

Disclosure Brochure

April 1, 2013



This brochure provides information about the qualifications and business practices of FS Advisors Inc. (hereinafter "FS Advisors"). If you have any questions about the contents of this brochure, please contact Erin Hynek at (251) 368-9430. 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. Additional information about FS Advisors Inc. is available on the SEC's website at www.adviserinfo.sec.gov.

FS Advisors Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

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Item 2. Material Changes

The firm is required to disclose any material changes that have occurred since its last annual update. There are no such material changes to report pursuant to this Item.

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Item 4. Advisory Business

Formed in March 2012 by its principal owners, Nancy Lowrey and John Hosman, FS Advisors is an investment advisory firm that provides wealth management, financial planning and consulting services to its clients. FS Advisors focuses on culture, integrity, knowledge, service and trust in an effort to provide its clients with financial services aimed at securing financial strength now and for future generations. The firm seeks to provide unprecedented customer service to its clients while developing each client's trust through honesty and transparency. The firm believes in taking a comprehensive and customized approach to every client's needs.

Prior to engaging the firm to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with FS Advisors setting forth the terms and conditions under which FS Advisors renders its services (collectively the "*Agreement*").

As of January 11, 2013, the firm had approximately \$377,799,000 in assets under management, all of which was managed on a discretionary basis.

This Disclosure Brochure describes the business of FS Advisors. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of FS Advisors' officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on the firm's behalf and is subject to FS Advisors' supervision or control.

Firm Services

FS Advisors generally provides clients with wealth management services which include financial planning and consulting services as well as the discretionary management of investment portfolios. Financial planning services may include business planning, investments, insurance, retirement, education, estate planning, and tax and cash flow needs of the client. In addition, the firm may also specifically provide to tribal clients cash management, minor trust, tribal membership benefit, employee benefit and risk management services.

Investment Management

As detailed in Item 8 (below), FS Advisors primarily allocates clients' investment management assets among mutual funds, exchange-traded funds ("ETFs"), *Independent Managers* (as defined below), and individual debt and equity securities in accordance with the investment objectives of the client. In addition, FS Advisors may recommend that clients who are "accredited investors" as defined under Rule 501 of the Securities Act of 1933, as amended, invest in private placement securities, which may include debt, equity, and/or pooled investment vehicles when consistent with the clients' investment objectives. FS Advisors may also provide advice about any type of investment held in clients' portfolios as needed.

The type of investment varies depending on whether the strategy is provided to an individual or institutional client.

FS Advisors also may render investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, FS Advisors either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

Tribal Member Benefits

The firm understands that tribes have the unique responsibility of providing for their members in ways that other organizations do not. FS Advisors assists tribal leaders with creating programs and benefits specifically designed to meet its tribal client needs. This may include advice on health, education, long-term care, loan and grant, death and burial, elder care and deferred compensation benefits.

Employee Benefits

FS Advisors advises tribal clients on available employee benefit plans and assists them in determining the appropriate plan to utilize. The firm prepares an analysis including benchmark data, and makes recommendations to assist the client in implementing the plan. The firm works with legal counsel to prepare the plan documents and enrollment package, and meets with plan participants to examine available benefits. FS Advisors continues to work with the client to actively administer the plan, and to evaluate the services and performance of third-party administrators.

Risk Management

Through its risk management program, FS Advisors offers policy audits, catastrophe modeling, loss stratification and peer benchmarking. The firm first conducts a program analysis, and then focuses on risk control, policy placement, account management and stewardship.

Financing and Business Consulting

The firm provides services regarding financing package development. These services include assisting the client in developing a business and marketing strategy, financial projections, model assumptions and an appropriate budget. The firm then seeks to help the client secure suitable financing for their various business projects.

FS Advisors tailors its advisory services to the individual needs of clients. The firm consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. FS Advisors ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify FS Advisors if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon FS Advisors' management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in the firm's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

In performing its services, FS Advisors is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. FS Advisors may recommend the services of itself and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if FS Advisors recommends its own services. The client is under no obligation to act upon any of the recommendations made by the firm or to engage the services of any such recommended professional, including FS Advisors itself. Clients are advised that it remains their responsibility to promptly notify FS Advisors if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising the firm's previous recommendations and/or services.

Use of Independent Managers

As mentioned above, FS Advisors may recommend that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written agreement between FS Advisors or the client and the designated *Independent Managers*. FS Advisors renders services to the client relative to the discretionary selection of *Independent Managers*. FS Advisors also monitors and reviews the account performance and the client's investment objectives. FS Advisors receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When selecting an *Independent Manager* for a client, FS Advisors reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that FS Advisors considers in selecting an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, the firm's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by FS Advisors, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to FS Advisors' written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than FS Advisors. In such instances, FS Advisors may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

Item 5. Fees and Compensation

FS Advisors generally provides its services for a fee based upon the assets under management being managed by the firm. FS Advisors may also charge a fixed fee which will be negotiated with the client. Additionally, certain of FS Advisors' *Supervised Persons*, in their individual capacities, may offer insurance products under a commission arrangement.

Fees for Tribal Clients

FS Advisors provides its services to tribal clients for an annual fee based upon a percentage of the market value of the assets being managed by FS Advisors. The firm's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. FS Advisors does not, however, receive any portion of these commissions, fees, and costs. FS Advisors' annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter. The annual fee varies (between 0.10% and 1.00%) depending upon the market value of the assets under management and the type of services to be rendered. The firm may also charge a fixed fee to tribal clients depending on the specific services provided. Any fixed fee will be negotiated with the client prior to rendering services.

Fees for Individual Clients

FS Advisors provides its services to individual clients for an annual fee based upon a percentage of the market value of the assets being managed by FS Advisors. The firm's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. FS Advisors does not, however, receive any portion of these commissions, fees, and costs. FS Advisors' annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets on the last day of the previous quarter. The annual fee varies (between 0.50% and 1.50%) depending upon the market value of the assets under management and the type of services to be rendered.

FS Advisors, in its sole discretion, may negotiate to charge a lesser management fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).

Fees Charged by Financial Institutions

As further discussed in response to Item 12 (below), FS Advisors generally recommends that clients utilize the brokerage and clearing services of an independent broker-dealer for investment management accounts.

FS Advisors may only implement its investment management recommendations after the client has arranged for and furnished FS Advisors with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to any broker-dealers recommended by FS Advisors, broker-dealers directed by the client, trust companies, banks etc. (collectively referred to herein as the “*Financial Institutions*”).

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers*, custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund’s prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to FS Advisors’ fee.

The firm’s *Agreement* and the separate agreement with any *Financial Institutions* authorizes FS Advisors or *Independent Managers* to debit the client’s account for the amount of FS Advisors’ fee and to directly remit that management fee to FS Advisors or the *Independent Managers*. Any *Financial Institutions* recommended by FS Advisors have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to FS Advisors. Clients may not elect to have FS Advisors send an invoice for payment.

Fees for Management During Partial Quarters of Service

For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between FS Advisors and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. FS Advisors’ fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to the firm’s right to terminate an account. Additions may be in cash or securities provided that FS Advisors reserves the right to liquidate any transferred securities or decline to accept particular securities into a client’s account. Clients may withdraw account assets on notice to FS Advisors, subject to the usual and customary securities settlement procedures. However, FS Advisors designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client’s investment objectives. FS Advisors may consult with its clients about the options and ramifications of transferring securities. However, clients

are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a quarter, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter.

Item 6. Performance-Based Fees and Side-by-Side Management

FS Advisors does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

Item 7. Types of Clients

FS Advisors generally provides its services to institutions including but not limited to tribes and individuals. However, the firm may also provide advice to pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

Minimums Imposed By Independent Managers

FS Advisors does not impose a minimum portfolio size or minimum annual fee for starting or maintaining an account. As stated above in Item 4, however, certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than FS Advisors. In such instances, FS Advisors may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

Investment Strategies & Methods of Analysis

Overall, FS Advisors' investment approach focuses on creating investment strategies that are designed to meet client's current needs while seeking to ensure the strategy also provides financial strength for future generations.

The firm's investment strategy is dependent upon the type of client. For individual clients, the firm primarily invests in mutual funds, ETFs and *Independent Managers*. In limited circumstances, the firm may invest in individual equities depending on a particular client's needs.

For tribal clients, the firm primarily invests in alternative investments, *Independent Managers*, and mutual funds. The firm generally employs a four-step investment process as follows:

- Assisting clients in determining their investment goals and objectives;
- Developing a client profile which identifies risk tolerance, return objectives, target allocations and responsibilities of the tribe's investment committee;
- Implementing the portfolio primarily through *Independent Managers* and funds through a diversified asset allocation approach; and
- Continuously managing the portfolio through a comprehensive performance measurement and monitoring process.

To implement these strategies, FS Advisors primary utilizes fundamental analysis and incorporates technical analysis as needed.

Fundamental analysis involves the fundamental financial condition and competitive position of a company. FS Advisors will analyze the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

Technical analysis involves the analysis of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that FS Advisors will be able to accurately predict such a reoccurrence.

Risks of Loss

Mutual Funds and ETFs

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

Use of Independent Managers

FS Advisors may recommend the use of *Independent Managers* for certain clients. FS Advisors will continue to do ongoing due diligence of such managers, but such recommendations rely, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, FS Advisors does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

Use of Private Collective Investment Vehicles

As stated above, FS Advisors may recommend the investment by certain clients in privately placed collective investment vehicles (some of which may be typically called “hedge funds”). The managers of these vehicles will have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. The hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation. There are numerous other risks in investing in these securities. The client will receive a private placement memorandum and/or other documents explaining such risks.

Market Risks

The profitability of a significant portion of FS Advisors' recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that FS Advisors will be able to predict those price movements accurately.

Use of Margin

In limited circumstances, the firm may utilize margin if appropriate for the client. To the extent that a client authorizes the use of margin, and margin is thereafter employed by FS Advisors in the management of the client's investment portfolio, the market value of the client's account and corresponding fee payable by the client to FS Advisors will be increased. As a result, in addition to understanding and assuming the additional principal risks associated with the use of margin, clients authorizing margin are advised of the potential conflict of interest whereby the client's decision to employ margin shall correspondingly increase

the management fee payable to FS Advisors. Accordingly, the decision as to whether to employ margin is left totally to the discretion of client.

While the use of margin borrowing can substantially improve returns, such use may also increase the adverse impact to which a client's portfolio may be subject. Borrowings will usually be from securities brokers and dealers and will typically be secured by the client's securities and/or other assets. Under certain circumstances, such a broker-dealer may demand an increase in the collateral that secures the client's obligations and if the client were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the client's obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the client's borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the client's profitability.

General Risk of Loss

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

Item 9. Disciplinary Information

FS Advisors is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. The firm does not have any required disclosures to this Item.

Item 10. Other Financial Industry Activities and Affiliations

FS Advisors is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons. The firm has described such relationships and arrangements below.

Registration as Insurance Agency

FS Advisors is a duly licensed insurance agency in the State of Alabama. Additionally, certain of the firm's *Supervised Persons*, in their individual capacities, are licensed insurance agents, and in such capacity, may recommend, on a fully-disclosed basis, the purchase of certain insurance products. A conflict of interest exists to the extent that FS Advisors or its *Supervised Persons* recommend the purchase of insurance products where the firm or its *Supervised Persons* receive insurance commissions or other additional compensation.

Item 11. Code of Ethics

FS Advisors and persons associated with FS Advisors (“Associated Persons”) are permitted to buy or sell securities that it also recommends to clients consistent with FS Advisors’ policies and procedures.

FS Advisors has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws (“*Code of Ethics*”). In accordance with Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by FS Advisors or any of its associated persons. The *Code of Ethics* also requires that certain of FS Advisors’ personnel (called “*Access Persons*”) report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in FS Advisors’ *Code of Ethics*, none of FS Advisors’ *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of FS Advisors’ clients.

When FS Advisors is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when FS Advisors is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers’ acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact FS Advisors to request a copy of its *Code of Ethics*.

Item 12. Brokerage Practices

FS Advisors generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. (“*Schwab*”) for investment management accounts.

Factors which FS Advisors considers in recommending *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* enables FS Advisors to obtain many mutual funds without transaction charges and other securities at

nominal transaction charges. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by FS Advisors' clients comply with FS Advisors' duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where FS Advisors determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. FS Advisors seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

FS Advisors periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct FS Advisors in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and FS Advisors will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by FS Advisors (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, FS Advisors may decline a client's request to direct brokerage if, in FS Advisors' sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless FS Advisors decides to purchase or sell the same securities for several clients at approximately the same time. FS Advisors may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among FS Advisors' clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among FS Advisors' clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that FS Advisors determines to aggregate client orders for the purchase or sale of securities, including securities in which FS Advisors' *Supervised Persons* may invest, FS Advisors generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. FS Advisors does not receive any additional compensation or remuneration as a result of the aggregation. In the event that FS Advisors determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or

the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, FS Advisors may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist FS Advisors in its investment decision-making process. Such research generally will be used to service all of FS Advisors' clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because FS Advisors does not have to produce or pay for the products or services.

Software and Support Provided by Financial Institutions

FS Advisors may receive from *Schwab*, without cost to FS Advisors, computer software and related systems support, which allow FS Advisors to better monitor client accounts maintained at *Schwab*. FS Advisors may receive the software and related support without cost because FS Advisors renders investment management services to clients that maintain assets at *Schwab*. The software and support is not provided in connection with securities transactions of clients (i.e. not "soft dollars"). The software and related systems support may benefit FS Advisors, but not its clients directly. In fulfilling its duties to its clients, FS Advisors endeavors at all times to put the interests of its clients first. Clients should be aware, however, that FS Advisors' receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence FS Advisors' choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, FS Advisors may receive the following benefits from *Schwab* through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

Item 13. Review of Accounts

For those clients to whom FS Advisors provides investment management services, FS Advisors monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom FS Advisors provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one of FS Advisors’ investment adviser representatives. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with FS Advisors and to keep FS Advisors informed of any changes thereto. FS Advisors contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom FS Advisors provides investment advisory services will also receive a report from FS Advisors that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance as clients may request from time to time. Clients should compare the account statements they receive from their custodian with those they receive from FS Advisors.

Those clients to whom FS Advisors provides financial planning and/or consulting services will receive reports from FS Advisors summarizing its analysis and conclusions as requested by the client or as otherwise agreed to in writing by FS Advisors.

Item 14. Client Referrals and Other Compensation

FS Advisors is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. FS Advisors may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12, above.

In addition, FS Advisors is required to disclose any direct or indirect compensation that it provides for client referrals.

If a client is introduced to FS Advisors by either an unaffiliated or an affiliated solicitor, FS Advisors may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from FS Advisors’ investment management fee, and does not result in any additional charge to the client. If the client is introduced to FS Advisors by an unaffiliated solicitor, the solicitor provides the client with a copy of FS Advisors’ written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor’s disclosure statement containing the terms and conditions of the

solicitation arrangement including compensation. Any affiliated solicitor of FS Advisors discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of FS Advisors' written disclosure brochure at the time of the solicitation.

Item 15. Custody

FS Advisors' *Agreement* and/or the separate agreement with any *Financial Institution* may authorize FS Advisors through such *Financial Institution* to debit the client's account for the amount of FS Advisors' fee and to directly remit that management fee to FS Advisors in accordance with applicable custody rules.

The *Financial Institutions* recommended by FS Advisors have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to FS Advisors. In addition, as discussed in Item 13, FS Advisors also sends periodic supplemental reports to clients as requested by the client. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from FS Advisors.

Item 16. Investment Discretion

FS Advisors is given the authority to exercise discretion on behalf of clients. FS Advisors is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. FS Advisors is given this authority through a power-of-attorney included in the agreement between FS Advisors and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). FS Advisors takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

Item 17. Voting Client Securities

FS Advisors is required to disclose if it accepts authority to vote client securities. FS Advisors does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

Item 18. Financial Information

FS Advisors does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, the firm is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. The firm has no disclosures pursuant to this Item.



Prepared by:

