

**Item 1 – Cover Page**

Empirical Financial Services, LLC d/b/a Empirical Wealth Management

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March 27, 2012

This Brochure provides information about the qualifications and business practices of Empirical Financial Services, LLC d/b/a Empirical Wealth Management. If you have any questions about the contents of this Brochure, please contact us at (206) 923-3474 and/or [compliance@empiricalfs.com](mailto:compliance@empiricalfs.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.

Empirical Financial Services, LLC d/b/a Empirical Wealth Management is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Empirical Financial Services, LLC d/b/a Empirical Wealth Management also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with EFS who are registered, or are required to be registered, as investment adviser representatives of EFS.

## Item 2 – Material Changes

EFS updates this document annually, or more frequently in the event of certain material changes. This section outlines and summarizes the specific changes made since the document was previously updated. EFS will deliver a copy of this section to its clients within 120 days of the close of its fiscal year to make sure clients are aware of any material changes to the firm's business philosophies or practices.

This disclosure document, dated March 27, 2012, includes the material changes below since the last update of this document on June 7, 2011. EFS'clients may request a full copy of the latest version of this document at any time by contacting Jaime Holderman at 206.923.3474 or [compliance@empiricalfs.com](mailto:compliance@empiricalfs.com).

### Amendments to Item 4: Advisory Business

1. EFS now offers tax preparation services to clients by partnering with SurePrep, LLC. Clients with assets under management above \$1,000,000 will receive this service at no additional cost above their management fee. Clients with assets under management below \$1,000,000 will be charged a nominal fee, in addition to their management fee.
2. Clients may now retain advisor to provide consulting services based on information provided by the client regarding the client's financial objectives, needs and circumstances. Clients will be charged a fixed monthly rate for this service.
3. EFS is now able to link to outside investment accounts through byallaccounts.com. Through byallaccounts.com, EFS is able to have a complete view of the clients' outside holdings.

### Amendment to Item 12: Brokerage Services

EFS began using TIAA-CREF to purchase low cost variable annuities only that EFS is then able to connect to, manage and potentially bill.

### Amendment to Item 14: Client Referrals and Other Compensation

EFS added SigFig Wealth Management, LLC as a new referral source to solicit business. EFS also receives geographical based referrals from wiseradvisor.com and The National Association of Personal Financial Advisors (NAPFA).

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#### **Item 4 – Advisory Business**

EFS provides investment management services on a fee-only basis. Advisory services encompass a wide range of investment objectives, from conservative to aggressive, giving the client and the advisor the flexibility to design a custom portfolio and asset allocation that meets the client's specific investment needs. Each client's portfolio is continuously managed based on the client's investment objective. However, clients have the opportunity to place reasonable restrictions on the types of investments to be held in their accounts.

EFS has been in business since October 2010. The company is a spin-off from affiliate company Empirical Wealth Management, LLC, which has been in business since 2006. Kenneth R. Smith is the principal owner.

#### **Advisory Services**

Advisory services encompass a wide range of investment objectives, from conservative to aggressive, giving the client and the advisor the flexibility to design a custom portfolio and asset allocation that meets the client's specific investment needs. Each client's portfolio is continuously managed based on the client's investment objective and we maintain continuous discretionary authority for your accounts. We can execute our investment recommendations in accordance with the Investment Policy Statement on your behalf, without the approval of each specific transaction, unless specifically restricted by you. We will choose which model is appropriate for you based upon the items discussed above. We offer several investment portfolios designed to meet various needs, but portfolios are not designed specifically for each client.

Clients have the opportunity to impose restrictions on investing in certain securities or types of securities. Account restrictions are generally for tax purposes in situations where you may incur a large amount of taxable gain from the sale of your positions. In these cases, we may code the positions as "Legacy" and not to be traded, may determine a strategy with you for slowly getting out the position over time, or may require you to transfer assets into a separate "non-discretionary" account. We do not accept responsibility for non-standard positions inside your account, either brought in or bought at your instructions, but not generally purchased in client portfolios as part of our investment portfolio. We will allow these positions to be held in your managed account and may charge fees for such, but will not be held responsible for their performance or monitoring.

EFS recognizes that as individuals, our clients have unique goals and interest. As such, we tailor our advisory services to the individual needs of our clients. We begin by offering a comprehensive financial plan that helps us to create a picture of the client's financial condition as well as learn about the client's personal financial goals. The plan also acts as a tool, which helps the client clarify their investment and life objectives. Out of this plan and together with the client, an investment strategy and asset allocation decisions are agreed upon.

## **Financial Planning**

EFS may occasionally engage in stand-alone financial planning services to non-advisory clients. EFS will meet with potential financial planning clients in advance of beginning preparation of plan to determine the amount to be billed. A financial planning contract will be signed before services commence. Financial planning consists of assisting the client in defining personal financial planning goals and objectives to be pursued in various areas which include, but are not limited to: business planning, pension consulting, children's education, retirement planning, disability protection, estate planning, tax planning and investments, and to supply analysis and recommendations as to the actions and investment strategies necessary to attain these goals and objectives.

Providing financial planning services may cause a conflict of interest between EFS' interest and the interest of EFS' client. The following disclosure is made in the case where a conflict of interest does exist: a) a conflict of interest exists between EFS' interests and the interest of EFS' client; b) EFS' client is not obligated to act upon EFS' recommendation; and c) if the client elects to act on any of the recommendations, the client is not obligated to effect the transaction through EFS.

## **Tax Preparation Assistance**

EFS also offers tax preparation and electronic filing services to clients by partnering with SurePrep, LLC. The only tax returns eligible for this service are Forms 1040 – U.S. Individual Income Tax Return. SurePrep, LLC provides both offshore (outside the United States) and onshore (inside the United States) preparation of personal tax returns and makes tax returns available to EWM on their secure electronic network.

Clients with assets under management above \$1,000,000 will receive this service at no additional cost, above their management fee. Clients with assets under management below \$1,000,000 will be charged a nominal fee, in addition to their management fee.

## **By All Accounts**

We have added a new service for outside account aggregation. If you would like us to link to and make recommendations for your outside account(s) through your employer or other investment adviser, you may sign up for our aggregation service which utilizes ByAllAccounts services. This will allow us to have a complete view of linked outside holdings. We will offer advice and recommendations on the outside accounts but it will be your sole responsibility to implement allocation recommendations in these outside accounts linked to us for viewing purposes. Clients can give EFS access to only view accounts or to view, make recommendations and monitor the outside accounts. Should the client choose to allow EFS to view, make recommendations and monitor outside accounts, the client may be charged a fee.

## **Consulting Services**

Clients may also retain advisor to provide consulting services based on information provided by the client regarding the client's financial objectives, needs and circumstances. Consulting services consist of:

- Portfolio investment advice
- Internet-based quarterly portfolio and performance reporting
- Risk tolerance survey
- Annual retirement and goal
- Annual education savings analysis
- Social security analysis, as needed
- Advice on other aspects of financial planning

Client understands that they have sole responsibility for determining whether to implement any recommendations made by EFS during any personal consultation. There is no requirement for the client to implement any of the recommendations or otherwise conduct business through EFS. Client will be required to select their own investment managers, broker-dealer and/or insurance companies for the implementation of consulting recommendations. If the client needs brokerage and/or other financial services, EFS may recommend the use of one of several investment managers, brokers, banks, custodians, insurance companies other financial professional. The client must independently evaluate these firms before opening an account or transacting business and is not under any obligation to effect business through any recommended firms.

Client understands that they are responsible for all commission and other transaction charges and any charges. These charges are independent and separate from the consulting fees charged by EFS.

EFS provides consulting services to other clients and received fees for such services. EFS may also make payments to or have relationships with firms. Advisor may suggest custodians and/or direct security transactions to broker-dealers who provide EFS with an economic benefit, including research materials, software, educational conference, other non-tangible benefits and referrals. As a result a potential conflict of interest may arise between client's interest and EFS' interest in other relationships, and EFS may have an incentive to provide certain investment advice or to recommend certain securities or products over others that may also be suitable for the client.

As of March 15, 2012, EFS manages \$361,489,275 on a discretionary basis and \$2,421,333 on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

### **Investment Advisory Services**

The specific manner in which fees are charged by EFS is established in a client's written agreement with EFS. In consideration of EFS' services hereunder, client will pay EFS a fee quarterly with payment due within ten (10) days from the date of the invoice. Existing clients are charged quarterly, in advanced. New clients are charged quarterly, in arrears, using an average daily balance calculation. Existing clients, being charged quarterly in advanced, will gradually be migrated to the average daily balance calculation in alphabetical order. Lower fees for comparable services may be available from other sources. All fees are negotiable.

Empirical Financial Services, LLC d/b/a Empirical Wealth Management

Assets	Portfolio Annual Fee*
First \$2,500,000	1.00%
\$2,500,000 - \$5,000,000	.80%
\$5,000,001 - \$10,000,000	.70%
Over \$10,000,000	.50%

\*Annual Fee is charged over a four (4) quarter period (example:  $1.00\%/4 = .25\%$  per quarter)

Advisory fees are tailored to the individual needs of clients. Some clients will pay different fees based upon their contract fee schedules. EFS will not treat higher paying clients more favorably. Fees schedules will vary for clients based on the length of their relationship with EFS. Fee schedules may be reduced the longer a client maintains a relationship with EFS.

Fees for investment advisory services are generally deducted directly from client accounts. Clients may also elect to be billed directly for fees. EFS bill its fees on a quarterly basis with payment due within ten (10) days from the date of the invoice.

Existing clients are charged quarterly, in advanced. New clients are charged quarterly, in arrears, using an average daily balance calculation. Existing clients, being charged quarterly in advanced, will gradually be migrated to the average daily balance calculation in alphabetical order.

- The fee for those clients paying quarterly in advance will be calculated using the fee schedule listed above, multiplied by the market value of the account on the last day of the quarter.
- The fee for clients under the average daily balance fee schedule is calculated by using the fee schedule above, multiplied by the average market value of the account through the preceding quarter.

Fees for partial quarters at the commencement or termination of this agreement will be prorated based on the number of days the account was funded during the quarter. Significant contributions and/or withdrawals of \$100,000 or more, (except margin debt which is considered managed and will not be excluded from billing or offered prorated rebating) taking place within the first ten (10) weeks of the calendar quarter will also be rebated or billed on the above pro-rated basis. Clients may withdraw or terminate the relationship at anytime by submitting a request to disassociate to either the Adviser or the Custodian in writing. Termination will be considered effective immediately and prorated fees will be refunded within fourteen (14) days.

### **Financial Planning Services**

For non-advisory clients who would like to engage in stand-alone financial planning, the fees are paid on an hourly or fixed fee basis. Hourly rates are \$300 per hour, while fixed fees may range from \$500 - \$10,000, depending on the complexity of the plan.

## **Consulting Services**

For consulting services, clients will pay EFS \$100 per month in exchange for the service described in Item 4 – Advisory Business. Fees are negotiable and may be modified or changed by EFS upon written notice to client. The agreement may be terminated by either party at any time without penalty upon receipt of written notice. If the client terminates the agreement within five business days after signing, a full refund will be given. If the agreement is terminated after five business days of signing, any prepaid consulting fee will be prorated and the unused portion will be returned to the client.

All brokerage commissions, stock transfer fees, and other similar charges incurred in connection with transactions for the account will be paid out of the assets in the account and are in the investment management fees paid to EFS. 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 EFS' fee, and EFS shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that EFS considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

EFS does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). Therefore, we do not have side-by-side management.

## **Item 7 – Types of Clients**

EFS provides investment advice to individuals, pensions and profit sharing plans, trusts, estates, charitable organizations, corporations or business entities and high net worth individuals. Some clients may require and/or receive more services than others, not all clients will require/receive the same amount of time from the EFS. EFS requires a minimum investment level for its clients of \$500,000.00, although it is at the discretion of EFS to waive the minimum investment level and the minimum fee.

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

EFS uses fundamental data, cyclical data, research materials prepared by other corporate rating services, annual reports, prospectuses, filings with the SEC, company press releases, financial newspapers and magazines, academic journals and articles as well as historical return information as sources of information and methods of analysis.



The investment strategies EFS may use to implement investment advice given to clients include: long term purchases, short term purchases, trading, short sales, margin transactions and option writing. Some of these, including option writing and margin transactions, can result in increased risk to a client's portfolio.

EFS will use its best judgment and good faith effort in rendering services to client. EFS cannot warrant or guarantee any particular level of account performances, or that an account will be profitable over time. Not every investment decision or recommendation made by EFS will be profitable. Except as may otherwise be provided by law, EFS will not be liable to client for:

- Any loss that client may suffer by reason of any investment decision made or other action taken or omitted in good faith by EFS with that degree of care, skill, prudence and diligence under the circumstances that a prudent person acting in a fiduciary capacity would use
- Any loss arising from EFS' adherence to client's instructions
- Any act or failure to act by a custodian of client's account

Nothing in the Investment Advisory Agreement or in this disclosure shall relieve EFS from any responsibility or liability under state or federal statutes. Investing in securities involves risk of loss that clients should be prepared to bear.

Clients assume all market risk involved in the investment of account assets and understands that investment decisions made for the account are subject to various market, currency, economic, political and business risks. Other risks involved in EFS' investment strategy include the following:

Equities: market risk, small premium risk, value premium risk, foreign currency risk, country risk, emerging markets risk, real estate risk, tracking error risk, liquidity risk

Commodities: issuer risk, commodities risk, futures risk, liquidity risk

Fixed Income: interest rate risk, reinvestment risk, corporate risk, municipal credit risk, inflation risk, tracking error risk, liquidity risk

Options hedging: options risk, liquidity risk

EFS' Targeted Premium Equity Portfolio are designed to offer varying levels of exposure to investment asset classes such as emerging markets, global exposure to small companies and global exposure to value companies. At times these segments of the global investment market may be more volatile and may present additional risks as related to a passively weighted global index portfolio.

EFS' Targeted Credit Portfolios are designed to offer varying levels of exposure to credit risks associated with investing in bonds that may include high yield or emerging markets debt. These bond asset classes will be more volatile than treasuries or a total bond market index.

EFS does not recommend primarily a particular type of security. Instead, we recommend a diversified portfolio of stocks, bonds and other investment vehicles. EFS selects investments within

the context of achieving adequate levels of diversification rather than any single specific security type.

### **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 EFS or the integrity of EFS' management. EFS has no information applicable to this Item.

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

EFS has a relationship with Empirical Wealth Management, LLC, an SEC-registered investment advisor. On occasion, EFS will act as sub-advisor on certain client accounts of Empirical Wealth Management, LLC. EFS provides marketing material, research data, investment strategies and portfolio rebalancing services to Empirical Wealth Management, LLC for a fee. EFS and Empirical Wealth Management, LLC currently offer to their clients similar portfolio models, which are researched, designed, maintained and rebalanced by EFS.

Portfolio Rebalancing is an inherent concept of diversification, where the goal is to create a portfolio that balances appropriate levels of risk and return. The discipline of rebalancing, in essence, controls risk and forces the portfolio to move along a predetermined course. It takes gains from stellar performers or favored asset classes, and reallocates them to lagging styles. That balance, once achieved, can only be maintained by periodically engaging in Portfolio Rebalancing to maintain the appropriate diversification.

Empirical Wealth Management, LLC engages EFS to invest and rebalance client accounts into EFS designed portfolio models. In doing so, EFS follows and is held accountable to maintaining portfolios in line with signed client invest policy statements. Empirical Wealth Management, LLC clients sign an investment policy statement which indicates the investment parameters of their account, including asset allocation, cash and tolerable rebalancing guidelines. In order to effectively manage the investment of client accounts, EFS will have the power and authority to supervise and direct, on a discretionary basis, any investments for the accounts designated by Empirical Wealth Management, LLC, including the purchase and sale of any securities and portfolio rebalancing to maintain appropriate diversification within a client's allocation.

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

EFS has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the

acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at EFS must acknowledge the terms of the Code of Ethics annually, or as amended. Clients may request a copy of EFS' Code of Ethics by contacting their representative or the firms' Chief Compliance Officer.

EFS must refrain from rendering any advice or service concerning securities of companies in which any of EFS' related person may have a substantial economic interest, unless the Adviser either determines in good faith that it may appropriately do so without disclosing such conflict to client or discloses such conflict to client prior to rendering such advice or services with respect to the account.

EFS and its affiliates may trade securities for their personal accounts identical to or different than those recommended to EFS' clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of EFS will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Our Code of Ethics prohibits the use of material non-public information. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of our clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and in some cases restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between EFS and its clients.

It is our policy that we will not affect any principal or agency cross transactions for your accounts. Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sell any security to the client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction in which the investment advisor, or any person controlled by or under common control with the investment advisor, acts as broker for both you and for another person on the other side of the transaction. Agency cross transactions may arise where an advisor is dually registered as a broker-dealer or has an affiliated broker-dealer. We will also not cross trade between client's accounts. This means we will not sell securities in from one client's account to another client.

Nothing in the Code of Ethics or this disclosure limits or restricts EFS or any of its directors, officers, affiliates or employees from buying, selling, or trading in any securities or other assets for its own account.

## Item 12 – Brokerage Practices

Except to the extent the client directs otherwise, EFS will use its discretion in recommending the broker-dealer and therefore the commission charged. In selecting or recommending the broker-dealer, EFS will comply with the Securities Exchange Act of 1934 and with its fiduciary duty to obtain best execution. EFS will take into account such relevant factors as:

- Price
- The broker-dealers facilities, reliability, and financial responsibility
- The ability of the broker-dealer to effect transactions, particularly with regards to such Aspects as timing, order size and execution of order
- The research and related brokerage services provided by such broker-dealer to EFS, notwithstanding that the account may not be direct or exclusive beneficiary of such services
- Any other factors EFS considers to be relevant

EFS does not maintain custody of client's assets. Client's assets must be maintained in an account at a "qualified custodian", generally a broker-dealer or bank. EFS recommends that clients establish a brokerage account with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA-registered broker-dealer, member SPIC, to maintain custody of clients' assets and to effect trades for their account. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. Although EFS recommends that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab and the client will open their account directly with Schwab. EFS does not open the account for you, although we may assist in doing so. EFS is independently owned and operated and not affiliated with Schwab.

Additionally, EFS started using TIAA-CREF, which is comprised of two organizations – Teachers Insurance and Annuity Associate of America, a life insurance company, and the College Retirement Equities Fund, an open-ended diversified management investment company registered with the SEC. Through TIAA-CREF's Advisor Services, clients are able to purchase low cost variable annuities only that EFS is then able to connect to, manage and potentially bill. EFS does not pay any fees to TIAA-CREF for this service and does not receive referrals from TIAA-CREF. Clients are responsible for any fees associated with the fund and administrations fees, which are paid to TIAA-CREF. TIAA-CREF's Advisor Services provide EFS with online access, data downloads, fee deduction capabilities, expanded eligibility to proprietary retirement products and access to an Insurance specialist to work one-on-one with EFS and our clients. Additionally, EFS has the ability to view accumulations, see history, process transactions and create annuity and minimum distribution illustrations. The availability to EFS of the above services will depend on the level of authorization granted by the client.

## **Research and Other Soft Dollar Benefits**

Schwab Institutional makes available to EFS other products and services that benefit EFS, but may not directly benefit its client's accounts. These products and services assist EFS in managing and administering client accounts. They include investment research, both Schwab's own and that of third parties. Many of these products and services may be used to service all or some substantial number of EFS' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client data (such as trade confirmations and account statements)
- Facilitate trade execution and allocate aggregate trade orders for multiple accounts
- Provide research, pricing and other market data
- Facilitate payment of EFS' fees from client accounts
- Assist with back office functions, record keeping and client reporting.

Schwab also offers other services to help EFS and further develop its business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefit providers, human capital consultants, and insurance providers

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or part of the fees of a third-party providing these services to EFS. Schwab institutional may also provide other benefits such as educational events or occasional business entertainment of EFS' personnel.

While as a fiduciary, EFS endeavors to act in its client's best interests, EFS' recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to EFS of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

In some instances, some fund companies including, but not limited to, Ishares and Dimensional Fund Advisers make available to EFS products and services that may benefit EFS, but may not directly benefit each client account. These include software and other technology that provide research, pricing information and other market data, and assist with back-office functions. Some fund companies may discount or waive fees they 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 the EFS. These products and services are not contingent upon EFS committing to fund companies any specific amount of business. As a fiduciary, EFS endeavors to act in its client's best interest. However, the aforementioned benefit may create a potential conflict of interest.

- When using brokerage commissions to obtain research or other products or services, EFS received a benefit because EFS does not have to produce or pay for the research, products, or services.
- EFS may have an incentive to select or recommend a broker-dealer based on EFS' interest in receiving client referrals, rather than on the clients' interest in receiving most favorable execution.

### **Brokerage for Client Referrals**

EFS receives client referrals from Charles Schwab & Co., Inc. through the participation in Schwab Adviser Network. The Service is designed to help investors find an independent investment adviser. Schwab is a broker-dealer independent of, and unaffiliated with, EFS. Schwab does not supervise EFS and has no responsibility for EFS' management of client's portfolios or EFS' other advice or services. EFS pays Schwab fees to receive client referrals through the Service. EFS' participation in the Service may raise potential conflicts of interest described below.

EFS pays Schwab a participation fee on all referred clients' accounts that are maintained in custody at Schwab and non-Schwab custody fee on all accounts that are maintained at, or transferred to, another custodian. The participation fee paid by EFS is a percentage of the value of the assets in the client's account. EFS pays Schwab Participation Fees for so long as the referred client's accounts remain in custody at Schwab. Participation fees are billed to EFS quarterly and may be increased, decreased or waived by Schwab from time to time. Participation Fees are paid by EFS and not the client. EFS does not charge clients, referred through the Service, fees or costs greater than the fee or costs EFS charges client with similar portfolios who were not referred through the Service.

EFS generally pays Schwab a non-Schwab custody fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The non-Schwab custody fee is a one-time payment equal to the percentage of the assets placed with a custodian other than Schwab. The non-Schwab custody fee is higher than the participation fees adviser generally would pay in a single year. Thus EFS will have an incentive to recommend that client accounts be held in custody at Schwab.

The participation and non-Schwab custody fees are based on the amount of assets in accounts of EFS' clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, EFS will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit adviser's fees directly from the accounts.

For accounts of EFS' clients maintained in custody at Schwab, Schwab generally does not charge the client separately for custody, but will receive compensation from EFS' clients in the form of commissions or other transaction-related compensation on securities trades. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealers' fees. Thus, EFS may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. EFS, nevertheless, acknowledges its duty to seek best execution of trades for client

accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for EFS' other clients. Thus, trades for accounts held in custody at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealer.

EFS may have an incentive to select or recommend a broker-dealer based on EFS' interest in receiving client referrals, rather than on EFS' clients' interest in receiving most favorable execution.

Some individuals associate with referral sources may also be clients of EFS. They may receive a discounted fee schedule, which may cause a conflict of interest. They will not be treated more favorable than other clients.

### **Directed Brokerage**

EFS recommends that clients establish brokerage accounts with the Schwab institutional division of Charles Schwab & Co., Inc., a FINRA-registered broker-dealer, member SPIC, to maintain custody of client's assets and to effect trades for their accounts. Although EFS recommends that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. EFS is independently owned and operated and not affiliated with Schwab. Not all advisers require their clients to direct brokerage. By directing brokerage EFS may be unable to achieve most favorable execution of client transactions, and this practice may cost clients more money.

Schwab provides EFS with access to its institutional trading and custody services, which are not typically available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them as long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Institutional. Their services are not contingent upon adviser committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For EFS' client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trade that are executed through Schwab or that settle into Schwab accounts.

In the event the client directs EFS to use a particular broker-dealer, EFS may not be authorized under those circumstances to negotiate commissions and may not be able to obtain volume discounts or best execution. In addition, under these circumstances a disparity in commission charges may exist between the commission charged to clients who direct EFS to use a particular broker-dealer and the other clients who do not direct EFS to use a particular broker-dealer. Also, EFS may trade discretionary accounts before non-discretionary accounts which may have an impact on trading. EFS may also trade directed brokerage after non-directed brokerage accounts which could make the trades more or less favorable to certain clients. Directing brokerage may cost clients more money. For example, in a directed brokerage account, the client may pay higher

brokerage commissions because EFS may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.

### **Aggregation of Orders**

EFS aggregates orders when performing the same trade across many accounts, which typically occurs only when making a broad change to the investment strategy. EFS rarely has the opportunity to aggregate trade orders as most trading is done at the individual level, considering the specific needs of the client. When transactions are aggregated, the actual prices applicable to the aggregated transaction will be averaged, and the client's account will be deemed to have purchased or sold its proportionate share of the securities or instruments involved at the average price so obtained. Stock exchange regulations may in certain instances prevent the executing broker-dealer from delivering to your account a confirmation slip with respect to its participation in the aggregated transaction.

### **Item 13 – Review of Accounts**

Client accounts are reviewed at least quarterly on an internal basis and as special situations arise, such as, strategy changes by the Investment Committee, material flow of funds, or client directed allocation changes. Account reviews may include, but are not limited to:

- Review of client cash needs
- Analysis of account allocation targets
- Review of tax goals and realized gain/loss for the year
- Retirement projections and distribution strategies
- The performance of each account in relation to appropriate benchmarks
- Any other financial questions the client may have

All taxable accounts are reviewed for tax purposes. Account reviewers include both portfolio managers and portfolio administrators.

EFS uses portfolio software that allows us to enter specific trading restrictions for each account. The software analyzes accounts daily to determine if the accounts are in line with their restrictions. If there is any item that needs to be addressed, the trader will be alerted. The restrictions include:

- Amount of cash to keep available
- Asset allocation parameters
- Taxable status and tax restrictions
- Gains restrictions
- Legacy stock restrictions

Review meetings may take place in person, using web-based services, or over the phone. While these meetings are important whenever a client's circumstances or needs change, EFS encourages clients to make time for review meetings even when the client believes there is no compelling reason to.



A quarterly report is sent to all clients. This report includes a portfolio appraisal, which contains a description of all securities and the amount held in each client account, a description of the management fees for the quarter and a letter updating the client on our current investment strategies and thoughts for the future. Frequency and content of other reports will generally vary with the needs and requests of the client.

Generally, portfolio review meetings are offered to clients on an at will basis and include a written report which reviews account objectives, details of investment holdings and performance, portfolio duration, sector commitments and also includes a discussion of the clients financial status, tax status, current needs and upcoming lifestyle and financial changes. Past portfolio and potential future portfolio changes will also be discussed as well as any changes in the client's life that may materially affect their lifestyle.

Periodically, EFS may deliver personal financial information and other communications, notices and required disclosure to clients through electronic means, such as email or secure website. This delivery may include notifications of availability of such document(s) on a website which will constitute 'delivery'. EFS asks clients with emails addresses to keep this information current at all times by promptly notifying EFS of any change.

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

Please see Item 12 – Brokerage Practices for information about EFS' referral agreement with Charles Schwab through the Schwab Advisor Network.

In addition to the referrals received as being part of the Schwab Advisor Network referenced in Item 12 – Brokerage Practices, EFS also receives client referrals from SigFig Wealth Management, LLC. This service is designed to help investors find an independent investment advisor. SigFig is independent of, and unaffiliated with, EFS. SigFig does not supervise EFS and has no responsibility for EFS' management of client's portfolios or EFS' other advice or services. EFS pays SigFig fees to receive client referrals through its referral program. While SigFig endeavors to act in its' client's best interest, their recommendation of our services may be based in part on the benefit to SigFig of a portion of the ongoing management fee and not solely on the nature, cost or quality of our services, which may create a conflict of interest.

EFS pays SigFig a fee on any person introduced by SigFig that becomes a client of EFS during the term of the agreement with SigFig, and within two years after termination of the agreement. The fee paid by EFS is a percentage of any management fees received by EFS from the referred client for as long as the referred client's accounts are with EFS. Fees are paid by EFS to SigFig within 30 days after EFS receives SigFig's invoice. Fees are paid by EFS and not the client. EFS does not charge clients, referred through SigFig, fees or costs greater than the fee or costs EFS charges clients with similar portfolios who were not referred through SigFig.

EFS also pays a fee to Wiseradviser.com to receive referrals, which are based on the geographical location of the prospective client. The fee paid is based on the number of referrals that are made each month, which may fluctuate from month-to-month. When looking for an advisor, the prospective client would go to the Wiser Advisor site, fill out a short form identifying the advisory services they are looking for, the size of their portfolio and their contact information. Wiser Advisor will then send the prospective a list of 4 advisors in their geographical area that meets their criteria. EFS does not charge clients, referred through Wiser Advisor, fees or costs greater than the fee or costs EFS charges clients with similar portfolios who were not referred through Wiser Advisor.

Furthermore, EFS is a member of The National Association of Personal Financial Advisors (NAPFA). NAPFA is a network of fee-only advisors. Individuals looking for an advisor use NAPFA to find fee-only advisors in their geographical area. EFS pays an annual fee to be a NAPFA member. Prospective clients searching for an advisor can go to the NAPFA site and type in the zip code for where they are looking for an advisor. The results will return all advisors that are NAPFA members in that particular zip code, as well as in a 20 mile radius.

#### **Item 15 – Custody**

Under government regulations, we are deemed to have custody of your assets if EFS is authorized to instruct Schwab to deduct our advisory fees directly from client's accounts. Schwab maintains actual custody of client assets.

Clients should receive at least quarterly statements from the qualified custodian that holds and maintains client's investment assets. EFS urges you to carefully review statements and compare 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.

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

EFS usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, EFS observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to EFS in writing. For registered investment companies, EFS' 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.

We do not have investment discretion on linked outside accounts. We will offer advice and recommendations on the outside accounts but it will be your sole responsibility to implement allocation recommendations in these outside accounts linked to us for viewing purposes. These accounts will be deemed as “Non-Managed” and non-discretionary.

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

As a matter of firm policy and practice, EFS does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. EFS may provide advice to clients regarding the clients’ voting of proxies.

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

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about EFS’ financial condition. EFS has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.