recommendations as the process is less formal than our planning service. Plans or consultations are typically completed within six (6) months of the client signing a contract with us, assuming that all the information and documents we request from the client are provided to us promptly.

You must agree to provide the information and documentation we request regarding your income, investments, taxes, insurance, estate plan, etc. You also must agree to discuss your investment objectives, needs and goals, and to keep us informed of any changes. We do not verify any information obtained from you, your attorney, accountant or other professionals.

If you engage us to perform these services, you will receive a written agreement detailing the services, fees, terms and conditions of the relationship. You will also receive this Brochure. You are under no obligation to implement recommendations through us. You may implement your financial plan through any financial organization of your choice.

We obtain information from a wide variety of publicly available sources. We do not have any inside private information about any investments that are recommended. All recommendations developed by us are based upon our professional judgment. We cannot guarantee the results of any of our recommendations. You must decide what advice to follow.

We are also available to provide you with a second opinion of your existing portfolio.

2. Asset Management

We emphasize continuous and regular account supervision. As part of our asset management service, we generally create a portfolio consisting of mutual funds and /or exchange traded funds (“ETFs”). The client’s individual investment strategy is tailored to their specific needs and may also include some or all of the following securities; individual stocks, bonds, options and other public and private securities or investments. Each portfolio will be initially designed to meet a particular investment goal, which we determine to be suitable to the client’s circumstances. Once the appropriate portfolio has been determined, we use a quantitative analysis process to review the client's holdings and make changes based on our findings. Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio. These restrictions may be a specific company security, industry sector, asset class, or any other restriction you request. You must notify us promptly when your financial situation, goals, objectives, or needs change.

Under certain conditions, securities from outside accounts may be transferred into your advisory account; however, we may recommend that you sell any security if we believe that it is not suitable for the current recommended investment strategy. You are responsible for any taxable events in these instances. Your account can be managed in a tax aware manner; however, we do not provide tax advice or tax management services.

Certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance is not indicative of future results.

If you decide to implement our recommendations, we will help you open a custodial account(s). The funds in your account will generally be held in a separate account, in your name, at an independent custodian, not with us. We recommend using Charles Schwab & Co., Inc. (“Schwab”) or TD Ameritrade Inc., however, you can use anyone you wish. The identity of your custodian will be communicated to you before the account is opened. You will enter into a separate custodial agreement with the custodian. This agreement, among other things, authorizes the custodian to take instructions from us regarding all investment decisions for your account. We will select the securities bought and sold and the amount to be bought and sold, within the parameters of the objectives and risk tolerance of your account. The custodian will effect transactions, deliver securities, make payments and do what we instruct. You are notified of any purchases or sales through trade confirmations and monthly statements that are provided by the Custodian. You will at all times maintain full and complete ownership rights to all assets held in your account, including the right to withdraw securities or cash, proxy voting and receiving transaction confirmations.

You will receive, at least quarterly, a statement containing a description of all the activity in your account from the custodian. This statement lists the total value at the start of the quarter, itemizes all transaction activity during the quarter, and lists the types, amounts, and total value of securities held as of the end of the quarter. Your statement may be in either printed or electronic form based upon your preferences.

We are available during normal business hours either by telephone, fax, email, or in person by appointment to answer your questions.

Third Party Money Managers

We provide clients with a list of investment advisory services of third party professional portfolio management firms for the individual management of client accounts. As part of this process, we assist clients in identifying an appropriate third party money manager. We provide initial due diligence on third party money managers and ongoing reviews of their management of your account.

In order to assist clients in the selection of a third party money manager, we typically gather information from the client about their financial situation, investment objectives, and reasonable restrictions they can impose on the management of the account, which are often very limited. It is important to note that we do not offer advice on any specific securities or other investments in connection with this service. Investment advice and trading of securities is only offered by or through the third party money managers to clients.

You should read the ADV Part 2 disclosure document of the money manager you select for complete details on the charges and fees you will incur.

3. Other Services

We may recommend and sell life, disability, health, and long-term care insurance. We will receive the usual and customary commissions associated with these sales from the insurance company. You will not pay a separate fee for these and your advisory fee will not be reduced by any payments we receive from these sales.

Item 5 - Fees and Compensation

We provide asset management and financial planning services for a fee. Our fees do not include brokerage commissions, transaction fees, and other related costs and expenses. You may incur certain charges imposed by custodians, third party investment companies and other third parties. These include 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. Mutual funds, money market funds and exchange traded funds also charge internal management fees, which are disclosed in the fund's prospectus. These fees may include, but are not limited to, a management fee, upfront sales charges, and other fund expenses. We do not receive any compensation from these fees. All of these fees are in addition to the management fee you pay us. You should review all fees charged to fully understand the total amount of fees you will pay. Services similar to those offered by us may be available elsewhere for more or less than the amounts we charge.

You could invest in a mutual fund or ETFs directly, without our services. In that case, you would not receive the services provided by us which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate to your financial condition and objectives.

Our Advisory Agreement/Financial Planning Agreement defines what fees are charged and their frequency. We usually bill fees in advance on a quarterly basis. You will authorize the custodian to directly debit fees from your account held at the custodian and to pay us. Management fees are

prorated for each contribution and withdrawal made during the applicable calendar quarter (with the exception of small inconsequential contributions and withdrawals). You will be provided with a quarterly statement reflecting deduction of the advisory fees.

Either party may terminate the initial agreement at any time by providing written notice to the other party within five (5) business days of signing the agreement. You will incur charges for advisory or consulting services rendered up to the point of termination and such fees will be due and payable by immediately. Refunds will be given on a pro-rata basis promptly upon receipt of notice of cancellation. Accounts opened or terminated during a calendar quarter will be charged a prorated fee. Once an account is established, either party may terminate the relationship at any time. Upon termination of any account, any prepaid fees that are in excess of the management services performed will be promptly refunded to you. Any fees that are due, but have not been paid, will be billed to you and are due immediately.

1. Financial Planning/Consulting Fees

We charge on an hourly or flat fee basis for financial planning and consulting services. The total estimated fee, as well as the ultimate fee that we charge you, is based on the scope and complexity of our engagement with you. Our hourly fees are \$300 for financial advisors, \$150 per hour for para-planners and \$75 for administrative time. Flat fees generally range from \$1,000 to \$20,000 and are dependent upon the nature and complexity of your circumstances. All fees are negotiable.

The fees shown above are the minimum for financial plans. An estimate for total hours will be determined at the start of the advisory relationship.

Based upon your needs, we may also provide consultations throughout the year to advise and counsel you about other financial issues. We can help you with transition planning, major transaction analysis, coordinated with cash flow needs, retirement needs, estate planning needs, income tax planning, life and disability insurance needs, investment needs, and college education planning. Generally, consultations will not include a written report or plan.

If the plan is implemented through us, we may receive compensation from the sale of insurance products or services recommended in the financial plan. This compensation would be in addition to the financial planning fee you pay. The fees and expenses you pay for the purchase of these products may be more or less than the expenses you would pay should you decide to implement our recommendations through another investment advisory firm or broker-dealer and are typically determined by the broker-dealer or investment company sponsoring the product. Therefore, a conflict of interest may exist between our interests and your interests since we may recommend products that pay us compensation. We may have an incentive to recommend particular products based upon the potential compensation rather than your needs. This potential conflict is addressed in our Code of Ethics.

The Financial Planning Agreement will show the fee you will pay. Fees are negotiable. Hourly fees, project fees and retainer fees are charged in advance and are non-refundable. In the event that you cancel the financial consultation agreement, you will be responsible for the actual hours spent preparing

the financial plan, up to the cancellation date, at the agreed upon hourly rate. A deposit of 50% of the fee is due at the time the agreement is signed. The remainder of the fees is due upon presentation of an investment plan or the rendering of consulting services. Investment plans will be presented to you within six (6) months of the contract date, provided that all information needed to prepare the investment plan has been promptly provided to us. The financial planning agreement will terminate in accordance with your agreement with us.

Either party may terminate the initial agreement at any time by providing written notice to the other party within five (5) business days of signing the agreement. The client will incur charges for all advisory or consulting services rendered up to the point of termination and the fees will be due and payable by the client promptly upon notice of cancellation. Refunds will be given on a pro-rata basis promptly upon notice of cancellation. The financial planning agreement will terminate in accordance with your agreement with us.

All recommendations developed by us are based upon our professional judgment. We cannot guarantee the results of any of our recommendations. You must decide what advice to follow.

2. Asset Management Fee Schedule

Our minimum account opening balance \$100,000 which may be negotiable based upon certain circumstances. The fee charged is based upon the amount of money you invest. Multiple accounts of immediately-related family members, at the same mailing address, may be considered one consolidated account for billing purposes. You will pay fees quarterly, in advance. Payments are due and will be assessed on the last day of each quarter, based on the value of your account on a time-weighted daily average of the previous quarter:

Percentage	Portfolio Size (AUM)
3.00%	\$0 - \$5,000,000
2.50%	\$5,000,001+

The fees shown above are annual fees. You will be billed one quarter of this amount on a quarterly basis. No increase in the annual fee shall be effective without prior written notification to you. We believe our advisory fee is reasonable considering the fees charged by other investment advisers offering similar services/programs.

Our fees are generally not negotiable but may be under certain circumstances. You may also pay additional advisory fees to a third party money manager depending upon which manager you select. Our fees will not be based upon a share of capital gains or capital appreciation of the funds or any portion of your funds. In no event shall we charge advisory fees that are both in excess of twelve (12) hundred dollars and more than six months in advance of advisory services rendered.

Certain strategies offered by us involve investment in mutual funds. Load and no load mutual funds may pay annual distribution charges, sometimes referred to as "12(b) (1) fees". These 12(b) (1) fees come from fund assets, and thus indirectly clients' assets. We do not receive any compensation from these

fees. The 12(b) (1) fee, deferred sales charges and other fee arrangements will be disclosed upon your request and are typically described in the applicable fund's prospectus.

Your account at the custodian may also be charged for certain additional assets managed for you by us but not held by the Custodian (i.e. variable annuities, mutual funds, 401(k) s).

The fees we charge can be deducted directly from your account at the custodian. We will instruct the Custodian to deduct the fees from your account at the end of the calendar quarter. This fee will show up as a deduction on your following month's account statement from the Custodian.

Either party may terminate the initial agreement at any time by providing written notice to the other party within five (5) business days of signing the agreement. The client will incur charges for all asset management services rendered up to the point of termination and the fees will be due and payable by the client promptly upon notice of cancellation. Refunds will be given on a pro-rata basis promptly upon notice of cancellation.

Third Party Money Managers

We are paid by third party money managers when we refer you to them and you decide to open a managed account. Third party money managers pay us a portion of the investment advisory fee that they charge you for managing your account. Fees paid to us by third party money managers are generally ongoing. All fees we receive from third party money managers and the written separate disclosures made to you regarding these fees comply with applicable regulations and laws. The separate written disclosures you need to be provided with include a copy of the third party money manager's Form ADV Part 2, all relevant Brochures, a Solicitation Disclosure Statement detailing the exact fees we are paid and a copy of the third party money manager's privacy policy. The third party money managers we recommend will not directly charge you a higher fee than they would have charged without us introducing you to them.

3. Other Fees

Our advisors may recommend and sell life, disability, health, and long-term care insurance and will receive the usual and customary commissions in addition to any agreed upon advisory fee.

Item 6 - Performance Based Fee and Side by Side Management

We do not charge any performance-based fees. These are fees based on a share of capital gains on or capital appreciation of the assets of a client.

Item 7 - Types of Client(s)

We provide portfolio management services individuals, high net worth individuals, trusts, estates, corporate pension and profit-sharing plans, charitable organizations, corporations, trusts, and small businesses.

Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

We use Fundamental, Technical and Cyclical analyses as part of our overall investment management discipline; the implementation of these analyses as part of our investment advisory services to you may include any, all or a combination of the following:

1. Fundamental Analysis

Fundamental analysis is a technique that attempts to determine a security's value by focusing on the underlying factors that affect a company's actual business and its future prospects. Fundamental analysis is about using real data to evaluate a security's value. It refers to the analysis of the economic well-being of a financial entity as opposed to only its price movements.

Fundamental analysis serves to answer questions, such as:

- Is the company's revenue growing?
- Is it actually making a profit?
- Is it in a strong-enough position to beat out its competitors in the future?
- Is it able to repay its debts?

One of the primary assumptions of fundamental analysis is that the price on the stock market does not fully reflect a stock's "real" value. We use a combination of qualitative and quantitative factors to try and find stocks that are undervalued. We look at both macroeconomic factors such as the overall economy and industry conditions and company-specific factors such as financial condition and management. When we are examining a stock, we might look at the stock's annual dividend payout, earnings per share, Price to Earnings ratio and many other quantitative factors. However, no analysis is complete without taking into account brand recognition and other qualitative factors.

The end goal of performing fundamental analysis is to produce a value that we can compare with the security's current price, with the aim of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell or short).

In order to perform this fundamental analysis, we use many resources, such as:

- Morningstar
- Financial newspapers and magazines (e.g. Wall Street Journal, Forbes, etc.)
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Research materials prepared by others
- Company press releases
- Corporate rating services
- Timing Services

- Company websites
- Inspections of corporate activities

The investment strategies we use to implement any investment advice given to you include, but are not limited to:

- Long term purchases -securities held at least a year
- Short term purchases - securities sold within a year
- Trading -securities sold within 30 days
- Short sales
- Margin Transactions
- Option writing, including covered options, uncovered options or spreading strategies

Once we discover undervalued funds, funds that are investing in undervalued stocks; we look at the company offering these funds to determine stability and volatility of the funds.

2. Technical Analysis

Technical Analysis is a technique that attempts to determine a security's value by developing models and trading rules based upon price and volume transformation. Technical analysis assumes that a market's price reflects all relevant information so the analysis focuses on the history of a security's trading behavior rather than external drivers such as economic, fundamental and news events. The practice of technical analysis incorporates the importance of understanding how market participants perceive and act upon relevant information rather than focusing on the information itself. Ultimately, technical analysts develop trading models and rules by evaluating factors such as market trends, market participant behaviors, supply and demand and pricing patterns and correlations.

In order to perform technical analysis, we use the following techniques:

- Calculate moving averages
- Stochastic oscillators, which incorporate support and resistance levels to determine momentum.
- Charting and chart patterns
- Supply and demand indicators
- Investor behavior and psychology

The investment strategies we use to implement any investment advice given to you include, but are not limited to:

- Long term purchases (securities held at least a year)
- Short term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Short Sales
- Margin Transaction
- Option writing, including covered, uncovered and spread option strategies

As with other types of analysis, the predictive nature of technical analysis can vary greatly; models and rules are often modified and updated as new patterns and behaviors develop. Past performance is not an indicator of future return.

3. Cyclical Analysis

While we do not attempt to time the market, we may use cyclical analysis in conjunction with other strategies to help determine if shifts are required in your investment strategies depending upon long and short-term trends in financial markets and the performance of the overall national and global economy.

Third Party Money Managers

Methods of Analysis and Investment Strategies utilized by Third Party Money Managers will be disclosed and described to you in each Manager's Form ADV Part 2 Brochures. Please see the applicable Form ADV Part 2 Brochure for your specific Money Manager(s).

Risks

We cannot guarantee our analysis methods will yield a return. In fact, a loss of principle is always a risk. Investing in securities involves a risk of loss that you should be prepared to handle. You need to understand that investment decisions made for your account by us are subject to various market, currency, economics, political and business risks. The investment decisions we make for you will not always be profitable nor can we guarantee any level of performance. For a more comprehensive description of all the risks associated with our strategies, methodology, and products please refer to the glossary under Risks.

Item 9 - Disciplinary Information

Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no information to disclose here about the firm or any of our investment advisors. We adhere to high ethical standards for all advisors and associates. We strive to do what's in your best interests.

Item 10 - Other Financial Industry Activities and Affiliations

1. Broker-Dealer Relationship

We will arrange for the execution of securities brokerage transactions for your account through Broker-Dealers that we reasonably believe will provide "best execution." These transactions will take place through Charles Schwab & Co., Inc. ("Schwab") or TD Ameritrade, Inc., where your account is custodied. In seeking best execution, the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer's services including the value of research provided, execution capability, commission rates, and responsiveness. Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for account transactions.

Transactions placed in an asset management accounts by a third party manager will be executed through their broker-dealer or custodian. In determining best execution for these transactions, the third party manager is looking at whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer's services including the value of research provided, execution capability, commission rates, and responsiveness. While they look for competitive commission rates, they may not obtain the lowest possible commission rates for account transactions.

2. Insurance Agent

Bryan Sullivan, the Managing Member and Chief Compliance Officer for VFL, is a licensed insurance agent/broker with various companies. In his role as an insurance agent/broker, he may offer commissionable (non-variable) insurance products to you for which he may receive compensation from insurance companies. He may recommend and sell life, health, and long-term care insurance and will receive the usual and customary commissions.

Kevin Swanson, an owner and investment advisor representative, is a licensed insurance agent/broker with various companies. In his role as an insurance agent/broker, he may offer commissionable (non-variable) insurance products to you for which he may receive compensation from insurance companies. He may recommend and sell life, health, and long-term care insurance and will receive the usual and customary commissions. Greg Franklin, an owner and investment advisor representative, is a licensed insurance agent/broker with various companies. In his role as an insurance agent/broker, he may offer commissionable (non-variable) insurance products to you for which he may receive compensation from insurance companies. He may recommend and sell life, health, and long-term care insurance and will receive the usual and customary commissions. .

Kelly Smith, an owner and investment advisor representative, is a licensed insurance agent/broker with various companies. In his role as an insurance agent/broker, he may offer commissionable (non-variable) insurance products to you for which he may receive compensation from insurance companies. He may recommend and sell life, health, and long-term care insurance and will receive the usual and customary commissions.

Item 11 - Code of Ethics, Participation or Interest in Client Accounts and Personal Trading

1. General Information

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

2. Participation or Interest in Client Accounts

We may recommend securities to you that we have purchased for our own accounts. We may trade securities in our account that we have recommended to you as long as we place our orders after your orders. This policy is meant to prevent us from benefiting as a result of transactions placed on behalf of advisory accounts.

The following acts are prohibited:

- Employing any device, scheme or artifice to defraud
- Making any untrue statement of a material fact
- Omitting to state a material fact necessary in order to make a statement, in light of the circumstances under which it is made, not misleading
- Engaging in any fraudulent or deceitful act, practice or course of business
- Engaging in any manipulative practices
- Participating in Client accounts

You may request a copy of the firm's Code of Ethics by contacting Bryan Sullivan.

3. Personal Trading

We have established the following restrictions in order to ensure our fiduciary responsibilities are met:

- We shall not buy or sell securities for our personal portfolio(s) where this decision is substantially derived, in whole or in part, from our role as an Investment Advisory Representative of VFL, unless the information is also available to the investing public on reasonable inquiry. In no case, shall we put our own interests ahead of yours.
- We emphasize your unrestricted right to decline to implement any advice rendered.

However, some securities trade in sufficiently broad markets to permit transactions by clients to be completed without an appreciable impact on the markets of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of these trades, including the reasons for the exceptions, will be maintained with our records as required.

In addition, open-end mutual funds and/or investment sub-accounts which may comprise a variable insurance product are purchased or redeemed at a fixed net asset value. Therefore, purchases of mutual funds and/or variable insurance products by an advisor are not likely to have an impact on the prices of the fund in which you invest. These types of transactions are not prohibited by our policies and procedures.

Certain affiliated accounts may trade in the same securities with your accounts on an aggregated basis when consistent with our obligation of best execution. When trades are aggregated, all parties will share the costs in proportion to their investment. We will retain records of the trade order (specifying each participating account) and its allocation. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

4. Responsibility

It is the responsibility of all supervisory personnel to ensure that we conduct business with the highest level of ethical standards and in keeping with our fiduciary duties to you. We must put your interests first and refrain from having outside interests that conflict with your interests.

5. Privacy Statement

We are committed to safeguarding your confidential information and hold all personal information provided to it in the strictest confidence. These records include all personal information that we collect from you or receive from other firms in connection with any of the financial services they provide. We also require other firms with whom we deal with to restrict the use of your information. Our Privacy Policy is available upon request.

6. Conflicts of Interest

We have a duty to disclose potential and actual conflicts of interest. We have a duty to report potential and actual conflicts of interest to management. Gifts (other than de minimis gifts, which are usually defined as having a value under \$100.00) should not be accepted from persons or entities doing business with us.

Bryan Sullivan employs the same strategy for his personal investment account as he does for his clients. However, he does not place his orders in a way to benefit from the purchase or sale of a security.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the accounts we advise.

7. Use of Disclaimers

We shall not attempt to limit liability for willful misconduct or gross negligence through the use of disclaimers.

8. Suitability

We shall only recommend those investments that we believe are suitable for you based upon your particular situation and circumstances. In addition, you must notify us of any significant changes in your situation or circumstances so that we can respond appropriately.

Item 12 - Brokerage Practices

1. Soft Dollars

Our firm has an arrangement with Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab") and TD Ameritrade, Inc. Under the arrangement with TD Ameritrade and Schwab we receive services which include, among others, brokerage, custodial, administrative support, record keeping and related

services that are intended to support our firm in conducting business and in serving the best interests of our clients but that may benefit our firm.

TD Ameritrade and Schwab may also make certain research and brokerage services available at no additional cost to our firm. These services include certain research and brokerage services, including research services obtained directly from independent research companies, as selected by our firm (within specific parameters). Research products and services provided to our firm may include research reports on recommendations or other information about, particular companies or industries; economic surveys, data and analyses; financial publications; portfolio evaluation services; financial database software and services; computerized news and pricing services; quotation equipment for use in running software used in investment decision-making; and other products or services that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. The aforementioned research and brokerage services are used by our firm to manage accounts for which we have investment discretion. Without this arrangement, our firm might be compelled to purchase the same or similar services at our own expense.

As a result of receiving the services discussed in this section, we may have an incentive to continue to use or expand the use of TD Ameritrade or Schwab's services. Our firm examined this potential conflict of interest when we chose to enter into these relationships and we have determined that the relationship is in the best interest of our firm's clients and satisfies our client obligations, including our duty to seek best execution.

Schwab and TD Ameritrade charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transaction fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Schwab and TD Ameritrade enable us to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Their commission rates are generally discounted from customary retail commission rates. However, the commission and transaction fees charged by Schwab and TD Ameritrade may be higher or lower than those charged by other custodians and broker-dealers.

Clients may pay a commission to Schwab or TD Ameritrade that is higher than another qualified broker dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, although we will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions.

Although the investment research products and services that may be obtained by our firm will generally be used to service all of our clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account.

Schwab and TD Ameritrade also make available to our firm products and services that help manage and administer clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account

statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting. Many of these services generally may be used to service all or some substantial number of our accounts, including accounts not maintained at these custodians. While, as a fiduciary, our firm endeavors to act in our clients' best interests, Adviser's recommendation/requirement that clients maintain their assets in accounts at either TD Ameritrade or Schwab may be based in part on the benefit to our firm of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost, or quality of custody and brokerage services provided, which may create a potential conflict of interest.

We would have to obtain the aforementioned services and products for cash if we did not have soft dollars available to pay for them. As a result of receiving such products and services for no cost, we may have an incentive to continue to place client trades through broker-dealers that offer soft dollar arrangements. This interest conflicts with the clients' interest of obtaining the lowest commission rate available. Therefore, we must determine in good faith, based on the best execution policy stated above that such commissions are reasonable in relation to the value of the services provided by such executing broker-dealers.

2. Brokerage for Client Referrals

We do not receive any compensation or incentive for referring you to broker-dealers for brokerage trades. We may receive additional compensation for sales of insurance products only.

3. Directed Brokerage

Not all advisory firms require you to direct brokerage to a specific broker/dealer. We have an obligation to seek best execution for you. In seeking best execution, the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer's services including the value of research provided, execution capability, commission rates, and responsiveness. Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for account transactions.

By directing brokerage to Schwab or TD Ameritrade, you may pay higher fees or transaction costs than those obtainable by other broker-dealers. In most cases, we believe you are paying a discounted and reasonable rate. You may pay higher or lower fees if you select another broker-dealer. Generally, we will not negotiate lower rates below the rates established by the executing broker-dealer for this type of directed brokerage account, unless we believe that such rate is unfair or unreasonable for the size and type of transaction. We believe that each pays industry standard commissions on transactions they handle for us. These commissions are reasonable and customary.

Transactions for each client account generally will be effected independently, unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may (but are not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients differences in prices and commission or other transaction costs. Under this procedure, transactions will be price-averaged and allocated among

our clients in proportion to the purchase and sale orders placed for each client account on any given day.

Transactions placed in an asset management account by a third party manager will be executed through their broker-dealer or custodian. In determining best execution for these transactions, the third party manager is looking at whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer's services including the value of research provided, execution capability, commission rates, and responsiveness. While they look for competitive commission rates, they may not obtain the lowest possible commission rates for account transactions. The aggregation and allocation practices of mutual funds and third party managers that we recommend to you are disclosed in the respective mutual fund prospectuses and third party manager disclosure documents which will be provided to you.

Item 13 - Review of Accounts

1. Duty to Supervise

We are responsible for ensuring adequate supervision over the activities of all persons who act on our behalf. Specific duties include:

- Establish procedures that could be reasonably expected to prevent and detect violations of law by our Advisory personnel
- Analyze operations and create a system of controls to ensure compliance with applicable securities laws
- Ensure that all Advisory personnel fully understand the Company's policies and procedures
- Establish a review system designed to provide reasonable assurance that our policies and procedures are effective and being followed

2. Reviews

Reviews will be conducted by us at least quarterly or as agreed to by us. You may request more frequent reviews and may set thresholds for triggering events that would cause a review to take place. Generally, we will monitor for changes and shifts in the economy, changes to the management and structure of a mutual fund or company in which client assets are invested, and market shifts and corrections. You should notify us promptly of any changes to your financial goals, objectives or financial situation as such changes may require us to review your portfolio and make recommendations for changes.

Financial planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. We do not provide ongoing services to financial planning clients, but are willing to meet with such clients upon their request to discuss updates to their plans, changes in their circumstances, and other factors.

3. Reports

We do not provide written reports to clients, unless asked to do so. Verbal reports to clients take place on at least an annual basis when we meet with clients who subscribe to the Asset Management services and who are referred to Third Party Money Managers.

Item 14 - Client Referrals and Other Compensation

We do not receive any compensation for referring clients to another advisor nor do we pay any compensation from another advisor for them referring clients to us.

Our firm may recommend that clients establish brokerage accounts with Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), registered broker-dealers, Members SIPC, or TD Ameritrade to maintain custody of Clients' assets and to effect trades for their accounts. Our firm is independently owned and operated and not affiliated with Schwab or TD Ameritrade. Our firm may also recommend that Clients establish accounts with firms other than Schwab or TD Ameritrade.

Our firm places trades for its Clients' accounts subject to its duty to seek best execution and its other fiduciary duties. Our firm may use broker-dealers other than Schwab or TD Ameritrade to execute trades for client accounts maintained at Schwab or TD Ameritrade, but this practice may result in additional costs to clients so that we are more likely to place trades through Schwab or TD Ameritrade rather than other broker-dealers. Schwab or TD Ameritrade's execution quality may be different than other broker-dealers.

For our client accounts maintained in its custody, neither Schwab nor TD Ameritrade generally charge separately for custody services but are compensated by account holders through commissions or other transaction-related or asset-based fees for securities trades that are executed through or that settle into the accounts.

Some of the products, services and other benefits benefit us and may not benefit our firm's client accounts. Our recommendation/requirement that a client place assets in custody may be based in part on benefits provided to us, and not solely on the nature, cost or quality of custody and execution services provided by the custodian

Schwab and TD Ameritrade may also make available to our firm other products and services that benefit us but may not benefit clients' accounts. These benefits may include national, regional or specific to our firm, educational events. Other potential benefits may include occasional business entertainment of personnel of our firm by the custodian's personnel, including meals, invitations to sporting events, including golf tournaments, and other forms of entertainment, some of which may accompany educational opportunities. Other of these products and services assist us in managing and administering clients' accounts. These include software and other technology (and related technological training) that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of our fees from its clients' accounts, and assist with back-office training and support functions, recordkeeping and client reporting.

Many of these services generally may be used to service all or some substantial number of our firm's accounts, including accounts not maintained at Schwab or TD Ameritrade. Schwab Institutional also makes available to us other services intended to help our firm manage and further develop its business enterprise. These services may include professional compliance, legal and business consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, employee benefits providers, and human capital consultants, insurance and marketing. In addition, Schwab may make available, arrange and/or pay vendors for these types of services rendered to our firm by independent third parties. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to us. While, as a fiduciary, our firm endeavors to act in its clients' best interests, our recommendation/requirement that clients maintain their assets in accounts at Schwab or TD Ameritrade may be based in part on the benefit to our firm of the availability of some of the foregoing products and services and other arrangements and not solely on the nature, cost or quality of custody and brokerage services provided, which may create a potential conflict of interest.

But for soft dollar arrangements, we would have to obtain the aforementioned services and products for cash. As a result of receiving such products and services for no cost, we may have an incentive to continue to place Client trades through broker-dealers that offer soft dollar arrangements. This interest conflicts with the Clients' interest of obtaining the lowest commission rate available. Therefore, our firm must determine in good faith, based on the "best execution" policy stated above that such commissions are reasonable in relation to the value of the services provided by such executing broker-dealers.

Schwab has provided a loan to our firm to assist its business operations, and the loan is guaranteed by Bryan Sullivan, principal of our firm. The terms of the loan require that management fees to us be paid to an account at Schwab for deduction of interest and principal payments pursuant to the loan before we may have access to that fee payment. The loan agreement contains various representations by our firm, including that it will maintain \$80 million in assets under management, and various events of default, including that we will comply with all laws, contracts, licenses and permits. In the event of an unheeded default under the terms of the loan agreement, Schwab may terminate and/or accelerate the loan, which may have a material adverse effect on our ability to perform services for clients.

Item 15 - Custody

We do not have physical custody of any accounts or assets. However, we may be deemed to have custody of your accounts if we have the ability to deduct your quarterly fees from the custodian. We use Charles Schwab & Co., Inc. ("Schwab") and/or TD Ameritrade, Inc. as the custodian and/or broker-dealer for all your accounts. You should receive at least quarterly statements from the broker-dealer or custodian that holds and maintains your investment assets. We urge you to carefully review such statements and compare this official custodial record 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. If you notice any discrepancies, please contact Bryan Sullivan.

We do not debit the client fees directly from your advisory account. Only the custodian has the authority to directly charge and debit the advisory to your account, which is then forwarded to us. The Custodian will provide you immediate transaction confirmations and monthly statements, either by mail or electronically per your request. Monthly statements list the total value of the account at the start and end of the month and itemize all transactions and security positions. For taxable accounts, the Custodian will provide you consolidated year-end summary statements including IRS forms 1099 and other tax-related forms, as applicable. We are not allowed to make alterations or amendments to the custodian's statement. This preserves the integrity of the Custodian's statement and provides you with an independent appraisal of the account.

Item 16- Investment Discretion

We usually receive discretionary authority from you at the beginning of an advisory relationship to select the identity and amount of securities to be bought or sold. This information is described in the Advisory Agreement you sign with us. In all cases, however, this discretion is exercised in a manner consistent with your stated investment objectives for your account.

When selecting securities and determining amounts, we observe the investment policies, limitations and restrictions you have set. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

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

Item 17- Voting Client Securities

As a matter of firm policy and practice, we do not have any authority to and do not vote proxies on behalf of advisory clients. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. We may provide advice to you regarding your voting of proxies. We are authorized to instruct the Custodian to forward you copies of all proxies and shareholder communications relating to your account assets.

Item 18 - Financial Information

We are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that would impair our ability to meet any contractual and fiduciary commitments to you, our client. We have not been the subject of any bankruptcy proceedings.

Item 19 - Requirements for State Registered Advisers

This is not a required section since we are an SEC registered firm.

Glossary of Key Terms

Adviser – Vellum Financial, LLC

Advisor – Your individual representative at Vellum Financial, LLC

Asset Allocation – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institutions specific situation and goals; a key concept in financial planning and money management.

Asset-class investment portfolios – An asset class is a grouping of similar investments whose prices tend to move together. Asset classes can be defined on a very general level, such as stocks or on a more specific level, such as American silver producing companies. The concept of asset classes is important because one of the goals when building an investment portfolio is to use different asset classes which are not correlated with each other.

Diversification – a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

Exchange-Traded Funds (ETFs) – A type of an investment company (either an open-end company or UIT) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end companies and UITs, because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a secondary market and are only redeemable from the fund itself in very large blocks (blocks of 50,000 shares for example).

Expense Ratio – the fund's total annual operating expenses (including management fees, distribution (12b-1) fees, and other expenses) expressed as a percentage of average net assets.

Fees– a list of all fees associated with different products we offer are listed below:

1. **12b-1 Fees** – Fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. "Distribution fees" include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the printing and mailing of sales literature. "Shareholder Service Fees" are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.
2. **Account Fee**– A fee that some funds separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.
3. **Distribution Fees** – Fees paid out of fund assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund

shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as "12b-1 fees."

4. **Management Fee** — fee paid out of fund assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the "Other Expenses" category. A fund's management fee appears as a category under "Annual Fund Operating Expenses" in the Fee Table.
5. **Operating Expenses** — the costs a fund incurs in connection with running the fund, including management fees, distribution (12b-1) fees, and other expenses.
6. **Purchase Fee** — a shareholder fee that some funds charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.
7. **Redemption Fee** — a shareholder fee that some funds charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.
8. **Sales Charge (or "Load")** — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund, similar to a commission. The SEC's rules do not limit the size of sales load a fund may charge, but FINRA rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.
9. **Shareholder Service Fees** — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

Index Fund — describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Wilshire 5000 Total Market Index.

Investment Adviser — generally, a person or entity who receives compensation for giving individually tailored advice to a specific person on investing in stocks, bonds, or mutual funds. Some investment advisers also manage portfolios of securities, including mutual funds.

Investment Company — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are mutual funds, closed-end funds, and unit investment trusts (UITs).

Investment Goals — objective or target, usually driven by specific future financial needs. Some common goals for an individual are: saving for a comfortable retirement, saving to send children to college, managing finances to enable a home purchase, minimizing taxes, and maximizing return on investments given a certain risk tolerance, and estate or trust planning.

Investment Objectives — The financial goal or goals of an investor. An investor may wish to maximize current income, maximize capital gains, or set a middle course of current income with some

appreciation of capital. Defining investment objectives helps to determine the investments an individual should select.

Margin — borrowing money (usually using securities you already own as collateral) that is used to purchase securities

Mutual Fund — the common name for an open-end investment company. Like other types of investment companies, mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market.

NAV (Net Asset Value) — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

No-load Fund — a fund that does not charge any type of sales load. Not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

Open-End Company — the legal name for a mutual fund. An open-end company is a type of Investment Company that continuously offers new shares for sale.

Option Contracts—Options are a type of derivative; derivatives are securities whose prices are derived from the price of an underlying asset or group of assets. The most common underlying assets are equities, debt, commodities and currencies; option contracts also exist for indices and interest rates. Options consist of a type (call or put), a strike price (the price at which the underlying asset is delivered), a premium (the price a buyer pays the seller for the option contract) and an expiration date. Options come in two types:

- **Calls:** Calls provide buyers, also known as holders, the right (but not the obligation) to purchase a specified amount of the underlying asset from the Seller. Calls obligate sellers, also known as writers, to sell a specified amount of the underlying asset to the buyer at the strike price.
- **Puts:** Puts provide buyers, also known as holders, the right (but not the obligation) to sell a specified amount of the underlying asset to Seller. Puts obligate sellers, also known as writers, to buy a specified amount of the underlying asset from the buyer at the strike price.

For each type of option, the buyer may exercise his or her right prior to or at expiration. For stock options, the amount covered by the option is usually 100 shares. If the stock option contract is exercised, the writer is responsible for fulfilling the terms of the contract by delivering the shares to the holder. In the case of a security that cannot be delivered such as an index, the contract is settled in cash. For the holder, the potential loss is limited to the price paid to acquire the option. When an option is not exercised, it expires. No shares change hands and the money spent to purchase the option is lost. For the buyer, the upside is unlimited. Option contracts, like stocks, are therefore said to have an asymmetrical payoff pattern. For the writer, the potential loss is unlimited for uncovered calls and

limited to the strike price less the premium received for uncovered puts. For the option writer, gains are limited to the payment received for the options. Option writers can also write covered options, meaning that the writer already owns or has sold the security underlying the option. Option contracts are most frequently utilized to increase leverage or provide downside protection on an underlying asset. As leverage, options allow the holder to control equity in a limited capacity for a fraction of what the shares would cost. The difference can be invested elsewhere until the option is exercised. As protection, options can guard against price fluctuations in the near term because they provide the right to acquire the underlying stock at a fixed price for a limited time. Risk is limited to the option premium (except when writing options for a security that is not already owned). However, the costs of trading options (including both commissions and the bid/ask spread) are higher on a percentage basis than trading the underlying stock. Options are also a wasting asset, meaning that their value eventually declines to zero if not exercised. In addition, options are very complex and require a great deal of observation and maintenance. Some types of option strategies involving multiple option contracts have unknown risks because the price movements between the different option contracts are not well understood.

Portfolio — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

Profile — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

Prospectus — describes the mutual fund to prospective investors. Every mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker can also provide you with a copy.

Risks — a list of all risks associated with the strategies, products and methodology we offer are listed below:

1. Alternative Investment Risk

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices
- Lack of liquidity in that there may be no secondary market for the fund and none expected to develop
- Volatility of returns
- Restrictions on transferring interests in the fund
- Absence of information regarding valuations and pricing
- Delays in tax reporting
- Less regulation and higher fees than mutual funds

2. Bond Fund Risk

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields of the risks associated with bond funds include:

- Call Risk - The possibility that falling interest rates will cause a bond issuer to redeem—or call—its high-yielding bond before the bond's maturity date.
- Credit Risk — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.
- Interest Rate Risk — the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond fund, including those that invest only in insured bonds or Treasury bonds.
- Prepayment Risk — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

3. Fundamental Analysis Risk

Fundamental analysis, when used in isolation, has a number of risks:

- There are an infinite number of factors that can affect the earnings of a company, and its stock price, over time. These can include economic, political and social factors, in addition to the various company statistics.
- When using this method with mutual funds, the funds are composed of many companies and not all of them will be undervalued
- The data used may be at least six months out of date.
- It is difficult to give appropriate weightings to the factors.
- In the early 1970s and 1980s price/earnings multiples of 80 or 90 were considered acceptable by some for 'blue chip' stocks in the United States.
- In the 1980s in the United States some biotechnology stocks sold at '50 times sales'. The companies had no earnings and paid no dividend. The new yardstick to value these became 'products in the pipeline'. By the late 1980s most had lost three-quarters of their stock price.
- It assumes that the analyst is competent.
- A fundamental analyst assumes that other fundamental analysts will form the same view about the company and buy the stock, thus restoring its value and returning the trader or investor a capital gain. In practice, an undervalued company's stock price can stay at approximately the same level (or decline) for years.
- It ignores the influence of random events such as oil spills, product defects being exposed, and acts of God and so on.

- It assumes that there is no monopolistic power over markets.
- Even when fundamental analysis reveals an undervalued company, or a stock with high growth prospects, it does not tell us anything about the timing of the purchase of the stock. In other words, we may have discovered a grossly undervalued stock whose price has been falling for some time, and may well continue falling.

4. Insurance Product Risk

The rate of return on variable insurance products is not stable, but varies with the stock, bond and money market subaccounts that you choose as investment options. There is no guarantee that you will earn any return on your investment and there is a risk that you will lose money. Before you consider purchasing a variable product, make sure you fully understand all of its terms. Carefully read the prospectus. Some of the major risks include:

- Liquidity and Early Withdrawal Risk – There may be a surrender charges for withdrawals within a specified period, which can be as long as six to eight years. Any withdrawals before a client reaches the age of 59 ½ are generally subject to a 10 percent income tax penalty in addition to any gain being taxed as ordinary income.
- Sales and Surrender Charges – Asset-based sales charges or surrender charges. These charges normally decline and eventually are eliminated the longer you hold your shares. For example, a surrender charge could start at 7 percent in the first year and decline by 1 percent per year until it reaches zero.
- Fees and Expenses – There are a variety of fees and expenses which can reach 2% and more such as:
 - Mortality and expense risk charges
 - Administrative fees
 - Underlying fund expenses
 - Charges for any special features or riders
- Bonus Credits – Some products offer bonus credits that can add a specified percentage to the amount invested ranging from 1 percent to 5 percent for each premium payment. Bonus credits, however, are usually not free. In order to fund them, insurance companies typically impose high mortality and expense charges and lengthy surrender charge periods.
- Guarantees – Insurance companies provide a number of specific guarantees. For example, they may guarantee a death benefit or an annuity payout option that can provide income for life. These guarantees are only as good as the insurance company that gives them.
- Market Risk – The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk – The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

5. Mutual Funds Risk

Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk and fees and taxes will diminish a fund's returns.

But mutual funds also have features that some clients might view as disadvantages, such as:

- **Costs despite Negative Returns** — Clients must pay sales charges, annual fees, and other expenses) regardless of how the fund performs. And, depending on the timing of their investment, clients may also have to pay taxes on any capital gains distribution they receive — even if the fund went on to perform poorly after they bought shares.
- **Lack of Control** — Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.
- **Price Uncertainty** — with an individual stock, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your advisor. You can also monitor how a stock's price changes from hour to hour. But with a mutual fund, the price you purchase or redeem shares for will typically depend on the fund's NAV, which the fund might not calculate until many hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

The following is a list of some general risks associated with investing in mutual funds.

- **Country Risk** - The possibility that political events (a war, national elections), financial problems (rising inflation, government default), or natural disasters (an earthquake, a poor harvest) will weaken a country's economy and cause investments in that country to decline.
- **Currency Risk** -The possibility that returns could be reduced for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Also called exchange-rate risk.
- **Income Risk** - The possibility that a fixed-income fund's dividends will decline as a result of falling overall interest rates.
- **Industry Risk** - The possibility that a group of stocks in a single industry will decline in price due to developments in that industry.
- **Inflation Risk** - The possibility that increases in the cost of living will reduce or eliminate a fund's real inflation-adjusted returns.
- **Manager Risk** -The possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively resulting in the failure of stated objectives.
- **Market Risk** -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.

- Principal Risk -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

6. Overall Fund Risk

- Clients need to remember that past performance is no guarantee of future results. All funds carry some level of risk. You may lose some or all of the money you invest, including your principal, because the securities held by a fund goes up and down in value. Dividend or interest payments may also fluctuate, or stop completely, as market conditions change.
- Before you invest, be sure to read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.

While past performance does not necessarily predict future returns, it can tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund with a volatile history because you will not have enough time to ride out any declines in the stock market.

7. Stock Fund Risk

Although a stock fund's value can rise and fall quickly over the short term, historically stocks have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities.

Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:

- Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains.
- Income funds invest in stocks that pay regular dividends.
- Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Index, by investing in all — or perhaps a representative sample — of the companies included in an index.
- Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks.

8. Technical Analysis risk

- Technical analysis is derived from the study of market participant behavior and its efficacy is a matter of controversy.

- Methods vary greatly and can be highly subjective; different technical analysts can sometimes make contradictory predictions from the same data.
- Models and rules can incur sufficiently high transaction costs.

Risk Tolerance – the extent to which an investor is willing to accept more risk in exchange for the possibility of a higher return. An investor with a high risk tolerance is likely to invest in securities, such as stocks in startup companies, and is willing to accept the possibility that the value of his/her portfolio will decline, at least in the short-term. An investor with a low risk tolerance, on the other hand, tends to invest predominantly in stable stocks and/or highly-graded bonds. One's risk tolerance is subjective and may vary according to age, needs, goals, and even personal dispositions

Third Party Money Manager— the professional management of various securities (shares, bonds and other securities) and assets (e.g., real estate), to meet specified investment goals for the benefit of the investors. The managers are not the actual advisers working with the investor. Investors may be institutions (insurance companies, pension funds, corporations, individuals etc.

Total Annual Fund Operating Expense — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

Unit Investment Trust (UIT) — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

You – the client