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## **BROCHURE**

Form ADV, Part 2A

February 16, 2012

This Brochure provides information about the qualifications and business practices of Carey, Thomas, Hoover & Breault Advisors, Inc. If you have questions about this Brochure, please contact us by email at [customerservice@cthb.net](mailto:customerservice@cthb.net), or by telephone at (800) 397-2220, or by mail at the address above. 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.

Carey, Thomas, Hoover & Breault Advisors, Inc., is an investment adviser registered with the United States Securities and Exchange Commission. Registration with the SEC does not imply that Carey, Thomas, Hoover & Breault Advisors, Inc., or any person associated with our firm has achieved a certain level of skill or training.

Additional information about Carey, Thomas, Hoover & Breault Advisors, Inc., is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), either by searching our firm name or our firm IARD/CRD number, 155330.

## **ITEM 2: MATERIAL CHANGES**

The original version of this Brochure was filed with our annual amendment on December 23, 2011, but was not distributed to clients. The original has been retired and this version will be distributed to clients within 60 days of the original filing date.

In the future, if an annual amendment of this Brochure contains material changes in our policies, practices, or conflicts of interest since the last annual amendment, we will identify and discuss those changes in this Item 2.

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## **ITEM 4: ADVISORY BUSINESS**

### **A. This Brochure, Firm Background & Ownership**

#### **1. This Brochure**

This Brochure provides important information about Carey, Thomas, Hoover & Breault Advisors, Inc. (referred to as “CTHB Advisors,” “Firm,” “we,” or “us”), our services, our compensation, the direct and indirect costs of participating in our advisory programs, and situations where our interests may conflict with the interests of our clients.

Clients should pay particular attention to the discussions about the various conflicts of interest because these can affect our judgment in managing the client’s account, in choosing brokers to execute trades for the account, and in recommending custodians, among other important considerations.

Clients should also keep in mind that a number of separate businesses provide the various investment products and services described in this Brochure. Clients should take care to be familiar with these businesses and the services they provide. The legal, contractual, and regulatory obligations that are owed to clients differ in important ways depending on (i) the type of business providing or selling a particular product or service (such as, for example, a broker-dealer, investment adviser, custodian, or insurance company), (ii) the terms of the client’s agreement with each business, and (iii) the specific product or service to be provided or sold.

Be sure to understand the information in this Brochure. You can reach your CTHB Advisors’ Representative at the email address, telephone number, or street address shown in the Brochure Supplement you received at the time you received this Brochure. You can reach our senior management, including our Chief Compliance Officer, through the email address, telephone number, or street address shown on the front of this Brochure.

#### **2. Our Background and Our Broker-Dealer Affiliate**

CTHB Advisors is a Kansas corporation headquartered in Wichita, Kansas. Prior to 2011, our investment advisory business was operated as a division of our sister corporation, Carey, Thomas, Hoover & Breault, Inc., an SEC-registered broker-dealer and member of the Financial Industry Regulatory Authority (“FINRA”). Carey, Thomas, Hoover & Breault, Inc. has been in business since 2001, and was itself formed after the merger of two predecessor firms, Carey, Thomas & Hobson, founded in 1983, and Hoover, Breault & Company, founded in 1995.

In 2010, our principals recognized the need to provide additional resources for our investment advisory business, and separately incorporated CTHB Advisors and registered it as an investment adviser with the United States Securities and Exchange Commission. Today, the CTHB companies provide brokerage and insurance services through Carey, Thomas, Hoover & Breault, Inc. (“CTHB”) and investment advisory services through CTHB Advisors.

In 2012, we continued to expand the range of securities and investment products and services available to our customers and clients by choosing National Financial Services (“NFS”) to serve as the clearing broker-dealer for CTHB’s brokerage business. NFS will also serve as the new custodian for CTHB Advisors’ investment advisory clients. NFS is part of the Fidelity Investments family of companies, ranked among the world’s largest financial services organizations. Our

customers and clients should benefit from the technological improvements offered by NFS, as well as by the variety of financial products and services available through Fidelity Investments.

### **3. Our Firm's Ownership**

The following individuals and entity own, directly or indirectly, 25% or more of CTHB Advisors:

#### **Direct Owner**

- CTHB Investments, Inc.

#### **Indirect Owners (through ownership of CTHB Investments)**

- J. Rigby Carey
- Stephen D. Thomas
- Thomas P. Hoover
- Jeffrey A. Breault

## **B. Our Advisory Services**

The Firm's principal investment advisory service is the Tactical Asset Allocation Program (referred to as the "TAA Program"). We also offer Financial Planning Services. This section of the Brochure provides an overview of our advisory services. Clients should also refer to their individual Advisory Agreement or Financial Planning Agreement for terms that apply to them.

### **1. Tactical Asset Allocation Program**

In the TAA Program, we follow the Strategy (described below) to invest and reinvest the client's Account according to one of the available "Portfolios" we have developed for the TAA Program consisting primarily of mutual funds (currently emphasizing high yield bond funds), money market funds, and government bond funds (or similar subaccounts of approved variable annuities). As more fully described in Item 8, the Portfolios may also consist of: exchange-traded funds ("ETFs"); closed-end funds; unit investment trusts; cash; obligations issued or guaranteed by the U.S. Treasury, government agencies, or government sponsored enterprises; and temporary "sweep" arrangements where cash balances are transferred into money market funds, mutual funds, or bank accounts.

Clients are not required to purchase a variable annuity to participate in the TAA Program; however, certain investments are only available as subaccounts of a variable annuity.

#### **The Strategy**

The principal investment strategy (the "Strategy") for the TAA Program is to attempt to minimize unfavorable performance in a falling market and to provide appreciation possibilities in a rising market by purchasing, selling, exchanging, and redeeming Account investments based upon investment signals ("Signals") we receive from a third-party research service selected by us (the "Signal Provider").

The Strategy involves discretionary purchases and sales by us in and out of positions based on the Signals, and is not a "buy and hold" or long-term investment strategy (although there may be periods positions are held for months or longer). We expect to follow the Signals in managing Accounts. However, we may, in our discretion, reject, delay implementation, or modify, in whole or in part, actions suggested by a Signal and engage in other transactions, as

we deem appropriate in an effort to achieve a Portfolio's investment objective. There is no set minimum or maximum number of positions that will be held for an Account or specific frequency that Account positions will be traded.

### **Establishing an Account in the TAA Program**

Prior to a client participating in the TAA Program, our representative assigned to the client (the "Representative") will discuss with the client the risks and potential benefits of the TAA Program and the Strategy. Based upon those discussions and the Suitability Information (described below) provided by the client, if CTHB Advisors determines the TAA Program would be suitable for the client, CTHB Advisors will recommend that the client sign an Advisory Agreement, which is required to establish an "Account" to participate in the TAA Program.

### **Account Investments**

In the Advisory Agreement, the client grants us full authority and discretion to engage in the Strategy to manage the Account guided by the Portfolio, as modified by us from time to time in our discretion. We have the authority and discretion to buy, sell, exchange, redeem, or otherwise effect transactions for the client's Account, to accept or reject the Signals, in whole or in part, and to allocate and reallocate the Account and Account investments, as we deem appropriate, in our sole discretion, without prior notice or consent of client.

We may also add to, remove, or otherwise change the mutual fund families (or funds of a particular fund family), variable annuities (or subaccounts of a variable annuity), or other investments or types of investments that comprise a Portfolio or in which we invest the client's Account, without prior notice or consent of the client.

We may revise the TAA Program, change the Strategy, change the investment objectives, investment allocation, or other characteristics of a Portfolio, designate a different Portfolio for an Account, and add or close a Portfolio, without prior notice or consent of the client. At least annually, we will notify client of material changes in the TAA Program.

### **Current Portfolios**

Currently, CTHB Advisors offers the following Portfolios, subject to change without prior notice:

- **High Yield Bond Fund Portfolio**
- **Bond Asset Allocation Portfolio**

Not all Portfolios will be available to all clients.

When investing in mutual funds, we will generally invest an Account in load-waived funds. However, as discussed below, if an Account qualifies to invest in more than one share class of the same load-waived fund, we will select the share class that pays 12b-1 Fees (or other compensation) to CTHB, **even if that means the share class we select has higher internal expenses than another share class the Account was eligible to purchase.**

Our interest in CTHB receiving the 12b-1 Fees (and other compensation) creates a conflict between our economic interests and the interests of our clients in keeping their investment expenses low and increasing their investment returns.

## IMPORTANT NOTICE ABOUT 12B-1 FEES AND OUR INVESTMENT POLICIES

When we invest in mutual funds, we generally invest in share classes for which initial sales charges have been waived (“load-waived funds”). However, it is not our objective to invest in mutual funds that have the lowest internal fees or expenses.

For example, some mutual funds offer more than one load-waived share class. Typically, one share class pays 12b-1 Fees to broker-dealers (including CTHB) to pay for marketing, distribution, and shareholder servicing costs. The 12b-1 Fees increase the internal fund expenses that are paid by the shareholders who own shares in this class.

By contrast, other share classes of the same fund may not pay any 12b-1 Fees, and as a result, the internal expenses of these share classes will be lower. The internal expense ratio of a share class that pays 12b-1 Fees is usually about 25 basis points higher than the expense ratio of a share class in the same fund that does not pay 12b-1 Fees, unless other exceptional conditions apply.

If an Account is eligible to purchase shares in a class that pays 12b-1 Fees, we will purchase shares of that class, **even if that share class has higher internal expenses than another share class the Account is eligible to purchase. This means that while the Account owns the shares, it will pay the higher internal expenses of the share class we purchase.**

Although this is clearly a conflict of interest, CTHB Advisors believes this is consistent with our fiduciary responsibility to our clients. The Advisory Fees we charge for the TAA Program have been set, in part, after taking into account an expectation of 12b-1 Fees to be received by the mutual fund companies. Without the 12b-1 Fees to CTHB, we would charge higher Advisory Fees for many or most Accounts in the TAA Program.

We believe our clients benefit from this arrangement because it permits us to charge lower annual Advisory Fees (which apply to all Account investments for the entire year), even though an Account will sometimes incur higher internal expenses.

Although the amounts can differ from fund to fund, the 12b-1 Fees are generally 25 basis points annually (one-fourth of one percentage point). For comparison purposes only, on a \$100,000 investment, if held for an entire year, the 12b-1 Fees would be \$250.

Of course, not all mutual funds charge 12b-1 Fees. For example, money market funds and similar funds we use in the TAA Program usually do not charge 12b-1 Fees. While Accounts are invested in these types of investments (which may be for periods of weeks or months each year), the client will usually not incur 12b-1 Fees.

When evaluating the overall costs of the TAA Program and the total compensation we receive, clients should consider the amount of our Advisory Fees, the internal expenses charged by mutual fund and variable annuity companies, plus the additional 12b-1 Fee compensation CTHB receives from mutual fund and variable annuity companies, as well as the other economic benefits we and CTHB receive. Please refer to Item 5.C and Item 12 for further information.



### **Suitability Information**

Clients who wish to participate in the TAA Program will be asked to provide the Representative with information regarding the client and the client's investment experience, and the financial situation, investment objective, risk tolerance, investment time horizon, and any reasonable investment restrictions for the Account (all the "Suitability Information"), among other information.

### **Changes in Client Circumstances**

In the event of any change in the client's personal or family situation, financial condition or needs, or the Account's investment objective, tolerance for risk, or investment time horizon, the Portfolio may no longer be suitable. Clients should notify their Representative promptly, in writing, of any change in such information, and arrange to discuss any changes to meet the client's needs.

### **Custodian and Custodial Account**

CTHB Advisors will not have possession of the Account's assets. To participate in the TAA Program, the Account's assets must be maintained in accounts under client's name (collectively, the "Custodial Account") with one or more qualified custodians (collectively, the "Custodian").

An Account's initial Custodian will be identified in the Advisory Agreement. The Custodian for most Accounts will be National Financial Services, LLC ("NFS"), which also serves as the clearing broker-dealer for CTHB. For Accounts invested directly through a mutual fund company or variable product company, the Custodian will be the mutual fund or variable product company or their transfer agent. In some cases, Account assets may be held by another qualified custodian affiliated with NFS' parent corporation, Fidelity Investments ("Fidelity").

The Custodial Account(s) will be governed by separate agreements between the client and each Custodian, and client will be solely responsible for negotiating the terms of such agreements. The Custodial Account will bear all fees and expenses of its Custodian and of transactions for such account, according to client's agreements with each Custodian, all of which will be separate from and in addition to the Advisory Fees.

Subject to the terms and conditions of agreements with NFS, Fidelity, and their affiliates, and any limitations of mutual funds, money market funds, and variable annuities, client may designate any qualified custodian reasonably acceptable to CTHB Advisors and with which CTHB Advisors is able to enter into an agreement for efficient management of the Account and payment of the Advisory Fees according to the TAA Program and the Advisory Agreement.

The Custodian will be solely responsible for providing the client with quarterly statements reflecting all activity in the Custodial Account during the preceding period, including transactions, contributions and withdrawals, fees and expenses, and the value of Managed Assets at the beginning and end of the period.

Assets transferred or delivered by client to a Custodian (other than cash) will be liquidated to cash, unless otherwise agreed by CTHB Advisors. CTHB Advisors has the right, in its sole discretion, to refuse to manage or continue to manage any asset, and to waive any requirement regarding acceptance of an asset pursuant to an Advisory Agreement.

### **Changes in the Client Circumstances**

Clients are advised that changes in the client's financial situation, investment objectives, tolerance for risk, or investment time horizon may cause the TAA Program or the Portfolio designated for the Account to become no longer suitable. In the event of any such change, the client should contact the Representative or CTHB Advisors promptly in order to identify another Strategy or other investment TAA Program that meets the client's needs.

## **2. Financial Planning Services**

Through our Financial Planning Services, the client's Representative meets with the client to discuss and analyze the client's investments and financial situation, and help the client to identify his or her investment goals and objectives, tolerance for risk, and investment time horizon, among other key factors to developing a financial plan. Based on the information provided by the client, the Representative will develop recommendations to help the client towards achieving his or her investment objectives.

For example, the Representative may recommend that the client purchase or sell securities or insurance products, reallocate existing investments, or take other steps to achieve their objectives. However, the client will not have any obligation to buy or sell any securities or insurance products, or otherwise implement the Representative's recommendations. If the client chooses to implement recommendation made by the Representative, the client may choose any qualified broker-dealer or insurance agent for such transactions.

Clients who request Financial Planning Services may be asked to provide detailed information about the client's personal and family situation, financial condition, investment objectives, risk tolerance, investment time horizon, estate and retirement plans, trust agreements, wills, investments, insurance, or other information necessary to provide the specific services requested.

CTHB Advisors and client will enter into a written Financial Planning Agreement that describes the specific Financial Planning Services CTHB Advisors will provide, the Fees for such services, and whether any written report or financial plan will be provided. For example, in the Financial Planning Agreement, CTHB Advisors may agree to provide any one or more of the following, among other services (all the "Financial Planning Services"):

**Consulting Services:** Upon client's request, Representative will discuss with client in person or by telephone issues client would like to discuss regarding client's investments, portfolio, or financial goals and objectives. Generally, this service will not include any written report.

**Portfolio Review:** Representative will review the client's current investments, and discuss with the client the Representative's assessment of whether the current portfolio is consistent with the client's financial needs and investment objectives.

**Retirement Planning:** Representative will discuss with client estimates of the assets client may need to retire at various assumed ages and the changes, if any, which client may need to make in client's current savings plan, investment portfolio, or investment strategies to improve the client's ability to reach his or her financial objectives.

**Asset Allocation:** Representative will discuss with the client alternative allocations of client's investments among various asset classes, and estimates for the effects changes may have on the client's portfolio at certain points in the future. While CTHB Advisors believes that asset allocation represents a reasonable approach for helping certain clients to achieve their

financial objectives, implementation of an asset allocation strategy provides no assurance that client's financial objectives will be attained or that client will not sustain losses in client's investment portfolio.

**Education Funding:** Based on information provided by the client regarding client's plans for children's (or grandchildren's) education, the Representative will discuss with the client estimates of the amounts necessary to fund the planned education.

**Estate Tax Planning:** The Representative will discuss with client estimates of federal and state estate taxes that may be due at the time of client's death, and strategies for minimizing such taxes.

**Survivor Income Analysis:** The Representative will discuss with client the amounts of income that may be available to client or client's spouse upon the death of each other, or to their surviving heirs.

**Disability Income Analysis:** The Representative will discuss with client estimates of client's disability income needs, as well as a description of existing disability coverage and recommendations regarding such coverage.

In providing the Financial Planning Services, the Representative will rely on assumptions or estimates regarding a number of important factors that may or may not turn out to be accurate at any time. These assumptions will often include subjects such as future market performance and investment returns, anticipated and reasonably foreseeable living and medical expenses, tax laws, interest rates, and other factors. As a result of likely differences between the items assumed and the actual situation at any time in the future, client's (or client's successors') financial situation or needs may be materially different than anticipated and client's financial or investment objectives may not be achieved.

**Unless specifically agreed in the client's Financial Planning Agreement,** CTHB Advisors will **not** provide a written report or written plan in connection with the Financial Planning Services. If the Financial Planning Agreement provides for a written report or written financial plan, it will usually include recommendations to assist the client in achieving his or her financial goals and objectives through purchasing or selling investments, purchasing new or revising existing insurance products or policies, establishing or participating in tax qualified accounts, or increasing or decreasing amounts held in savings accounts or other liquid investments.

If the client elects to purchase any securities or insurance products (including variable products) recommended in connection with the Financial Planning Services, CTHB Advisors and the Representative will generally receive commissions and other forms of direct and indirect compensation (including 12b-1 Fees, as described below) as a result of those purchases. The possibility of such additional compensation creates a conflict that may affect the recommendations made to the client. The client is under no obligation to implement or otherwise act upon CTHB Advisors' recommendations; and if the client elects to implement or act upon any such recommendation, the client is under no obligation to effect any transactions through CTHB Advisors, Representative, or any other associated person, broker-dealer, or affiliate of CTHB Advisors.

### **3. Other Services**

In addition to the services described above, CTHB Advisors may also agree to provide other advisory services upon request by a client, in which case, CTHB Advisors and client will enter

into a written agreement describing the specific services to be provided, the terms and conditions, and the fees to be charged, all of which will be negotiated on a case-by-case basis. CTHB Advisors' fees may be calculated on an hourly, fixed, or other basis as stated in the agreement. CTHB Advisors' current maximum hourly rate is \$450 per hour.

#### **4. Securities for Which We Offer Advice**

CTHB Advisors offers advice regarding a wide variety of investment products, including:

- exchange-listed or over-the-counter debt or equity securities of domestic or foreign issuers;
- money market funds, open-end investment companies (mutual funds), closed-end funds, unit investment trusts, and exchange-traded funds ("ETFs");
- variable life insurance, variable annuities, and their investment subaccounts;
- certificates of deposit; municipal securities;
- securities issued by the US Treasury, agencies, or government sponsored enterprises;
- option contracts on securities; and
- privately issued or publicly traded interests in limited partnerships or limited liability companies investing in real estate, oil and gas, and other businesses.

The types of securities for which we offer advice are significantly more extensive than the types of investments we generally recommend clients purchase for their accounts. Please refer to Item 8 for information about the investments and strategies we recommend to clients.

### **C. Tailored Services & Client Restrictions**

For the TAA Program and the Financial Planning Services, we tailor our investment management services and advice to the specific needs and objectives of the client's account or the client's needs, based on information provided by the client about the Account's financial information, investment objectives, tolerance for risk, and investment time horizon, among other matters. The Representative will answer the client's questions about the TAA Program or the Financial Planning Services.

For clients who choose to participate in the TAA Program, the Representative will assist the client to designate a Portfolio that is suitable for the client's Account. We permit clients to impose reasonable restrictions on the types of securities we purchase for their Account, and permit clients to change the restrictions by written instruction to us.

Once the client has designated an initial Portfolio for their Account, CTHB Advisors will seek to manage the Account's assets to reflect the investment allocation and investment objectives of the initial Portfolio, subject to reasonable restrictions imposed by the client. Due to client restrictions and other differences among Accounts participating in the TAA Program, the performance client's Account may be materially different from the performance of other Accounts in the same Portfolio. CTHB Advisors reviews, and periodically adjusts (referred to as "rebalancing") the Portfolios and the Accounts of its clients to reflect the investment objectives and investment allocations of the Portfolio (including any adjustments and reallocations CTHB Advisors has made in the Portfolio).

### **D. Information about Wrap Fee Programs**

CTHB Advisors does not currently participate in a wrap fee program.

## E. Managed Assets

As of September 30, 2011, we managed client assets of \$168,162,411 on a discretionary basis, and \$1,675,506 on a non-discretionary basis.

## ITEM 5: FEES & COMPENSATION

### A. Advisory Fees for the TAA Program

As compensation for CTHB Advisors' investment management services through the TAA Program, the Account will pay CTHB Advisors in arrears the "Advisory Fee," calculated as described below. Advisory Fees will be due and payable immediately following the end of each "Billing Period" (as defined below) or other period for which Advisory Fees are calculated, and upon termination of the TAA Advisory Agreement. Advisory Fees for the Inception Month (if not part of the initial Billing Period) shall be paid with Advisory Fees for the initial Billing Period. Advisory Fees are not charged on the basis of a share of capital gains upon or capital appreciation of the Account or any Managed Asset.

Advisory Fees will be calculated based on the annualized Advisory Fee percentage shown in the TAA Advisory Agreement, as amended from time to time and the "closing value" (as defined below) of the Account as of the close of the last trading day of the Billing Period or other period for which Advisory Fees are calculated (the "closing value method"); provided, in its discretion, CTHB Advisors may calculate Advisory Fees based on the "average daily value" (as defined below) of the Account over the Billing Period or other period for which Advisory Fees are calculated (the "average daily value method").

The Advisory Fee percentage will not exceed the following, as calculated for each Billing Period, subject to CTHB Advisors' right to add or revise its TAA Programs, Portfolios, and Advisory Fees:

#### **Maximum Annual Advisory Fee Percentage:**

1.75% of the value of the Account

#### **Selection of Valuation Method and Valuation Period**

CTHB Advisors is not required to calculate Advisory Fees using the average daily value method. Client should expect that Advisory Fees will be calculated using the closing value method unless the Custodian calculates and provides to CTHB Advisors the average daily value of the Account (or provides CTHB Advisors with sufficient data in an acceptable format that CTHB Advisors may readily use to calculate the average daily value). The selection of a particular valuation method will be based on factors related to the availability of data, limitations of CTHB Advisors' and Custodian's systems, CTHB Advisors' familiarity with software, and other technological, logistical, and practical factors, and not which method results in higher (or lower) Advisory Fees.

If the Managed Assets are maintained with more than one Custodian, CTHB Advisors will calculate the value of the Account and the Advisory Fee separately for each Custodian, using the closing value method, or in CTHB Advisors' discretion, the average daily value method, as CTHB Advisors determines for each Custodian. The valuation method and time periods used to value the Account and calculate Advisory Fees will be applied consistently for each Custodian, but may differ from the valuation method and time periods used to value the Account or calculate Advisory Fees for other Custodians.

Except when CTHB Advisors determines the fair value of an asset, as provided below, the value of the Account shall be determined by reference to the valuations provided by or available from each Custodian, as of the close of the last day of each Billing Period or other period for which Advisory Fees are calculated. If the last day of a Billing Period or other period for which CTHB Advisors calculates Advisory Fees is different than the last day of a Custodian's reporting or statement period, CTHB Advisors may value the Account maintained by such Custodian as of the close of the last day of the Custodian's reporting or statement date most recently ended on or before the close of the Billing Period, as CTHB Advisors shall select on a consistent basis for each Custodian.

**Closing Value Method**

For Accounts valued using the closing value method, the value shall be determined by reference to the values reflected on the Custodian's records or available from the Custodian (including without limitation, through any electronic system made available to CTHB Advisors as of the close of the last trading day of a Billing Period or as of the close of the Custodian's statement or reporting period most recently ended on or before the close of the Billing Period, as consistently applied for each Custodian.

Advisory Fees calculated with respect to Managed Assets valued using the closing value method shall not be adjusted or prorated for additions to or withdrawals from the Account during a Billing Period or as a result of Account appreciation or depreciation; provided, Advisory Fees for the last Billing Period shall be calculated based on the value of the Account as of the close of the last trading day the Advisory Agreement is in effect, plus the value of all withdrawals from the Account (valued as of the date of each withdrawal) during such Billing Period or the immediately preceding Billing Period.

**Average Daily Value Method**

For Accounts valued using the average daily value method, CTHB Advisors shall use the average daily value provided by the Custodian over the Billing Period, partial Billing period, or other period for which Advisory Fees are calculated. If the Custodian does not provide the average daily value for any period for which Advisory Fees are calculated, CTHB Advisors may calculate such value in a manner determined by CTHB Advisors in good faith to reflect the average value of the Account maintained by such Custodian, determined as of the close of each calendar day, during the period for which Advisory Fees are being calculated.

**Billing Periods & Assumptions**

The calendar month that includes the Effective Date is the "Inception Month." If the Effective Date is on or before the 15th calendar day of the Inception Month, the initial Billing Period will begin on the Effective Date and end on the last day of the second calendar month following the Inception Month. If the Effective Date is on or after the 16th calendar day of the Inception Month, the initial Billing Period will begin with the calendar month next following the Inception Month and end on the last day of the second calendar month thereafter.

If the Inception Month is not included in the initial Billing Period, Advisory Fees for the Inception Month: (A) shall be calculated from the Effective Date through the last calendar day of the Inception Month; (B) shall be paid with Advisory Fees for the initial Billing Period; and (C) shall be calculated using the same value for the Account as used in calculating Advisory Fees for the initial Billing Period.

In the event a Custodian does not value the Account or any Managed Asset, or CTHB Advisors determines a Custodian's value of the Account or a Managed Asset is materially inaccurate, the Account or such asset shall be valued by CTHB Advisors in good faith to reflect its fair value. Money market accounts and bank accounts, if any, shall be valued as of the valuation date. Transactions that have not settled may be included in either the current or the following period, as determined for the Account maintained with each Custodian on a consistent basis.

Fees are not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client.

CTHB Advisors may choose to calculate the TAA Program Fee on the basis of a 365-day year so that the TAA Program Fee payable for each quarter will be based on the actual number of calendar days in that quarter; provided, CTHB Advisors may elect to calculate fees on the basis of a 360-day year, and even 90-day billing periods, in its discretion applied on a consistent basis for each Account.

### **Negotiability of Fees, Account Minimums & Other Terms**

For all services, we have the discretion to negotiate our fees, minimum account size, minimum annual fees, and other terms of each client's relationship with us, and to negotiate alternative fees, minimums, or other terms on a client-by-client basis.

When considering and negotiating these matters, we usually consider, among other factors, the dollar amount of assets to be placed under management by the client and related accounts, anticipated future revenues and anticipated future additional assets or accounts from the client or related persons, and other existing or anticipated relationships. We may elect, in our discretion, to aggregate related client accounts for the purpose of achieving the minimum account size requirements and determining annualized fees. Waivers, discounts or more favorable terms not generally available to other clients may be offered to family members and friends of our employees and affiliates.

### **Certain Accounts Pay Lower Fees or Commissions**

The Advisory Fees for the TAA Program are negotiable by CTHB Advisors, in its sole discretion and as a result, some accounts pay lower Advisory Fees than other accounts. Waivers, discounts or more favorable terms not generally available to other clients may be offered to family members and friends of our employees and affiliates.

In the TAA Program, CTHB Advisors may negotiate the separate fees or other terms of the client's relationship with CTHB Advisors and participation in the TAA Program on a case-by-case basis, depending on a variety of factors, including the size of the account, the compensation requirements of the particular Representative, the client's relationship with CTHB Advisors or the Representative, and the potential for other business or clients, among other factors.

### **Risk of Liquidations to Pay Fees**

The Custodian will be authorized to deduct the Advisory Fees directly from the account and pay us according to our instructions, without notice to the client. If sufficient cash is not available in the account to pay the Advisory Fees when due, the Custodian will liquidate securities selected by the Custodian without prior notice to the client. If mutual funds are liquidated, the client may be charged a contingent deferred sales charge, an early redemption fee, or a fee to discourage short-term trading of fund shares. If the liquidated securities have declined in value, the client will realize a loss and forego the opportunity for future appreciation of the securities.

**Computing Market Value**

Typically, the value of an account will be based on the value reported by the Custodian on its monthly or quarterly statements (or its internal electronic system, if any, for values calculated other than at the end of a month or quarter); provided, CTHB Advisors may, in the exercise of its fiduciary obligations, determine the value an account or any asset in such manner as it shall determine in good faith to reflect its fair value.

**B. Fees for Financial Planning Services**

Fees for Financial Planning services will usually be charged as a fixed fee, typically ranging from \$100 to \$2000, depending on the nature and complexity of each client's circumstances, however, CTHB Advisors may charge fees on an hourly basis at a rate up to a maximum of \$450 per hour. All financial planning fees are due and payable upon completion of the work. Typically, the financial plan will be presented to the client within 90 days, provided that all information needed to prepare the plan has been promptly provided by the client.

The specific Fees for Financial Planning Services will be described in the client's Financial Planning Agreement. Advisory Fees are negotiable and will vary depending upon the complexity of the client situation and services to be provided, the size of the client's assets, and the possibility for additional clients or business, as determined by CTHB Advisors in its discretion. Financial Planning Services terminate upon completion of the services described in the Financial Planning Agreement; provided, either party may terminate the Agreement at any time.

**C. Deduction of Fees in Arrears by the Custodian**

In the TAA Program, the Advisory Agreement will authorize and direct the Custodian to deduct the TAA Program Fee in arrears directly from the Account upon receipt of CTHB Advisors' instructions. We generally require clients to authorize the Custodian to deduct our Advisory Fees from the Account and pay us directly; clients are not generally permitted to choose to have Advisory Fees billed to the client for payment in lieu of billing the Custodian; however, this term may be negotiable in our sole discretion. The amount of the TAA Program Fee deducted by the Custodian will be reflected on the Custodian's regular statements to the client.

**D. Additional Fees & Expenses**

The Advisory Fees are separate and distinct from the costs Accounts will incur in connection with transactions to purchase or sell securities, including the Brokerage and Investment Expenses, Mutual Fund and ETF Expenses, Custodial Expenses, and Cash Management Expenses, as described in Item 5.C.

**Brokerage and Investment Expenses**

Accounts participating in the TAA Program will generally invest in mutual funds, money market funds, variable annuity subaccounts (if client owns a variable annuity), and other types of investment company securities. Clients should not expect their Account to be invested in a portfolio of individual stocks or bonds. Although many of these investments are "load-waived" investments, clients should expect that their Account will incur some or all of the following Brokerage and Investment Expenses in connection with some Account transactions or investments. The frequency and amount of the Brokerage and Investment Expenses will increase if certain types of investments are added to a Portfolio or the client's Account (particularly, ETF investments):



- fees, commissions, and other compensation and expenses paid to introducing and executing brokers (including CTHB, NFS, Fidelity and Fidelity's affiliates), stock exchanges, electronic communications networks, and other trading intermediaries involved in effecting account transactions;
- odd lot differentials, transfer or other taxes, floor brokerage fees, exchange fees, service, handling, delivery, and mailing fees, electronic fund or wire transfer fees, currency exchange fees, margin interest, and other expenses of investments made or assets held for the client's Account; and
- initial and deferred sales charges, short-term redemption fees, and surrender fees in connection with the purchase or redemption of variable annuities.

### **Mutual Fund and ETF Expenses**

Clients will indirectly bear the internal management, operating, and investment fees and expenses charged to the shareholders of mutual funds or ETFs in which their Accounts invest. For some investments, these internal expenses will include 12b-1 Fees, recordkeeping fees, and transfer and sub-transfer agent fees, among others.

The 12b-1 Fees take their name from the Securities and Exchange Commission rule that created them. They are fees charged against a mutual fund's assets on a continuing basis to cover marketing, distribution and shareholder services costs. The 12b-1 Fees may also be used, in part, to offset the amounts payable by the fund's principal distributor as compensation to selling firms where the fund share class does not have a front-end sales charge. The portion of the 12b-1 Fees used for distribution expenses is effectively an asset-based sales charge paid over time instead of charged as a front-end sales load.

The 12b-1 Fees are calculated for each class of shares of a fund, and are calculated as a percentage of the total assets attributable to the share class. A fund also deducts certain other ongoing fees from its assets to pay firms that provide various services to the fund, such as the fund's investment advisor, transfer agent, custodian, and administrator. The 12b-1 Fees, investment management fees, and other ongoing expenses are described in the mutual fund's prospectus Fee Table. These fees will vary from fund to fund and for different share classes of the same fund. You can use prospectus Fee Tables to help compare the annual expenses of different funds.

Mutual funds may also impose a contingent deferred sales charge ("CDSC") or short-term trading fee if shares are redeemed within a short time period, usually within 30, 60 or 90 days from the date of purchase. The CDSC or redemption fee is generally one percent. Similarly, variable annuities may charge a substantial penalty for early redemption or cancellations.

The prospectus for a mutual fund or variable annuity describes the costs, risks, potential benefits, and other important matters that clients should understand prior to investing.

The Advisory Fees we charge for the TAA Program are separate and distinct from the Brokerage and Investment Expenses, or the fees and expenses charged by mutual funds, variable annuities, or ETFs to their shareholders.

A client could invest in mutual funds, ETFs, or variable annuities directly, without the services of CTHB, CTHB Advisors, or a Representative. In that case, the client would not receive the services we provide to identify mutual funds, ETFs, or variable annuities (or subaccounts) that are appropriate in light of the client's objectives, needs, and circumstances.

In evaluating the overall costs and benefits of the TAA Program and the services we provide, clients should consider the Advisory Fees we charge for the TAA Program, plus the fees and expenses charged by the funds, variable annuities and other securities in which their Account may invest.

**Cash Management Fees and Expenses**

Cash in a client's Account that is awaiting investment or reinvestment may be invested in cash balance or money market funds at NFS or Fidelity (or their affiliate), pursuant to an automatic cash "sweep" program. The investment adviser or custodian for these funds may be NFS, Fidelity, or their affiliate. CTHB may receive compensation based on the balances of client accounts in such sweep accounts. Consequently, the possibility of this compensation provides an incentive for CTHB Advisors to invest the Account so as to increase the compensation CTHB receives. CTHB may also receive compensation from money market funds used for cash management purposes, which also provides an incentive for CTHB Advisors to invest the Account so as to increase this compensation.

**Custodial Expenses**

Clients will pay the cost of services provided by their Account Custodian for: (1) arranging for the receipt and delivery of securities that are purchased, sold, borrowed or loaned for the Account; (2) making and receiving payments with respect to Account transactions and securities; (3) custody of Account securities; and (4) custody of all cash, dividends, exchanges, distributions, and rights accruing to the client's Account. The Custodian may be compensated through commissions or other transaction-based fees for securities transactions executed through the Custodian (or its affiliates) or by asset-based fees for investments settled into the Custodian's accounts, or both. The specific fees and terms of each Custodian's services will be described in the Custodian's separate Custodial Agreement with the client.

**Availability of Similar Services from Other Firms**

Clients can generally purchase the same or similar investment products or services through other firms that are not affiliated with us. However, clients who obtain investment products or services through other firms will not receive the benefit of the services we provide in determining which investment products or services may be appropriate in view of the client's financial situation, investment objectives, risk tolerance, and liquidity needs.

Our Advisory Fees may be higher (or lower) than fees charged by other advisers or institutions for similar services with better (or worse) performance or lower (or higher) risk. Clients should consider carefully all of the direct and indirect fees and expenses of our services and the investment products we recommend to fully understand the total costs and assess the value of our services.

Please refer to Item 12 for additional information regarding brokerage, transaction, and other fees and expenses clients will incur.

**E. Payment of Fees & Refunds**

Generally, clients will not prepay Advisory Fees or Financial Planning Fees, although CTHB Advisors may negotiate prepayment of any fees, in its sole discretion. In the event client does prepay Advisory Fees or Financial Planning Fees, if client terminates the Advisory Agreement or Financial Planning Agreement within five business days of the parties entering into such agreement, client shall receive a full refund of all prepaid fees and expenses.

If a TAA Advisory Agreement or Financial Planning Agreement is terminated more than five business days after it has been entered into, any prepaid Advisory Fees shall be prorated based on the number of days this Agreement was in effect, and the unused portion shall be returned to Client. If a Financial Planning Agreement is terminated more than five business days after it has been entered into, Client will receive a prorated refund of any prepaid Financial Planning Fee based on the proportion of the total services that CTHB Advisors has performed through the date CTHB Advisors receives notice of such termination.

An Advisory Agreement may be terminated by the client or us at any time upon written notice to the other, as provided in the Advisory Agreement. Upon termination, any earned but unpaid Advisory Fees owed to us will be immediately due and payable; and any unearned Advisory Fees we have received in advance will be refunded to the client within 30 days. We will not ask or require prepayment of Advisory Fees or Financial Planning Fees of more than \$1,200 per client six months or more in advance.

After an Advisory Agreement has been terminated: client will be charged commissions, sales charges, and transaction, clearance, settlement, and custodial charges, at prevailing rates, by CTHB's and any executing or carrying broker-dealer; client will be responsible for monitoring all transactions and assets; and CTHB Advisors, CTHB, and the Representative will not have any obligation to monitor or make recommendations with respect to client or those assets.

## F. Compensation from Sale of Securities or Other Products

Each of our officers and Representatives is separately registered as a broker-dealer representative of CTHB, a FINRA-registered broker-dealer, and is also appointed as an agent for various life insurance companies.

For accounts participating in the TAA Program, CTHB Advisors generally recommends "load-waived" classes of mutual fund shares, to the extent the Account qualifies to purchase such shares. However, clients should expect to incur commissions and other transactions costs that will be paid to CTHB, NFS, and other brokers, and market intermediaries when their Account purchases other types of investments, such as ETFs. See Item 5.C for further information about additional fees and expenses an Account may incur.

Additionally, as we explain more fully in Item 4.B, we have set the amount of our Advisory Fees based, in part, on the expectation of CTHB receiving 12b-1 Fees from mutual funds. When we select the mutual funds to purchase for a client's Account, we will invest the Account in mutual fund share classes that pay 12b-1 Fees to CTHB, even though the share classes we select carry higher internal expenses than other share classes in the same fund that the Account qualified to purchase (but which did not pay 12b-1 Fees to CTHB).

For clients who are investing outside of our TAA Program, they will typically work with a Representative to select among fixed or variable insurance products, or when appropriate, individual securities (including mutual funds, stocks, bonds, or other securities). CTHB and the Representative will receive separate, yet customary brokerage commissions, sales charges, insurance commissions, or other compensation for selling securities or other investment products, and may be eligible to receive incentive awards (such as sales awards or other prizes such as trips) for recommending certain types of insurance policies or investment products.

Clients are under no obligation to implement any recommendations that CTHB or a Representative makes to purchase any securities, insurance, or other investment products. If a

client wishes, they may implement any recommendations through other financial services firms not affiliated with us.

CTHB Advisors does not reduce or offset the Advisory Fees or any Financial Planning Fees by 12b-1 Fees, by any commissions, sales charges, or other sales-related compensation, or by any other compensation CTHB or CTHB Advisors receives from NFS, Fidelity, other brokers, custodians, or product sponsors based on or as a result of a client's purchase or sale of securities, insurance, or other investment products, or based on the value of client accounts, free credit balances, margin account balances, retirement account balances, or other bases.

The potential for compensation may impair the objectivity of CTHB Advisors, CTHB, and the Representative and may influence us to make recommendations based on the prospect of receiving such compensation rather than the needs or best interests of the client. In order to address this conflict of interest, we have implemented the following procedures:

- We disclose the potential conflicts to our clients;
- We collect and maintain adequate information about our clients and their accounts, including their financial circumstances, investment objectives, and risk tolerance, and we conduct regular account reviews to confirm the designated portfolio is suitable;
- We periodically review holdings and strategies to identify significant disparities indicative of unusual treatment; and
- We educate our employees regarding our fiduciary responsibilities, regardless of fee arrangement.

Please refer to Item 12 for information regarding our brokerage practices.

## **ITEM 6: PERFORMANCE COMPENSATION & SIDE-BY-SIDE MGMT**

We are required to disclose in Item 6 certain information about any "performance-based" fee arrangements with clients, and any situations where we manage both accounts with performance-based fee arrangements and accounts without such arrangements.

Because we do not have any performance-based fee arrangements with our clients, we do not have further disclosures for Item 6.

## **ITEM 7: TYPES OF CLIENTS & ACCOUNT REQUIREMENTS**

We provide investment advisory services to the following types of clients:

- Individuals, including high net worth individuals;
- Pension and profit sharing plans;
- Trusts, estates, and charitable organizations;
- Corporations and other businesses not listed above.

We require a minimum account size of \$50,000 for the TAA Program.

## **ITEM 8: METHODS OF ANALYSIS, STRATEGIES & RISK OF LOSS**

### **A. Methods of Analysis**

Unless otherwise stated in the Advisory Agreement or in a separate description of a Portfolio, TAA Program Accounts will generally be invested in the following types of investments: mutual funds (generally, high-yield bond funds) or similar high-yield bond subaccounts of variable annuities (if the Account owns or purchases a variable annuity); cash; money market funds;

short-term government bond funds; obligations issued or guaranteed by the U.S. Treasury, government agencies, or government sponsored enterprises.

TAA Program Accounts are managed to reflect the investment allocation and to strive to achieve the investment objectives of the Portfolio designated for the Account, subject to reasonable restrictions imposed by the client. Due to client restrictions and other differences regarding each Account, performance of a client's Account may be different from the performance of other Accounts in the same Portfolio. On an on-going basis, CTHB Advisors reviews and adjusts the Portfolio and the client's Account in an effort to reflect the intended allocations and objectives, as well as any reasonable client restrictions.

For the TAA Program, CTHB Advisors will rely on the Signals, and investment recommendations provided by the Signal Provider, and may use performance, research, or information from other third parties to assist in selecting the investments, effecting transactions, and in creating and maintaining the Portfolios.

Investments may be selected or recommended on the basis of any or all of the following criteria: performance history; asset class and industry sector; the track record, management style and philosophy of any investment manager; the security's fee structure; a fund company's policies and limitations regarding excessive trading and penalties for early redemptions; the size of the investment in comparison to the size of the issuer; a fund company's trading restrictions, and the ability of CTHB Advisors and Custodian to execute orders and maintain records in an efficient manner, at reasonable costs. CTHB Advisors may receive and rely on historic financial and other data from sources it deems to be reliable.

Clients should be aware that TAA Program Accounts may be enrolled to participate in cash management or "sweep" arrangements whereby uninvested cash balances are invested in a money market fund or deposit account, which may be managed by the Custodian or an affiliate of the Custodian. Custodian, Custodian's affiliates, and CTHB receive additional compensation as a result of the Account's participation in such arrangements.

For Financial Planning Clients, the Representative may recommend any one or more of the following: shares of open-end or closed-end mutual funds, money market funds, or unit investment trusts (with or without up-front or deferred sales charges); variable annuity contracts or variable life insurance contracts, and subaccounts of such contracts (all of which are referred to collectively as "variable products"); exchange-traded funds ("ETFs"); investment in cash; obligations issued or guaranteed by the U.S. Treasury, government agencies, or government sponsored enterprises; exchange-listed or over-the-counter, domestic or foreign, common or preferred stocks; convertible securities; warrants; corporate debt securities; commercial paper; certificates of deposit; municipal securities; and options; all of various asset classes and other investment characteristics, as selected by the Representative based on the individual needs and objectives of the Client.

ETFs are a type of investment company that aims to achieve the same return as a particular market index. They can be either open-end companies or unit investment trusts. ETFs are not considered to be, and are not permitted to call themselves, mutual funds. ETFs differ from mutual funds and unit investment trusts because shares issued by ETFs are bought and sold by investors on a secondary market. Unlike mutual funds, retail investors generally cannot tender their shares directly to the ETF for redemption because shares of ETFs are redeemable from the fund only in very large blocks (blocks of 50,000 shares, for example).

ETFs offer the ease of stock trading. ETFs can be purchased on margin, sold short, or held for the long term. CTHB Advisors may use ETFs to achieve market exposure consistent with the index on which the ETF is based, through one security. Investment returns and principal value will fluctuate so that an account's ETF shares, when sold, may be worth more or less than the original cost.

In analyzing mutual funds, we look at the experience and track record of the portfolio managers to determine if they have demonstrated the ability to invest successfully over periods of time and in different economic conditions. We also consider whether or not there is a significant overlap with the underlying investments held by other mutual funds. We monitor the mutual funds in an attempt to determine if they are continuing to follow their stated investment strategies. We also evaluate the fees of the portfolio managers and the internal expenses of the mutual funds to determine whether the client is receiving adequate value for these fees and expenses.

A risk of our method of analysis is that past performance does not guarantee future results. A portfolio manager who has been successful in the past may not be able to replicate that success in the future. In addition, we do not control and do not have complete information about the underlying securities owned by the mutual funds. In addition, we may not be aware that two or more portfolio managers may have invested in the same security, which would increase the risk to the client if that security were to fall in value. Additionally, a portfolio manager may deviate from the stated investment mandate or strategy of a fund, which could cause the investment to become less suitable for the client. Moreover, we do not control the portfolio manager's daily business or compliance operations, and we may be unaware of the lack of internal controls necessary to prevent business, regulatory or reputational deficiencies.

#### **Management of Account Until We Receive Written Notice**

Unless and until the client notifies us in writing to designate a different Portfolio for their Account, to notify us of material changes in their Suitability Information, or to impose reasonable restrictions on the investment of their Account, we will continue to manage the Account according to the Suitability Information in our records and the Portfolio most recently designated for the Account. Clients should inform us promptly of significant changes in their individual or family circumstances or financial situation, or in the investment goals or objectives, investment time horizon, tolerance for risk, or liquidity needs of the Account so that appropriate changes can be made.

#### **Risks of Inaccurate or Biased Information**

Our methods of analysis assume the accuracy of the information we analyze, such as ratings, financials, and research. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### **B. Investment Strategies & Risks**

#### **Risks of the TAA Program and the Strategy**

When deciding whether to participate or to continue to participate in the TAA Program, Clients should review and understand the risks, potential rewards, fees, and expenses of the TAA Program, Portfolio, and the Strategy, the anticipated investments for the Account, and the arrangements with each Custodian. Clients should be aware that mutual funds, money market funds, and variable products may be obtained from fund companies, insurance companies, or other broker-dealers, without participation in the TAA Program or payment of the Advisory Fees.

**Risk of Losing Money; Lack of Diversification**

There is a risk the Client could lose money by participating in the TAA Program, or by accepting investment recommendations made by CTHB Advisors. The ongoing disruption of global financial markets has caused a significant decline in value of many securities, and the continuation or further deterioration of market conditions may lead to additional losses of value.

The Strategy and the Portfolios do not attempt to diversify the Account; at any time, all or most of the Managed Assets may be invested entirely in debt securities (particularly high yield debt securities) or securities that are subject to the similar risks. The lack of diversification increases the risk of loss.

**Risks of Market, Economic, Political, or Regulatory Events**

The values of the Managed Assets may fall due to changes in general market conditions, such as real or perceived adverse economic, political, or regulatory conditions, inflation, changes in interest or currency rates or adverse investor sentiment. Adverse market conditions may be prolonged and may not have the same impact on all types of securities. The values of securities may fall due to factors affecting a particular issuer or the securities market as a whole.

**Interest Rate Risk**

Interest rates may go up, causing the value of debt securities held by the Account (or by any mutual fund, money market fund, or variable product owned by the Account) to decline. This is known as interest rate risk, which may be greater for securities with longer maturities

**Credit Risk**

The issuer (or other obligor) of a security owned by the Account (or by any mutual fund, money market fund, or variable product owned by the Account) may fail to pay principal or interest, or otherwise defaults, or may be perceived to be less creditworthy, or the security's credit rating may be downgraded, or the credit quality or value of any underlying asset may decline. This is known as credit risk. This risk is greater for high yield securities than for securities of higher credit quality. Accounts participating in the TAA Program will generally invest in high yield securities.

**Prepayment Risk**

During periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Account (or any mutual fund, money market fund, or variable product owned by the Account) to reinvest in lower yielding securities. This is known as call or prepayment risk.

**Extension Risk**

During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (a calculation of a security's future payments designed to measure sensitivity to interest rate changes), increase the security's sensitivity to interest rate changes and reduce the value of the security. This is known as extension risk.

### **Liquidity Risk**

From time to time, as a result of economic, market, or issuer-specific reasons, one or more investments held by the Account may become difficult to sell at a favorable price, and in certain adverse markets or economic conditions, may become difficult to sell at any price. The causes of a loss of liquidity may not be related to any specific adverse changes in the business of a particular issuer. These examples of liquidity risk.

### **Risk of Errors in Investment Decisions**

There is a risk that the judgment of CTHB Advisors (or of a portfolio manager of a mutual fund, money market fund, or variable annuity subaccount owned by the Account) about the attractiveness, relative value, or potential appreciation of a particular market sector or security, or about the timing of investment purchases or sales, may prove to be incorrect, resulting in losses to the Account.

### **Risks Related to Size of CTHB Advisors' Assets under Management**

There is a risk that Accounts in the TAA Program may acquire, in the aggregate, a material percentage of the outstanding securities of a mutual fund, particularly where the fund's total assets is relatively small. In this situation, if a sell signal is received, CTHB Advisors may encounter difficulty in selling all of such securities at a favorable price, or at the same time. Alternatively, we may not be able to acquire sufficient securities so that all Accounts in a particular Portfolio are able to participate in such investments.

### **Mutual Fund Policies on Market Timing and Excessive Trading**

Mutual funds and variable product issuers often maintain policies prohibiting market timing or short-term trading in mutual funds or subaccounts, and prohibit transactions for the purpose of market timing. Excessive trading into and out of a fund or subaccount can disrupt portfolio management strategies, harm fund or subaccount performance by forcing the fund or subaccount to hold excess cash or to liquidate certain portfolio securities prematurely and increase expenses for all investors, including long-term investors who do not generate these costs. Funds or subaccounts that invest in high yield securities or invest in securities that are valued using fair value pricing methods may be particularly susceptible to the risks of market timing or short-term trading strategies.

To limit the negative effects of excessive trading, many funds and variable product issuers have adopted restrictions on account transactions. For example, policies may provide that if an account redeems (including exchanges) \$5,000 or more of a fund or subaccount, that account will be prevented (or "blocked") from purchasing (including exchanges) shares or units for 30 calendar days after the redemption. These policies may also provide that restrictions do not apply to transactions made through asset allocation or other TAA Programs.

CTHB Advisors does not intend to engage in excessive trading contrary to the policies stated in the prospectus of any fund or variable product. However, CTHB Advisors may engage in short-term trading of fund or subaccount positions that will subject Accounts to a fund's or variable product's temporary "blocking" of purchases or exchanges. If during any period when an Account is blocked by a fund or variable product issuer CTHB Advisors receives a signal to engage in transactions that are blocked by the fund or subaccount, such signal will not be followed. As a result, the Account may not reflect the Portfolio or the holdings of Accounts that were not blocked, and performance may be adversely affected. Accounts that are blocked will



be rebalanced to reflect the Portfolio designated for the Account when CTHB Advisors is reasonably able after the end of the blocked period.

If a fund or variable product issuer believes that any of CTHB Advisors' Accounts has engaged in excessive trading, the fund or variable product issuer may reject orders for all Accounts, and refuse to process purchase orders for any Account managed by CTHB Advisors. A fund or issuer may also require liquidation of Accounts that it believes engage in excessive trading or that are managed by a financial intermediary (including CTHB Advisors) that engages in excessive trading in other accounts. Although CTHB Advisors believes that blocking will not occur frequently, there can be no assurance that an Account will not be blocked or required to liquidate. There is a risk of economic losses if an Account is blocked or required to liquidate.

The Strategy involves purchases and exchanges of fund or subaccount positions which will cause Accounts to be charged exchange fees by the mutual fund or variable product issuer, and potentially by the Account Custodian. In addition, mutual funds and variable product issuers may charge early redemption fees for sales occurring within periods of 30 to 90 days following a purchase. Early redemption fees can occur due to the timing of Signal Provider signals, withdrawals by the Client, or from CTHB Advisors redeeming shares or units to pay Advisory Fees.

In selecting or recommending mutual funds or variable products, CTHB Advisors takes into consideration possible restrictions on exchanges, exchange fees, and early redemption fees, but assumes no responsibility for any potential or actual losses resulting from any restrictions or for any such fees. Clients will be solely responsible for all exchange fees and early redemption fees that occur from management of the Account.

#### **Risk of Delays in Trading Accounts**

For a variety of reasons, there may be periods of time when CTHB Advisors will not be able to trade an Account. For example, Accounts may require several weeks after the TAA Advisory Agreement is signed by all parties before CTHB Advisors will be able to enter trades with the Custodian (and such period may be lengthened as a result of delays by Client or third parties in transferring assets to the Custodian). Similarly, Accounts that are transferred between Custodians, or whose registrations are changed, or that change Portfolios may experience periods during which CTHB Advisors will not be able to trade the Account. Further, there will likely be periods when CTHB Advisors is not able to trade an Account as a result of CTHB Advisors' administration, review, portfolio management, trade execution, or other handling of that Account or the Account for other Clients.

During periods when CTHB Advisors is not able to trade the Account, CTHB Advisors may receive a Signal that CTHB Advisors may not be able to effect. As a result, the Account may incur losses that would not have been incurred, or may miss profits or opportunities that would have been realized, if the Account had been traded.

Following such periods, CTHB Advisors will endeavor to trade the Account and effect transactions so that the Account reflects the Portfolio designated for the Account, but such transactions may result in immediate losses for the Account. CTHB Advisors assumes no responsibility for losses or missed profits or opportunities resulting from: the Account not being traded during any such period; engaging in transactions so that an Account reflects the Portfolio; or from implementing any instruction from the Client.

Advisor does not guarantee that transactions will occur within any minimum period of time following receipt of a Signal or that transactions for any Account will occur at the same time as transactions for other Accounts. CTHB Advisors will attempt, when reasonably able, to move all Clients promptly following receipt of a Signal, but Clients should expect that delays will occur, transactions for particular Accounts may be delayed until after transactions for other Accounts have been effected, and losses may be incurred or profits or opportunities may be missed, all at the risk (and potential benefit) of the Client. Although with respect to any particular Signal or transaction, certain Accounts may not be treated the same as other Accounts, CTHB Advisors will implement procedures to avoid particular Accounts being treated unfairly over reasonable periods of time.

### **Risks of High Yield Bond Funds**

Accounts may invest all or most of the Managed Assets in high yield bond funds. These funds invest in securities that are considered speculative with respect to the issuer's ability to pay interest and principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and these securities are less liquid than investment grade securities. For these reasons, a Client's investment in the Portfolio is subject to greater or additional risks as compared to investments in investment-grade securities, including the following, for example:

- increased price sensitivity due to changing interest rates or a deteriorating economic environment;
- greater risk of loss due to default or declining or perceived credit quality;
- adverse company-specific events are more likely to render the issuer unable to make interest and/or principal payments; and
- a negative perception of the high yield market could develop, depressing the price and liquidity of high yield securities. This negative perception could last for a significant period of time.

Clients should consider these matters carefully and review the prospectus for such funds prior to selecting a Portfolio that includes high yield bond funds. Significant investments in Portfolios that include high yield bond funds should not be considered by Clients who are unable to bear the risks of these investments.

### **Risks of Government Bond Funds**

Accounts may invest in mutual funds whose portfolios may consist largely of any one or more of the following:

- bills, bonds, notes, or other obligations issued the U.S. Treasury, and obligations issued or guaranteed by agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association and Federal Housing Administration; and
- obligations guaranteed by government sponsored entities, such as the Federal Home Mortgage Corporation and the Federal National Mortgage Association, among others, which are not funded by congressional appropriations, and whose obligations are neither guaranteed nor issued by the U.S. Government (and, therefore, have a greater risk of loss).

These mutual funds may invest in securities with broad ranges of maturities and average portfolio duration and maturity, as well as varying interest, payment and reset terms. These securities may carry fixed rates, adjustable rates, floating rates, or inverse floating rates, and

may have contingent, deferred, payment-in-kind or auction rate features, any of which may contribute to increased volatility or risk of loss.

### **Risks Related to Allocation of Investment Opportunities**

When determining which Portfolios or Accounts will participate or receive an allocation of an investment opportunity, CTHB Advisors may consider, among other factors, any one or more of the following: asset class or type of security; identity and industry sector of the issuer; market and economic conditions; quantity of the security available to CTHB Advisors; available cash, liquidity needs, size, and investment objective of the eligible Accounts; effective, current, or target yields, returns, spreads, coupon, duration, or credit quality; volatility (as measured by standard deviation, by comparison against a benchmark or index, or by other measures selected by CTHB Advisors); actual, estimated, or target rates of return targets; liquidity, tax position, investment restrictions, performance relative to a benchmark, and performance relative to other Accounts in the same Portfolio. Such factors may be calculated, derived, or estimated by CTHB Advisors or any third party or data source CTHB Advisors believes is reasonably reliable.

Although the selection of one or more Portfolios or Accounts to participate in a particular investment opportunity may, in that instance, work to the detriment of non-participating Portfolios or Accounts, CTHB Advisors will use reasonable efforts to manage all Accounts fairly and non-preferentially over time.

### **Risk of Trade Errors**

On infrequent occasions, an error may be made in a transaction for an Account. For example, a security may be erroneously purchased for an Account instead of sold. In these situations, if CTHB Advisors is responsible for such error, the CTHB Advisors' policy is to restore or return the Account to the position it would have been in had the trading error not occurred. Depending on the circumstances, various corrective steps may be taken, including but not limited to, canceling the trade, adjusting an allocation, or reimbursing the Account.

### **Changes in the Portfolios**

CTHB Advisors may change, add, or remove Portfolios (and the objectives or strategy of any Portfolio) from time to time, without prior notice to the client. If a Portfolio is changed or removed, CTHB Advisors will designate for the Account a suitable remaining Portfolio, and will notify the Client that such designation has occurred. If the client objects to such designation, CTHB Advisors may terminate the TAA Advisory Agreement and liquidate the Account.

### **Margin Transactions**

Occasionally, we may use a margin account offered by the Custodian to borrow sufficient funds to purchase a security for an Account. This typically happens if sufficient cash is not available in the Account to purchase the security and it is not advantageous to sell other investments. The use of margin carries risks that clients should understand. We do not expect to use significant amounts of margin or other leverage in our strategies; however, certain types of transactions may or must be executed through a "margin account."

In volatile markets, security prices can fall very quickly. If the net value of a client's Account (less the amount the client owes to the broker) falls below a certain level, the broker will issue a "margin call" and the client will be required to sell the security (and other positions) or add more cash to the account. You could lose more money than you originally invested. Additionally,

the client must pay interest on the margin balance owed to the broker until it is repaid in full. The amount of margin interest will diminish the client's profits and in some cases could cause net losses in the client's account.

**Insolvency of Brokers and Others**

Clients will be subject to the risk of failure of the brokerage firms that execute their trades, the clearing firms that such brokers use, or the clearinghouses of which such clearing firms are members. Although we believe the institutions we recommend have sufficient capital, there is no assurance this will continue to be the case.

**C. Risk of Loss**

Investing in securities involves risk of loss that clients should be prepared to bear. Securities are not guaranteed and clients may lose money on their investments. We ask that clients work with us to be sure we understand their willingness and financial ability to bear the risks of their current investments and the investments we recommend for their account.

**ITEM 9: DISCIPLINARY INFORMATION**

We are required to disclose in Item 9 information about legal or disciplinary events involving the Firm or our management that may be material to evaluation of our advisory business or the integrity of our management.

Regulator: KANSAS STATE SECURITIES COMMISSIONER

Date: 06/12/2002

Employee: Thomas Hoover

Description: On 11/3/2008, Mr. Hoover was found to have not properly supervised an ex-employee and was required to pay a monetary fine in the amount \$10,000

**ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS**

Each of the Representatives is registered as a broker-dealer registered representative of CTHB, which is owned by our parent company, CTHB Investments, Inc. When transacting the purchase or sale of securities or insurance products, CTHB and the Representative will receive customary sales charges, commissions, and other transaction-related compensation. When they sell mutual funds and variable annuities, they will also receive 12b-1 Fees and other asset-based compensation, as described in the prospectuses for those products; not all mutual funds pay 12b-1 Fees.

For Accounts managed through the TAA Program, although most investments will be made in load-waived funds or similar securities for which the Account will not pay an initial sales charge or commission, clients should expect that some investments in their TAA Program Account will be made in investments for which CTHB and the Representative will receive an initial sales charge, commission, or other transaction-related compensation, in addition to 12b-1 Fees and other asset-based compensation.

As part of our fiduciary duty, we endeavor to put the interests of our clients ahead of our own, and we have adopted the following steps to address these conflicts of interests:

- We disclose the existence of material conflicts of interest, including the potential for the Firm, its Representatives, CTHB to earn compensation from advisory clients, which is in addition to the Advisory Fees we receive;

- We disclose to clients that they are not obligated to purchase any securities, insurance, or other investment products or services from us or our Representatives;
- We request clients to provide and update material information regarding their Account's investment objectives, financial circumstances, investment objectives, and risk tolerance, and we conduct regular reviews of Account investments, based on the information provided by the client;
- We require that our employees to seek prior approval of outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- We periodically ask employees to certify information regarding their disclosed outside employment activities; and
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

## **ITEM 11: CODE OF ETHICS, TRANSACTIONS & PERSONAL TRADING**

### **A. Code of Ethics**

CTHB Advisors has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. CTHB Advisors' Code of Ethics describes the firm's fiduciary duties and responsibilities to clients, and sets forth CTHB Advisors' practice of supervising the personal securities transactions of supervised persons with access to information regarding client recommendations or transactions.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy of our Code of Ethics by email sent to [customerservice@cthb.net](mailto:customerservice@cthb.net) or by calling us at (800) 397-2220.

We owe a duty of loyalty, fairness, and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but also to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of our Access Persons' quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the Firm's Access Persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement, and recordkeeping provisions.

Our Chief Compliance Officer may grant exceptions to certain provisions contained in the Code where we reasonably believe the interests of our clients will not be materially adversely affected or compromised. Doubts arising in connection with personal securities trading should be resolved in favor of the client even at the personal expense of our employees.

Our Code of Ethics further includes the Firm's policy prohibiting the misuse of material non-public information. While we do not believe that we have any particular access to material non-public information regarding publicly traded companies that would be subject to misuse, all employees are reminded that any such information may not be used in a personal or professional capacity.

CTHB Advisors and its principals, officers, affiliates, employees and Representatives may act as investment adviser for others, may manage funds or capital for others, may have, make and

maintain investments in its or their own names, or may serve as an officer, director, consultant, partner or stockholder of one or more investment partnerships or other businesses, subject to compliance with CTHB Advisors' Code of Ethics. In doing so, CTHB Advisors or such persons may give advice, take action, and refrain from taking action, any of which may differ from advice given, action taken or not, or the timing of any action, for any particular client.

Nothing in this Brochure or otherwise shall impose upon CTHB Advisors or any Representative any obligation to purchase or sell, or to recommend for purchase or sale, any security which CTHB Advisors or any principal, officer, employee or Representative purchases or sells for his own account or for the accounts of other clients, unless not to engage in such activity would violate CTHB Advisors' fiduciary duty.

### **Confidentiality of Client Information**

Protecting the confidentiality of its customers' nonpublic information is paramount for CTHB Advisors. As such, we have instituted policies and procedures to ensure that nonpublic customer information is kept confidential. We do not disclose nonpublic personal information about our clients or former clients to any nonaffiliated third parties, except as provided pursuant to our privacy policies or as required by or permitted by law. In the course of servicing a client's account, CTHB Advisors may share client information with service providers, such as transfer agents, custodians, broker-dealers, accountants, and attorneys. CTHB Advisors, CTHB, and the Representative share information regarding the client, the client's account, and account activity, and each has agreed to keep such information confidential.

## **B. Recommendations Involving Our Financial Interests**

We are required to disclose in Item 11 if we recommend that clients invest in securities in which CTHB Advisors or our employees have a material financial interest.

We do not make any such recommendations to our clients.

## **C. Investments in Securities We Recommend to Clients**

Individuals associated with CTHB Advisors may buy or sell securities for their personal accounts identical to or different from those recommended to clients. It is the policy of CTHB Advisors that no person employed by CTHB Advisors shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of clients. Subject to the Code of Ethics, CTHB Advisors and its employees are permitted to trade for their own accounts side-by-side and in block transactions with the firm's clients in the same securities, and at the same time. We have adopted the procedures described in Item 11.D to address the actual and potential conflicts of interest raised by our policies.

## **D. Investments Around Same Time as Client Transactions**

Subject to the procedures in this section 11.D, CTHB Advisors and its employees are permitted to trade for their own accounts side-by-side with clients in the same securities at or around the same time as clients on the same trading day, and are permitted to aggregate trades for their proprietary accounts with trades for client accounts. CTHB Advisors, its employees, and its affiliates may buy or sell securities for their personal accounts identical to the securities recommended to clients. We have adopted the procedures described below to address the conflicts of interest arising from our policies described in Items 11.C and 11.D:

- CTHB Advisors prohibits employees from purchasing or selling securities (other than mutual funds or other securities that are not treated as “reportable securities”) immediately prior to client transactions, in order to prevent employees from benefitting from transactions placed on behalf of advisory accounts.
- No director, officer, or employee of CTHB Advisors shall buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment, unless the information is also available to the investing public on reasonable inquiry.
- No director, officer, or employee of CTHB Advisors shall knowingly prefer his or her own interest to that of an advisory client.
- CTHB Advisors maintains a list of all securities held by the Firm and its access persons. These holdings are reviewed on a regular basis by the Investment Committee.
- CTHB Advisors emphasizes the unrestricted right of the client to decline to implement any advice rendered (except where CTHB Advisors has entered an order pursuant to its exercise of discretionary authority to manage client's investments).
- CTHB Advisors requires all employees to act in accordance with all applicable Federal and State laws and regulations governing registered investment advisory practices.
- Any individual not in observance of the above may be subject to discipline, including termination.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. Considerations in Recommending Broker-Dealers**

In Item 12, we describe the factors we consider in recommending broker-dealers for financial planning clients, and in selecting broker-dealers for the Accounts of TAA Program clients. We also describe the conflicts of interest that may influence our recommendations and selections.

#### **Financial Planning Clients**

When a financial planning client requests a Representative to implement recommendations made in a financial plan for the purchase of a security or insurance product, the Representative will be acting in his or her capacity as a registered representative of CTHB (and may also be acting as an agent of an appointing insurance company). In order to buy or sell securities, the Representative will recommend that the client open an account through CTHB and NFS, its clearing broker-dealer.

Clients are under no obligation to buy any security or insurance product recommended in any financial plan. If the client elects to implement any such recommendation, the client is under no obligation to purchase the product through CTHB or the Representative, and may purchase the product through another broker-dealer, insurance brokerage, or other financial services firm of their choice.

When selling securities or insurance products, CTHB and the Representative will receive commissions and other compensation (including 12b-1 Fees, as described in Item 5) as a result of those purchases. The possibility of such compensation creates an economic incentive (and conflict of interest) for the Representative to recommend products based on the incentive to receive compensation rather than the best interests of the client.

We have evaluated (and continue to evaluate) the nature and quality of CTHB's and NFS' services, professionalism, experience, commissions, and other costs when acting as broker-

dealer for our clients, and have determined that the recommendation of them for our financial planning clients is consistent with our fiduciary obligations.

### **TAA Program Clients**

TAA Program clients grant us discretion to select broker-dealers to execute securities transactions for their TAA Program Accounts. We evaluate broker-dealers on a continuing basis to determine whether our selections are reasonable and consistent with our fiduciary responsibilities. We consider the full range and quality of the broker-dealer's services, including execution capability, cost, financial responsibility, responsiveness, and the value of research and other services provided.

In view of our close integration with CTHB's systems and personnel for placement and execution of orders for the Strategy used in the TAA Program, among other efficiencies, clients should expect that all securities transactions will be placed through CTHB.

We review our selection of broker-dealers (including CTHB) on a continuing basis to determine if our selections are reasonable and consistent with our fiduciary responsibilities. In selecting broker-dealers, we consider the full range and quality of the broker-dealer's services, including, among other things, execution capability, cost, financial responsibility, responsiveness, and the value of research and other services provided. CTHB Advisors will not recommend a broker-dealer solely on the basis of the lowest possible commission cost, but rather, will determine on whether the broker-dealer has the ability to provide the best overall qualitative execution.

The reasonableness of a broker-dealer's compensation is based on its ability to provide professional services, competitive commission rates, research, and related services that will help us in providing investment services to our clients. Consequently, we may recommend a broker-dealer that provides useful brokerage, research, and related services, even though a lower commission may be charged by a different broker-dealer.

We depend on services CTHB and NFS to make available services that assist us in managing and administering client accounts, including technology that:

- provides access to electronic client account records and data (including duplicate and batched client statements, year-end summaries, and trade confirmations);
- facilitates trade execution and allocate aggregated trade orders for multiple client accounts;
- provides research, pricing and other market data;
- facilitates deduction of Advisory Fees from client Accounts; and
- assists with back-office recordkeeping and client reporting functions.

Importantly, however, the availability of these useful services creates a financial incentive for us to recommend or select the particular brokers to execute transactions for our clients' Accounts and avoid paying at our own expense the cost of these services. We have an incentive to select NFS based on the interests of the Firm, rather than the interests of the client in obtaining the lowest execution costs or most favorable brokerage services.

We depend on CTHB for access to shared office space and equipment, for electronic services, and for continued registration of CTHB Advisors' representatives as registered representatives; and we depend on the Representatives for continuing referrals of clients to the TAA Program.



By recommending CTHB and NFS to our clients, CTHB Advisors helps to increase the number of transactions NFS processes and increase the value of client assets NFS holds. CTHB Advisors client transactions and assets help CTHB in increasing the payments or credits CTHB receives from NFS based on CTHB Advisors client “free credit balances,” interest earned on client sweep account balances, interest paid on margin account balances, and IRA account fees.

Because of the incentives we have to recommend CTHB and NFS, a conflict exists between the interests of our clients in receiving most favorable execution and reducing their transaction costs, and our interests in receiving CTHB’s and NFS services and the Representatives’ continuing referrals.

Although we strive to address these conflicts in a manner consistent with our fiduciary duty, our judgment may be affected such that our efforts may not be entirely successful. To help mitigate this conflict, we have adopted procedures periodically to analyze CTHB’s and NFS’ services and programs, evaluate the usefulness of the services received in relation to the costs of such services, and assess the overall quality of the services.

#### **Lower Fees and Costs Likely Available For Similar Services**

We offer no assurance that the Advisory Fees, transaction costs, or investment expenses clients will incur in the TAA Program, by using CTHB Advisors as investment adviser, or CTHB or NFS as broker-dealers will be as low as the fees or costs charged by other firms for similar services; it is likely that lower costs are available for similar services from other advisers, brokers or custodians.

#### **Brokerage Services Not Used for Specific Accounts**

We do not attempt to put a dollar value on the services received from CTHB or NFS by each Account, nor do we attempt to allocate or use the services received for the benefit of specific Accounts, or attempt to use any particular item to service all Accounts. We will use the services we receive to assist in managing Accounts not maintained with the broker-dealer whose commissions were used to pay for such services. The services and support we receive from broker-dealers are used to help our firm to fulfill its overall client obligations. Clients will likely pay commissions or other transaction costs that will be used, in part, to pay for services that are not used to benefit their account.

#### **Brokerage for Client Referrals**

We are required to disclose whether, in selecting or recommending a broker, a broker (or a third party) refers clients to us. If so, we must disclose certain additional matters.

National Financial Services does not refer clients to CTHB Advisors. Although CTHB Advisors does not select CTHB as a broker because of client referrals, referrals could be viewed as an indirect consideration. Because all of our investment adviser representatives are also registered representatives of CTHB, when brokerage clients are referred to us for investment advisory services, this could be viewed as a referral of this type.

Please refer to the preceding portions of Item 12 for discussion of the numerous conflicts of interest related to CTHB Advisors’ selection to CTHB as broker for client Accounts.

### **Directed Brokerage**

Clients may direct us to execute transactions through a specific broker-dealer, subject to our ability to enter into satisfactory arrangements with the broker-dealer for processing and administration of orders, accounts, and customer service and support. Not all investment advisers require their clients to direct the use of a particular broker-dealer.

When a client directs the use of a particular broker-dealer, we may not aggregate their orders with the orders of other clients. Orders for these accounts may not be placed until after orders are placed for accounts that have not directed the use of the particular broker. As a result, the client will not receive the benefit of reduced transaction costs or better prices that may result from aggregation of client orders, as discussed in Item 12.B. Further, when we are directed to use a particular broker-dealer, we will not have the authority to negotiate commissions, obtain volume discounts, or seek price improvement from other broker-dealers.

Consequently, clients should understand that their direction to place orders with CTHB, NFS, or another broker-dealer may result in CTHB Advisors not achieving most favorable execution of the client's transactions. This practice may cost the client more money than if we had discretion to select another broker-dealer. A disparity may arise such that clients who direct brokerage may pay higher overall costs and receive less favorable prices than clients who do not direct brokerage.

## **B. Aggregation of Transactions**

CTHB Advisors is the portfolio manager and makes all decisions with respect to the aggregation or "block" trading of orders. The Advisory Agreement authorizes, but does not require, CTHB Advisors to aggregate orders of more than one client into "block trades." Proprietary accounts of CTHB Advisors or its supervised persons may participate in block orders on the same basis as clients.

For certain types of investors and accounts, the ability to have their orders for the same security aggregated into a "block order" that is executed through an "average price account" of a broker-dealer can offer important economic benefits, including the potential for volume discounts, timelier execution, reduction of adverse market effects of separate, competing orders, and sharing of transaction costs. To the extent the securities are stocks or bonds, the broker may be able to negotiate price improvements.

Block trading is not an important feature of the TAA Program because there is no opportunity for price improvement when investing in mutual fund, money market funds, and variable annuity subaccounts (since the price is for mutual funds and variable annuity subaccounts is always the next closing NAV), and generally, few opportunities for improvements in transaction charges.

Where CTHB Advisors deems it appropriate to use block orders, they will typically be placed through an "average price account" or similar account such that transactions for Accounts participating in the order are averaged as to price (which will be NAV for all investment company securities), and the securities purchased or net proceeds received are allocated pro rata among the Accounts in proportion to their respective orders placed that trading day.

Typically, partial fills are allocated among Accounts in proportion to the total orders participating in the block, unless CTHB Advisors determines that another method of allocation is equitable (such as a rotation or other method). Exceptions may be granted or allowed due to

varying cash availability, divergent investment objectives, existing concentrations, tax considerations, investment restrictions, performance relative to a benchmark, performance relative to other Accounts in the same Portfolio, or desire to avoid “odd lots” (an amount of a security that is less than the normal unit of trading for that security).

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. Account Reviews**

Accounts are reviewed regularly by the Representative assigned to the Account, and will be reviewed at least annually by the Investment Committee (or a senior manager of the Firm). The Accounts are reviewed at least quarterly by the Representative to evaluate consistency of the Account with current investment objectives, and at least annually by the Investment Committee (or Senior Manager) for consistency with target allocation and weighting according to the Portfolio designated for the Account.

At least annually, the client will be contacted to ask if there have been any changes in the Account’s financial situation or investment objectives, or if the client wishes to impose or modify any reasonable account restrictions. The Investment Committee will be responsible for overseeing all reviews.

More frequent reviews can be triggered by significant market or economic factors, or if the client notifies the Representative of changes in the client’s financial situation, large withdrawals or significant deposits, or changes in the Account investment objectives, liquidity needs, or risk tolerance.

### **B. Client Reports**

Clients participating in the TAA Program will receive monthly or quarterly statements and confirmations from the Custodian, but will not receive any reports from CTHB Advisors. Please refer to Item 15 for further information about reports.

Clients receiving Financial Planning Services will receive a written financial plan, but will not receive other reports, except as individually negotiated with each Client and stated in such Client's Financial Planning Agreement.

## **ITEM 14: CLIENT REFERRALS & OTHER COMPENSATION**

### **A. Arrangements with Third Parties**

As described in Item 12, CTHB Advisors participates in NFS’ institutional advisory programs. While there is no direct linkage between the investment advice given and our participation in the NFS programs, economic benefits are received by us that would not be received if we did not recommend NFS’ services to our clients. These economic benefits create a conflict of interest because we do not have to arrange or pay for such services from our separate resources. As such, these benefits may affect our judgment in recommending NFS to clients. While we monitor our accounts, evaluate the costs and services provided by NFS, and take measures to detect if our judgment has been influenced by these economic benefits, there is no assurance our efforts will be successful.

*Please refer to Items 10 and 12 for further information about the products, services, and economic benefits we receive from NFS.*

## B. Referral Arrangements with Third Parties

CTHB Advisors does not refer clients to third parties.

### ITEM 15: CUSTODY & ACCOUNT STATEMENTS

Clients will receive account statements directly from the Custodian on at least a quarterly basis showing all transactions in the Account during the reporting period. Clients should review the Custodian's statements carefully.

CTHB Advisors does not provide account statements to clients. If a client receives any document that purports to be from CTHB Advisors and refers to the value of an asset shown on the Custodian's statements, we urge the client to compare the information with the Custodian's statements and contact our Chief Compliance Officer immediately by telephone at (800) 397-2220.

### ITEM 16: INVESTMENT DISCRETION

Generally, we require clients to grant us full authority and discretion, on the client's behalf and at the client's risk to buy, sell, retain and exchange investments, and exercise such other powers, as we deem appropriate to manage the Account. CTHB Advisors will have full discretion to adjust, change, close, assign, and open Portfolios in the TAA Program, allocations and objectives of each Portfolio, asset classes that comprise a Portfolio, the percentage an asset class represents of a Portfolio, the mutual funds or other securities comprising each asset class, and the third parties, if any, that provide research, model portfolios, buy and sell signals, or other information or services used in creating, allocating, reallocating, or managing the Portfolios.

CTHB Advisors has the discretion to invest an Account's assets in: exchange-traded funds ("ETFs"); closed-end funds; unit investment trusts; cash; obligations issued or guaranteed by the U.S. Treasury, government agencies, or government sponsored enterprises; and temporary "sweep" arrangements where cash balances are transferred into money market funds, mutual funds, or bank accounts, which may be managed by the Custodian or an affiliate of the Custodian.

All grants of discretionary authority must be in writing. If a client wishes to impose reasonable limitations on our discretionary authority (such as restrictions on the type of securities held in their account), such limitations must be included in the Advisory Agreement or otherwise submitted to us in writing. The client may change or amend these limitations, as desired, by written instruction to us by email to [customerservice@cthb.net](mailto:customerservice@cthb.net), by telephone at (800) 397-2220, or by mail to the address shown on the cover page of this Brochure. All grants of discretionary authority must be in writing.

CTHB Advisors may, in our sole discretion, agree to accept Accounts that will be managed on a non-discretionary basis, on terms we will negotiate separately with the client. Clients should be aware that because we must obtain client consent prior to placing trades for non-discretionary Account, this will usually result in trades for the Account being entered after trades have been executed for our discretionary Accounts. This will cause orders for the non-discretionary Account to be filled later (and potentially, at less advantageous prices), or not to be filled on the same day as orders for discretionary Accounts.

Orders for non-discretionary Accounts will typically not be included in block orders with discretionary Accounts, and these Accounts will not receive the benefits of sharing execution

costs or using an average price account, as used with orders for discretionary Accounts. Consequently, the transaction costs, the quality of execution, and overall performance of non-discretionary accounts may be less favorable, as compared to discretionary Accounts.

## **ITEM 17: VOTING CLIENT SECURITIES**

We require the client to retain responsibility for voting all account securities. We will not vote proxies, exercise rights, make elections, or take other such actions with respect to securities held for Accounts we manage. If desired, a client may instruct us in writing to forward to the client or to a third-party materials we receive pertaining to proxy solicitations or similar matters. Upon receipt of the client's written instructions, we will use reasonable efforts to forward such materials in a timely manner. In the absence of a written request, we will discard proxy and related materials.

Clients may obtain proxy materials by written request to the Account's Custodian. For information about how to obtain proxy materials from a Custodian, clients may contact us by email to [customerservice@cthb.net](mailto:customerservice@cthb.net), or by mail to the address on the front of this Brochure. However, we do not provide advice about the issues raised by proxy solicitations or other requests for corporate actions.

Similarly, we do not advise or exercise rights, make elections, or take other actions with respect to legal proceedings involving companies whose securities are or were held for a client's Account, such as asserting claims or voting in bankruptcy or reorganization proceedings, or filing "proofs of claim" in class action litigation.

If desired, a client may instruct us in writing to forward to the client or a third party any materials we receive pertaining to such matters. Upon our receipt of such written instructions, we will use reasonable efforts to forward such materials in a timely manner. In the absence of a written request, we will discard such materials. Written instructions should be sent by email to [customerservice@cthb.net](mailto:customerservice@cthb.net), or by mail to the address shown on the cover page of this Brochure.

## **ITEM 18: FINANCIAL INFORMATION**

### **A. Prepayment of \$1,200 Six Months or More in Advance**

Investment advisers who accept fees of more than \$1,200 per client, six months or more in advance are required to provide their clients an audited balance sheet.

Because we do not accept pre-paid fees exceeding \$1,200 per client, six months or more in advance, we have not provided a balance sheet.

### **B. Disclosure of Certain Financial Conditions**

SEC-registered investment advisers who have custody or discretion over client funds or securities, or who require prepayment of fees exceeding \$1,200 six months or more in advance must disclose any financial condition reasonably likely to impair their ability to meet contractual commitments to clients.

There is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to our clients.

### C. Bankruptcy within Past Ten Years

Advisers who have been the subject of a bankruptcy petition during the past ten years must disclose certain information about the matter.

CTHB Advisors has never been the subject of a bankruptcy petition.