

CLS Investments, LLC  
Form ADV Part 2A, Appendix 1  
Wrap Fee Program Brochure  
17605 Wright Street, Omaha, Nebraska 68130  
402-493-3313  
[www.clsinvest.com](http://www.clsinvest.com)  
March 31, 2014

This wrap fee program brochure provides information about the qualifications and business practices of CLS Investments, LLC ("CLS"). If you have any questions about the contents of this wrap fee program brochure, please contact us at 888-455-4244 or [www.clsinvest.com](http://www.clsinvest.com). The information in this wrap fee program brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

CLS is a registered investment adviser with the SEC. Registration as an investment adviser does not imply any certain level of skill or training. Additional information about CLS is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about anyone affiliated with CLS who is registered as an investment adviser representative of CLS.

Currently, our brochure may be requested by contacting us at 888-455-4244 or at [clssg1@clsinvest.com](mailto:clssg1@clsinvest.com). Our brochure is also available on our website at [www.clsinvest.com](http://www.clsinvest.com), free of charge.

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## Item 2      Material Changes

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This brochure is dated March 31, 2014. The date of the last brochure was December 23, 2013. In comparison to the December 23, 2013 brochure, this brochure amends the following items:

- Language was removed in Item 9 – Additional Information of the brochure regarding the receipt of separate compensation by Northern Lights Distributors, LLC (“NLD”), CLS’s affiliated broker-dealer, as neither NLD nor its representatives receive any such compensation with respect to CLS’s clients.
- Language was removed in Item 9 – Additional Information of the brochure regarding the ability of CLS employees serving as registered representatives of NLD to effect securities transactions for separate compensation as CLS employees are not engaging in this practice for CLS clients.

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## Item 4      Services, Fees and Compensation

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The purpose of this wrap fee program brochure is to describe the wrap fee program, sponsored by us, where we offer investment advice and costs of trade executions to you for an all-inclusive wrap fee. The wrap fee program is only available on select platforms and with select strategies as described below and typically only for accounts larger than \$150,000. Additional details regarding our business may be obtained by consulting our Form ADV Part 2A, which is available online at [www.clsinvest.com](http://www.clsinvest.com) or by calling (888) 455-4244.

We offer a suite of portfolios, known as our investment suites, that span multiple investment styles and that are designed to serve multiple investor personalities with varying degrees of active management. Active management, briefly, is the practice of making proactive changes in a portfolio due to changes in market valuations or outlook. Each of the offerings in our suite of portfolios can be classified into one of three main management styles: (i) Strategic, (ii) Risk Budgeted, or (iii) Active, or in some cases a combination of the foregoing. As described below, each of these styles falls on a continuum of active management, with our strategic portfolios having the least amount of active management and our active strategies having the most amount of active management.

*A. Strategic:* Strategic asset allocation is a passive investment style that sets long-term target asset allocations and assembles a portfolio based on those long-term target asset allocations. Over time, the performance of the various asset classes will cause the portfolio to drift from the established long-term targets. Your portfolio will be periodically rebalanced to return it to those long-term asset allocations. Accordingly, trades that occur in the portfolio are designed to restore the long-term asset allocation and typically are not designed to take advantage of any current market conditions at the time of the trade.

*B. Risk Budgeted:* Risk budgeting is the spending allowance with regard to risk that we allow for your portfolio. The risk associated with each investment is carefully considered before it is added to your portfolio. Under risk budgeting, you are assigned a risk budget and each security (fund) is assigned a risk value primarily based on volatility. The risk budget is expressed as a percentage of the risk relative to a diversified equity portfolio benchmark. For example, a risk budget of 100 would represent a portfolio with a risk similar to 100% of the risk of a diversified equity portfolio and a portfolio with a risk budget of 60 would represent a portfolio with a risk similar to 60% of the risk of a diversified equity portfolio. Within the constraints of the risk budget you select, we actively seek to identify attractive market opportunities.

*C. Active:* Our active investment style seeks to add value by actively adjusting a portfolio by overweighting attractive market exposures and underweighting unattractive market exposures utilizing one or more themes. Strategies utilizing an active allocation methodology may hold more concentrated portfolios than portfolios managed using a risk-budgeted or strategic methodology. Increased concentration may lead to a wider range of performance over time. Additionally, portfolios holding concentrated investments in a particular market segment or sector make the portfolio more susceptible to any single economic, market, political or regulatory occurrence affecting that particular segment or sector than a more diversified portfolio. Active strategies will still be risk-managed, but they are not risk-budgeted. Accordingly, portfolios managed pursuant to our Active strategy will not likely maintain a

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consistent risk profile and can quickly become more aggressive or conservative as market conditions change. Consequently, CLS recommends that its Active strategies be used as a supplement to, and not as a substitute for, a client's overall well-diversified investment portfolio.

We offer six different investment strategies under our wrap fee program, which are managed utilizing either Risk Budgeting or a combination of Risk Budgeting and Active Strategies. Our combination Risk Budgeting and Active strategies allocate a portion of the portfolio to a Risk Budgeting methodology with the remainder allocated to an Active strategy.

#### **A. Risk Budgeting**

##### **1. Core Plus ETF Strategy (Formerly known as ETF Strategy)**

The Core Plus ETF Strategy uses risk budgeting to diversify your portfolio primarily among ETFs through investment platforms at designated custodians, according to your objectives determined from your Client Profile. This strategy may be best suited for clients wishing to invest across multiple ETFs. This strategy may also use mutual funds for certain asset classes not readily accessible in ETF products. The Core Plus ETF strategy is considered a "wrap fee program," where available, which means the trading costs are not billed separately to the client.

The standard fee schedule for this strategy is:

<u>Flat Rate Annual Percentage</u>
1.65%

The minimum account size is \$150,000 per registration.

##### **2. ETF Managed Income Strategy**

The ETF Managed Income Strategy uses risk budgeting to manage an account for clients seeking income from a diversified portfolio of income-producing assets. The strategy seeks to help clients with a desire for regular income meet their short and long-term income needs by dividing the account into three separate investment portfolios: immediate, short-term, and long-term.

If you enroll in this strategy, you may elect to designate a specific amount of assets needed to satisfy your immediate income needs. These assets will be set aside in a low-risk cash account and available for immediate, systematic withdrawals. The default amount is three months' worth of desired withdrawals; however, the strategy allows you to specify your desired amount. You may then designate a specific amount of assets needed to satisfy your short-term income needs. These assets will be invested in a low-risk reserve portfolio that will seek to generate returns in excess of the average money market fund with risk less than or equal to low duration investment bonds. CLS recommends one to two years' worth of withdrawals; however, the strategy allows for you to specify your desired amount (including zero assets in the low-risk reserve portfolio). The remainder of your account will be set aside in a long-term portfolio invested primarily in income or interest-generating investments. The proceeds from this portfolio will be used to replenish the short-term reserve portfolio which, in turn, is used to replenish

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the cash account. If the client has elected not to establish a short-term reserve portfolio or cash account, income generated from these investments will be distributed directly to the client or reinvested.

The strategy uses risk budgeting and active asset allocation to diversify your long-term portfolio generally among ETFs through investment platforms at designated custodians, according to your objectives determined from your Client Profile. Assets designated for this portfolio will seek to provide long-term growth and a steady stream of income. The ETF Managed Income Strategy is considered a “wrap fee program,” where available, which means the trading costs are not billed separately to the client.

The standard fee schedule for this strategy is:

<u>Flat Rate Annual Percentage</u>
1.65%

The minimum account size is \$250,000 per registration.

### **3. Master Manager Strategy**

The Master Manager Strategy uses risk budgeting to determine the proper allocation of your portfolio among various investment ETFs, bonds, individual securities and/or mutual funds with us acting as the asset allocation overlay manager. Based on your individual investment objectives, we may honor special requests regarding available mutual funds, ETFs and/or other securities to be utilized as well as investment research and sub-advisers.

This strategy will primarily utilize ETFs, individual taxable or non-taxable bonds and/or equities and may be sub-advised by third parties selected by us as indicated in your Investment Advisory Agreement or managed utilizing investment research and portfolio models provided by third parties. A portion of the advisory fee paid by you to us may be used by us to compensate these third party providers. Your portfolio allocation will be based on your individual characteristics as determined from your Client Profile. This strategy may be best suited for clients wishing to have greater control over portfolio transactions, cash flow streams and/or greater visibility to the actual holdings of the portfolio. The Master Manager Strategy is considered a “wrap fee program,” which means the trading costs are not billed separately to the client.

The standard (tiered) fee schedule for this strategy is:

<u>Assets under Management</u>	<u>Annual Percentage</u>
\$500,000 but less than \$1,000,000	1.95%
Next \$500,000	1.90%
Next \$500,000	1.85%
Next \$1,500,000	1.80%
Next \$1,500,000	1.75%
\$5,000,000 or more	1.65%

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For accounts that do not utilize individual stocks or covered calls, the standard fee is 1.65%.

The minimum account size is \$500,000 per registration.

#### **4. Master Manager Tax-Managed Strategy**

The Master Manager Tax-Managed Strategy uses risk budgeting to determine the proper allocation of your portfolio among various investment ETFs, bonds, individual securities and/or mutual funds with us acting as the asset allocation overlay manager. The primary emphasis of this strategy is performance, followed by diligence to tax liability. Tax consequences are taken into consideration for each transaction and generally, short-term gains are avoided, unless a portfolio transaction makes sense to avoid excessive loss in the security. Based on your individual investment objectives, we may honor special requests regarding available mutual funds, ETFs and/or other securities to be utilized as well as investment research and sub-advisers.

This strategy will primarily utilize ETFs, individual bonds and/or equities. Whenever possible, tax-free bonds are utilized. This strategy may be sub-advised by third parties selected by us as indicated in your Investment Advisory Agreement or managed utilizing investment research and portfolio models provided by third parties. A portion of the advisory fee paid by you to us may be used by us to compensate these third party providers. Your portfolio allocation will be based on your individual characteristics as determined from your Client Profile. This strategy may be best suited for clients wishing to have greater control over portfolio transactions, cash flow streams and/or greater visibility to the actual holdings of the portfolio. The Master Manager Tax-Managed Strategy is considered a “wrap fee program,” which means the trading costs are not billed separately to the client.

The standard (tiered) fee schedule for this strategy is:

<u>Assets under Management</u>	<u>Annual Percentage</u>
\$500,000 but less than \$1,000,000	1.95%
Next \$500,000	1.90%
Next \$500,000	1.85%
Next \$1,500,000	1.80%
Next \$1,500,000	1.75%
\$5,000,000 or more	1.65%

For accounts that do not utilize individual stocks or covered calls, the standard fee is 1.65%.

The minimum account size is \$500,000 per registration.

## **5. Master Manager Managed Income Strategy**

The Master Manager Managed Income Strategy uses risk budgeting to manage an account for clients seeking consistent income from a diversified portfolio of income-producing assets. The strategy seeks to help clients with a desire for regular income to meet their short and long-term income needs by dividing the account into three separate investment portfolios: immediate, short-term, and long-term.

If you enroll in this strategy, you may elect to designate a specific amount of assets needed to satisfy your immediate income needs. These assets will be set aside in a low-risk cash account and available for immediate, systematic withdrawals. The default amount is three months' worth of withdrawals; however, the strategy allows you to specify your desired amount. You may then designate a specific amount of assets needed to satisfy your short-term income needs. These assets will be invested in a low-risk reserve portfolio that will seek to generate returns in excess of the average money market fund with risk less than or equal to low duration investment bonds. CLS recommends one to two years' worth of withdrawals; however, the strategy allows for you to specify your desired amount (including zero assets in the low-risk reserve portfolio). The remainder of your account will be set aside in a long-term portfolio invested primarily in income or interest-generating investments. The proceeds from this portfolio will be used to replenish the short-term reserve portfolio which, in turn, is used to replenish the cash account. If the client has elected not to establish a short-term reserve portfolio or cash account, income generated from these investments will be distributed directly to the client or reinvested.

The long-term portfolio will be invested in ETFs, bonds, individual securities, covered calls and/or mutual funds with CLS acting as the asset allocation overlay manager. Assets designated for this portfolio will seek to provide long-term growth and a steady stream of income. The Master Manager Managed Income strategy is considered a "wrap fee program," which means the trading costs are not billed separately to the client.

The standard fee schedule for this strategy is:

<u>Flat Rate Annual Percentage</u>
1.95%

For accounts that do not utilize individual stocks or covered calls, the standard fee is 1.65%.

The minimum account size is \$500,000 per registration.

## **B. Combination Risk Budgeted and Active Strategies**

### **6. ETF Protection Strategy**

The ETF Protection Strategy utilizes risk budgeting and an active asset allocation methodology to create a portfolio for clients who desire some principal protection while being allowed the flexibility of being invested in ETFs. We will utilize an active asset allocation methodology to determine what portion of the portfolio should be invested for growth of capital in ETFs and individual securities that may provide



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capital appreciation and what portion of the portfolio should be sheltered against the impact of large equity market declines through investment in low volatility equity ETFs, low volatility individual equity securities and U.S. Treasury bills. The ETF Protection Strategy is considered a “wrap fee program,” where available, which means the trading costs are not billed separately to the client.

The standard fee schedule for this strategy is:

<u>Flat Rate Annual Percentage</u>
1.80%

The minimum account size is \$600,000 per registration.

#### **FEES AND COMPENSATION**

For our investment management services, we charge an advisory fee. Our advisory fee is billed either in advance or in arrears, on a quarterly or annual basis, as specified in your Investment Advisory Agreement that is included with your Client Profile. Advisory fees may be deducted directly from your account, or in some circumstances, you may be billed directly for such fees. Advisory fees billed in advance are based on the market value of all your assets under management on the last trading day of each advisory fee period, unless otherwise specified. If your advisory fees are billed in advance, you may also be billed for additional monies added to your account during the advisory fee period. No adjustments to your advisory fee will be made for monies withdrawn during the advisory fee period; however, upon termination, CLS will issue you a prorated refund of all unearned advisory fees that were paid in advance. Advisory fees billed in arrears will generally be determined based on your account balance on a daily basis unless otherwise specified. Please refer to your Investment Advisory Agreement, including attached addendums and schedules, to determine the manner your advisory fees will be calculated and billed. In any partial advisory fee cycle, your advisory fee will be pro-rated based on the number of days your assets are under management for the applicable period.

The advisory fees paid to us represent fees for management of your account and are separate from any other fees and expenses charged by other parties; therefore, the advisory fees shown in this wrap fee program brochure represent only the fees paid to us and do not reflect operating expenses and other costs charged by the mutual funds, variable annuities, or other products you may be invested in, and it is important you understand that these expenses and costs are ultimately borne by you, as the shareholder. In addition, mutual funds or variable annuities may charge contingent deferred sales charges ("CDSC") on withdrawals. We are not responsible for any CDSC charges incurred through our management of your portfolio or for any transaction costs incurred while managing your assets, unless transaction costs are covered as part of our wrap fee program. A complete description of all fees and expenses of the securities in which you are invested are contained in the relevant prospectuses. We also advise you to carefully review your custody agreement with your custodian as there may be custodial fees, transaction fees and other service fees charged to you by your custodian.

You may request that related accounts be combined in order to meet fee break points and reduce the advisory fee charged. We reserve the right to waive the advisory fee for certain accounts such as employee accounts and personal accounts of solicitors who refer business to us. The standard fee schedules and minimum account sizes indicated for the strategies identified above are **negotiable** and,

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as a result, clients with similar assets may have differing fee schedules and pay different fees. Clients who negotiate a flat fee schedule may or may not pay a higher fee than those who pay under a tiered schedule, depending on asset levels. Additionally, upon our discontinuing the strategy you are invested in or a significant decrease in your account size and your inability to meet our account minimum for your current strategy, we reserve the right to re-assign your account, upon notice to you, to a more suitable CLS strategy provided that your account is still managed pursuant to your financial objectives, goals and risk tolerance.

The same or similar investment advisory services may be available from other investment advisers for a lower fee. The advisory fee (which includes transaction costs) may be more or less costly than paying for the services separately, depending upon the investment advisory fees charged, the number of transactions for the account, and the level of brokerage and other fees that would be payable if the client obtained the services available under the program individually.

We enter into marketing arrangements with other registered investment advisers and broker-dealers pursuant to which representatives of their firms ("Solicitors") offer our services to the public. These Solicitors refer us the majority of our clients. Through these arrangements, we pay a cash referral fee to the Solicitor and/or their firm based upon a percentage of our advisory fee. The amount of the referral fee may vary depending on the strategy selected and the custodial platform utilized. Compensation received by the Solicitors in connection with our wrap fee program may be different than what the Solicitor would receive from us if you paid separately for investment advice, brokerage, and other services; therefore, depending on the circumstances, the Solicitor may have a financial incentive to recommend the wrap fee programs over other programs and services.

Your investments in our wrap fee programs may also be subject to other fees and charges imposed by other third parties, such as: in the case of mutual fund investments, mutual fund investment management fees, 12b-1 distribution fees, administrative servicing fees, and CDSCs upon redemption of previously purchased mutual funds; in the case of purchases made in connection with an individual retirement account or other qualified plan, various IRA and qualified retirement plan fees; and, in the case of all investments, clearing, custody, and other charges and service fees. Other parties may receive a portion of these third-party fees.

Under some circumstances, our affiliated broker-dealer, Northern Lights Distributors, LLC, may receive customary compensation from mutual fund companies and/or variable annuity companies, including 12b-1 fees, for performing certain administrative and/or shareholder servicing related tasks associated with our clients' investment in such securities. In these circumstances, a conflict of interest is present since our broker-dealer affiliate may receive compensation based on the product chosen; however, we are not involved in recommending the purchase of such products, but rather provide our strategies after the client has already purchased such products.

Our portfolio managers are paid a base salary plus a bonus based on a combination of factors including our profitability, the portfolio manager's individual performance, and our team performance. A 401(k) program with employer matching is also available to portfolio managers.

#### **TERMINATION OF ADVISORY AGREEMENT**

We may terminate our Investment Advisory Agreement with you at any time by providing you with written notice. Likewise, you may terminate the Investment Advisory Agreement at any time by providing us with written notice. If your Investment Advisory Agreement is terminated within five (5) business days from the date of inception, all fees paid by you in advance will be promptly refunded to you. Should your Investment Advisory Agreement be terminated at any other time, you will receive a pro-rata refund of any prepaid fees. If you are billed in arrears for our services, any outstanding amounts owed to us for the period of time your assets were under our management shall become immediately due and payable upon termination.

As of the effective date of termination of our investment management services, we will have no obligation or authority to recommend or take any action with regard to your previously managed assets. You will bear the sole responsibility to work with your custodian for proper liquidation and/or management of your assets upon termination. **Upon termination, we advise you to immediately contact your custodian to ensure your account is allocated according to your wishes.**

## Item 5      Account Requirements and Types of Clients

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Minimum account size requirements and applicable fee schedules are disclosed for each respective strategy described in Item 4 above. Exceptions to these minimums may be made in certain cases in our discretion. We provide investment advice to individuals, high net worth individuals, investment companies (including mutual funds), pension, retirement, educational saving and profit sharing plans (other than plan participants), other pooled investment vehicles, trusts, estates, charitable organizations, corporations or other business entities, and state or municipal government entities. We may also provide advice to other persons or entities including other investment advisers and broker/dealers.

## Item 6 Portfolio Manager Selection and Evaluation

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We partner with unaffiliated investment advisers and work through their financial representatives to offer investment management services for clients who wish to utilize our services. Each investment service gives us discretion to provide continuous investment advice based on your individual objectives, needs, risk tolerance, and style of management desired. We utilize various security products including: registered investment companies (commonly referred to as "mutual funds"), variable annuities, exchange traded funds, Folios (Folios are baskets of individual securities), bonds, equities and/or other securities in association with the investment service selected by you. We also serve as an investment adviser to mutual funds and variable annuity funds for negotiated fees, which are paid pursuant to written advisory agreements.

We will tailor an investment portfolio designed for you based on the style of management you select. The process begins when you fill out a confidential, in-depth "Client Profile." The Client Profile will help you to clarify your financial objectives and goals, establish your tolerance to risk, and identify your most comfortable style of management. The Client Profile is used by our firm as the primary reference for managing your portfolio. You may also indicate any special instructions or limits that you request us to follow in managing your assets.

In addition to your Client Profile, we will provide you with an Investment Policy Statement ("IPS") that clarifies your specific circumstances and shows an initial asset allocation for your portfolio. The specific selections within the mutual funds, variable annuities, exchange traded funds, Folios, and/or other securities represent asset classes suited to your individual risk tolerance, goals, and management style. The specific percentages allocated to each asset class may vary due to the nature of asset performance and/or the strategy selected. Information about each wrap fee investment strategy is described under Item 4 above.

Through our daily monitoring of asset class segments return and risk factors, we may change your portfolio asset mix in order to help you meet your objectives. It is our intent to maintain a risk exposure commensurate with your objectives by using the various investment choices available under the strategy selected by you.

Certain of our employees act as portfolio managers for the wrap fee programs described in this Wrap Fee Program Brochure. This may create a conflict of interest in that other investment advisory firms may charge the same or lower fees than our firm for similar services. We have chosen not to utilize outside portfolio managers, and therefore, there is no selection and review of outside portfolio managers that could be inconsistent with the selection and review of our internal portfolio managers.

We review a number of different criteria when selecting and reviewing our portfolio managers including: investment management experience, educational background, professional designations, ability to work in a team environment, compatibility with our investment management style, etc. The portfolio managers work in a team environment and are reviewed based on individual and team investment performance. The portfolio managers perform daily market reviews and regular allocation reviews within each fund and strategy that we administer.

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The portfolio administrators run and review monthly reports to detect any position drift. We monitor performance on a monthly basis (at a minimum) for managers, investment research providers, and for our own analysis. Funds used in allocations are tracked on a daily basis. CLS claims compliance with the Global Investment Performance Standards (GIPS®) and our composite performance numbers are verified by Ashland Partners & Company LLP for GIPS compliance on a yearly basis.

To help us provide accurate and timely management of your invested assets, we ask that you establish a custodial account with a designated custodian. Your custodian maintains physical custody and the underlying records for the assets held in your account. Your assets may be held at a number of qualified custodians, including a bank or savings association, a broker/dealer or an independent custodian selected by you. We do not serve as the custodian for your managed assets; however we do have an affiliated custodian, Constellation Trust Company ("CTC"). You will be solely responsible for paying all the fees and charges of the custodian as stated in your agreement with your custodian. In order to facilitate our management services, we have entered into an agreement with CTC to waive some of their customary charges; however, you are under no obligation to select CTC as your custodian and you are free to select from dozens of custodians we are able to work with.

You may, at any time, contact your custodian directly to obtain your account balance or take immediate action regarding your account; however, according to your investment advisory agreement with us, you must also provide us notice of your intentions so we do not take actions contrary to your objectives. For example, if you deposit additional funds into your account, CLS may automatically invest these funds pursuant to your investment objectives unless you notify us otherwise. We are not responsible for accurate reporting if you fail to provide us accurate information. We strive to maintain your account data as accurately as possible; however, we rely on accurate reporting provided to us by you and your custodian through electronic or other means. We are not responsible for inaccurate data provided to us by your or by your custodian. You must promptly submit to us in writing any changes to your Client Profile, or any changes to any information you have provided to us regarding the management of your assets. Alternatively, upon providing evidence of a validly executed power of attorney, your financial representative may submit non-material changes such as contact information updates and risk budget changes to your Client Profile on your behalf.

Maintaining proper records and documentation regarding your account is important to us. As a client, you will be able to access our website at [www.clsinvest.com](http://www.clsinvest.com) and view your account information. General information regarding how to obtain secured web access to your account is given to you after we accept your account. In addition, our customer service center is available to answer any questions regarding your account at (888) 455-4244.

As of December 31, 2013, we managed approximately \$6,192,418,031 of client assets on a discretionary basis and no accounts were managed on a non-discretionary basis.

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

## **PROXY POLICY**

We do not receive proxies for securities held in your account(s). Unless otherwise agreed in writing, it is our policy not to vote, nor give any advice how to vote, proxies for securities held in your accounts. Proxies for securities held in your account(s) will be received by you directly from the custodian of your assets, or will be handled as otherwise agreed to between you and the custodian.

### **Proxies for the AdvisorOne Funds and Rydex Variable Trust**

We serve as investment adviser to certain investment companies under the AdvisorOne Funds trust and sub-adviser to certain investment companies under the Rydex Variable Trust (each a "Fund"). Each Fund is a fund of funds, meaning these Funds pursue their investment goals by investing primarily in other investment companies that are not affiliated ("Underlying Funds"). As a fund of funds, the Funds are required by the Investment Company Act of 1940 to handle proxies received from Underlying Funds in a certain manner. In particular, in accordance with our policy, we or our designee will vote all proxies received from the Underlying Funds in the same proportion that all shares of the Underlying Funds are voted, or in accordance with instructions received from Fund shareholders, pursuant to Section 12(d)(1)(F) of the Investment Company Act of 1940. Proxies received on behalf of the Funds that represent securities that are not investment companies will be voted according to our proxy voting policies. In general, we or our designee will vote in favor of routine proposals which do not change the structure, bylaws, or operations of a company to the detriment of the shareholders, and will vote against proposals that clearly have the effect of restricting the ability of shareholders to realize the full potential value of their investment. A copy of our proxy voting policy may be provided to you upon your request.

All proxies received from the Funds will be reviewed with our Chief Compliance Officer or appropriate legal counsel to ensure proper voting. After properly voted, the proxy materials are placed in a file maintained by the Chief Compliance Officer for future reference.

## **ERROR COMMITTEE**

We have established an Error Committee led by our Chief Compliance Officer that generally meets on a weekly basis to review reported errors. Possible errors may be identified by us, our clients, financial representatives and others. The Error Committee will review the facts surrounding each circumstance to determine whether an error has occurred. If the Error Committee determines an error has occurred, it will consider (i) the nature and cause of the error, (ii) whether you have been disadvantaged by the error, and (iii) suitability of the allocations resulting from an error. If necessary, we will perform calculations to determine whether you have experienced a loss resulting from our error and we will reimburse you for any losses suffered. If you benefitted from the error, you will keep any resulting gains. If the same error results in both losses and gains to your account, we will offset the losses with the gains and will reimburse you in the event the losses exceed the gains. For losses suffered as a result of our error, generally, we will issue a check to you or your custodian or otherwise credit your account for the amount of loss. In certain circumstances, we may credit your next advisory fee invoice for the amount of the loss. We will notify you of errors caused by us that resulted in a loss of more than \$10. Errors that result in a loss of less than \$10 will be corrected in your account but no notification will be sent to you. Our policy and practice is to monitor and reconcile all trading activity, identify and resolve

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any trade errors promptly, document each trade error with appropriate supervisory approval and maintain a trade error file.

**PRIVACY POLICY**

We have a privacy policy designed to protect and safeguard your confidential information. A copy of our privacy policy is provided on an annual basis to all of our clients.

**BUSINESS CONTINUITY PLAN**

We, along with our parent company, have a business continuity plan which provides a course of action for the assessment of a significant business disruption and for the continuation of our business following such an event. The business continuity plan consists of policies and procedures outlining the responsibilities of key personnel in the event of a significant business disruption.

**NOTICE TO CLIENTS**

You should know that it is impossible to predict the future and investing in securities involves risks and uncertainties. There is no assurance that we will attain your objectives, that any investment recommendation will be profitable, or a particular rate of return will be achieved. Each of our significant investment strategies contemplates investing some portion or all of a portfolio in mutual funds or ETFs. Although investing in mutual funds and ETFs generally involves less risk than investing in the securities of one issuer, investing in any securities, including mutual funds and ETFs, involves risk of loss that you should be prepared to bear.

Selecting one of the strategies described above may result in different performance results than what otherwise might have been achieved had you selected one of the other strategies. In addition, clients in the same strategy may have differing performance depending upon the individual investment objectives and risk tolerance of each client. Should you wish to change strategies, you must notify us in writing.



## Item 7 Client Information Provided to Portfolio Managers

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A designated new account specialist reviews information submitted by each new prospective client prior to initial trading and clients are assigned a suitable risk budget based on the responses submitted in their respective Client Profile.

Our portfolio managers monitor the account positions for asset performance and analyze market return and risk factors on a daily basis. Your allocations are weighted to best meet individual risk tolerances and objectives based on your selected investment management service.

We have an Investment Committee that meets formally on a quarterly basis that sets the overall direction of our investment management. Our portfolio managers are responsible for monitoring the investment company allocations on a daily basis.

For all investment services, factors that may affect portfolio weightings include changes in economic, fundamental, statistical, technical, or valuation factors as determined by the Chief Investment Officer and portfolio managers.

Your financial representative has agreed to make periodic contact with you, at least annually. Together, you and your representative determine whether a change in your objectives warrants a change in the criteria used to manage your assets. We also make quarterly performance evaluations available to you that describe your current personal and investment information. We use this information as the primary reference for managing your account.

If any information has changed, you are instructed to promptly advise us of any changes. If the information is current, no further action is required. You also have access to your account information at all times via our web site at [www.clsinvest.com](http://www.clsinvest.com) where you can view your investment objectives, investment policy statement and other important information regarding the management of your account.

**Item 8      Client Contact with Portfolio Managers**

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We do not place restrictions on your ability to communicate with our portfolio managers.

## Item 9 Additional Information

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Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management and certain actions are presumed by the SEC to be material. We have no disciplinary events that we are required by SEC rules to disclose to you under this Item.

### Other Financial Industry Activities and Affiliations

Some of our executive officers perform services for other companies affiliated with us. CLS is a subsidiary of NorthStar Financial Services Group, LLC ("NorthStar"). NorthStar also has the following subsidiaries: NorthStar Holdings, LLC, Northern Lights Distributors, LLC, Orion Advisor Services, LLC, Gemini Fund Services, LLC, Gemini Alternative Funds, LLC, Gemini Hedge Fund Services, LLC, Gemcom, LLC and Northern Lights Compliance Services, LLC. In addition, NorthStar is affiliated with Constellation Trust Company, a Nebraska chartered trust company.

#### BROKER-DEALER

Related Persons: Northern Lights Distributors, LLC ("NLD")

Relationships and Arrangements with Related Persons:

In some circumstances, NLD, a registered broker-dealer and FINRA member, may receive customary compensation from mutual fund companies and/or variable annuity companies, including 12b-1 fees, for performing certain administrative and/or shareholder servicing related tasks associated with our clients' investments in such securities. NLD's securities business is primarily limited to mutual fund shares and variable insurance contracts. NLD also acts as underwriter to various investment companies including the AdvisorOne Funds. Both CLS and NLD are wholly-owned subsidiaries of NorthStar.

#### INVESTMENT COMPANIES

Related Persons: AdvisorOne Funds & Rydex Variable Trust

Relationships and Arrangements with Related Persons:

We serve as the investment adviser to the following AdvisorOne Funds: Amerigo Fund, Clermont Fund, Select Allocation Fund, Descartes Fund, Liahona Fund, Enhanced Income Fund, Flexible Income Fund, Select Appreciation Fund, Shelter Fund, and Milestone Treasury Obligations Fund which are part of the AdvisorOne Funds trust (collectively these funds are referred to as "**Affiliated Funds**"). We receive a management fee from the **Affiliated Funds** we advise. A specified amount of your assets may be invested in **Affiliated Funds** as an integral part of some of our strategies. At any time, you have the right to prohibit us from investing any of your managed assets in **Affiliated Funds**. We receive a management fee calculated at the annual rate of 1.00% from each of the **Affiliated Funds**, except the annual rate is 0.90% from the Enhanced Income Fund, 0.65% from the Flexible Income Fund and 0.10% from the Milestone Treasury Obligations Fund. We also serve as sub-adviser to the CLS AdvisorOne Funds (the

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Amerigo Fund, Clermont Fund and Select Allocation Fund) each a series of the Rydex Variable Trust (the "**Sub-Advised Funds**"). We receive an annual sub-advisory fee of 40 basis points (0.40%) for providing sub-advisory services to the **Sub-Advised Funds**. In addition, our affiliated broker-dealer, NLD, may receive a portion of any shareholder servicing and/or 12b-1 fees paid by the **Affiliated Funds** or the **Sub-Advised Funds**. Please consult the AdvisorOne Funds prospectus for additional information about the **Affiliated Funds** and the Rydex Variable Trust prospectus for additional information about the **Sub-Advised Funds**. We may add or delete **Affiliated Funds** or **Sub-Advised Funds** at any time by providing advanced written notice to any affected clients.

Related Persons: The Saratoga Advantage Trust

Relationships and Arrangements with Related Persons:

We also serve as the sub-advisor to the U.S. Government Money Market Portfolio, a series of The Saratoga Advantage Trust. Under this arrangement, we serve as sub-adviser to Saratoga Capital Management, LLC, the manager of The Saratoga Advantage Trust. For providing sub-advisory services, we receive a fee that is based on the net assets managed ranging from 5 to 10 basis points (0.05% to 0.10%), reduced in the same percentage as the manager when the manager reduces its fees, but subject to a \$10,000 annual minimum.

#### TRUST COMPANY

Related Persons: Constellation Trust Company ("CTC")

Relationships and Arrangements with Related Persons:

CTC is a Nebraska chartered trust company and an affiliate of ours. Some of our executive officers also serve as officers and directors of CTC. CTC's custodial services facilitate clients who desire a third party investment adviser such as us to manage their account(s). We may recommend CTC to our clients. CTC has established electronic interfaces and capabilities necessary to maintain and aggregate custodial records and reporting for clients invested across various investment platforms. We have entered into an arrangement with CTC to waive the annual custodial fee for our clients. All other custodial fees and charges of CTC are set forth in the CTC custodial agreement. Trades for client accounts custodied at CTC are affected via the National Securities Clearing Corporation through arrangements with third parties including Matrix Settlement and Clearance Services, LLC ("Matrix"), TD Ameritrade, Inc. and Rydex Distributors, Inc. Some of the mutual funds held by our clients with assets custodied at CTC may pay shareholder servicing and/or 12b-1 fees to CTC, Matrix and/or our affiliated broker/dealer, Northern Lights Distributors, LLC, for distribution and/or shareholder servicing related assistance associated with making a client's investments in such funds.

#### CODE OF ETHICS

We have adopted a joint code of ethics along with our parent holding company, NorthStar Financial Services Group, LLC, and Northern Lights Distributors, LLC, the distributor for the **Affiliated Funds** (the "Code") in compliance with Rule 17j-1 under the Investment Company Act of 1940 and with Rule 204A-1 of the Investment Advisers Act of 1940. The Code establishes rules of conduct for all of our employees

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and is designed to, among other things, govern personal securities trading activities in the accounts of our employees. The Code contains general ethical principles and personal securities reporting provisions for our employees. In summary, the Code prohibits our employees from taking inappropriate advantage of their positions and the access to information concerning the investments or our investment intentions for our clients, or our ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of our clients. Rule 17j-1 and Rule 204A-1 make it unlawful for our employees to engage in conduct which is deceitful, fraudulent, or manipulative, or which involves false or misleading statements, in connection with the purchase or sale of securities. The Code acknowledges the general principles that us and/or our employees: (1) owe a fiduciary obligation to our clients; (2) have the duty at all times to place the interests of our clients first; (3) must conduct all personal securities transactions in such a manner as to avoid any actual or potential conflict of interest or abuse of an individual's position of trust and responsibility; (4) should not take inappropriate advantage of their positions in relation to client accounts; (5) must comply with the federal securities laws; and (6) must safeguard nonpublic information. A copy of the Code is available upon request.

#### **PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

We may recommend **Affiliated Funds** and **Sub-Advised Funds** to you. You are advised of the possible use of **Affiliated Funds** and/or **Sub-Advised Funds** in your agreement with us and in the applicable strategy descriptions, and at any time, have the right to prohibit us from investing any of your managed assets in **Affiliated Funds** or **Sub-Advised Funds**.

We and our employees may buy or sell securities identical to those recommended to our clients. It is our express policy that any person employed by us is prohibited from profiting at the expense of our clients and from competing with our clients.

#### **PROCEDURES AND DISCLOSURES**

The Code and other procedures adopted by us contain the following provisions to handle conflicts of interest:

- 1) We maintain records of all securities holdings for our clients, ourselves, our employees, and affiliated parties. These holdings are reviewed on a regular basis by our compliance personnel.
- 2) No individual shall cause or attempt to cause any of our clients to purchase, sell, or hold any interest in a security in a manner calculated to create any personal benefit or benefit any employee account. None of our officers or employees 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 upon reasonable inquiry.
- 3) Each of our employees submits quarterly reports and acknowledges the firm's policies and procedures with respect to the Code on an annual basis.
- 4) Each employee's personal trading accounts are reviewed on a regular basis by compliance personnel.
- 5) Any employee not in observance of the above may be subject to disciplinary action and possible

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termination.

6) Clients are advised in their agreements with us and in the applicable investment service descriptions of the possible use of **Affiliated Funds** and/or **Sub-Advised Funds** in which we have a financial interest. At any time, Clients may instruct us not to use **Affiliated Funds** or **Sub-Advised Funds** in their accounts.

## REVIEW OF ACCOUNTS

See Item 7, above for a detailed description of how CLS conducts account reviews. Account review is facilitated through an arrangement with Orion Advisor Services, LLC ("Orion"), one of our affiliates. We have engaged Orion to provide a "back office" system which enables us to gather and aggregate client data from multiple platforms and providers, maintain portfolio models, review models and accounts for variances, analyze account performance, generate quarterly statements and other reports, facilitate the trading of client accounts and make information available on-line via the internet, in a secure manner, to clients, their financial representatives and their supervising broker/dealers or soliciting investment advisory firms.

## CLIENT REFERRALS AND OTHER COMPENSATION

Certain mutual funds and variable annuities in which you may be invested may pay marketing fees, service fees, including shareholder service fees, 12b-1 fees, or bonus commissions to us or Northern Lights Distributors, LLC, our affiliated broker-dealer, or to Constellation Trust Company, our affiliated trust company, for marketing assistance or for the performance of certain administrative tasks associated with making an investment in such fund or annuity. Any such fees received by us will not be credited against the fees otherwise payable by you to us. Our employees or associated persons may also be invited to attend seminars and meetings with the costs associated with such meetings borne by a sponsoring brokerage firm or other party extending the invitation.

Some of our associated personnel, who are also registered representatives of a broker/dealer, may receive, from time to time, 12b-1 distribution fees from mutual funds in which they have placed clients' funds.

We enter into marketing arrangements with other registered investment advisers and broker-dealers pursuant to which representatives of their firms ("Solicitors") offer our services to the public. These Solicitors refer us the majority of our clients. Through these arrangements, we pay a cash referral fee to the Solicitor and/or their firm based upon a percentage of our advisory fee. The amount of the referral fee may vary depending on the strategy selected and the custodial platform utilized. Certain Solicitors may be invited to attend seminars and meetings hosted by CLS in which we will bear the full costs associated with Solicitor's attendance of such meetings. The purpose of these meetings will be to provide general market and industry information as well as information about CLS's advisory services.

Because accounts maintained with certain custodians are more efficient for us to manage, we may offer increased referral fee payouts for client assets maintained with these custodians, including client assets maintained with Constellation Trust Company, one of our affiliates. Under each of the investment services offered by us, **the amount of the referral fee we pay to the Solicitor may be up to one hundred percent (100%) of the amount of the advisory fee we receive from you.** The referral fee paid

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by CLS may vary based on custodian and investment strategy so there may be an incentive for Solicitors to recommend one strategy or custodian over another. In connection with these arrangements, we will comply with Rule 206(4)-3 under the Advisers Act. The referral fee is paid pursuant to a written agreement, which is retained by both your representative (Solicitor) and us. This information is disclosed to you prior to or at the time of entering into an investment advisory agreement with us. We also may offer these firms and Solicitors reimbursement of certain expenses approved by us.

We may pay a portion of the advisory fee to other affiliated or non-affiliated parties who assist with certain administrative tasks associated with the management of your account. Such tasks may include account maintenance, data reconciliation, statement printing, investment research, sub-advisory services or other administrative tasks.

We may reimburse unaffiliated third parties for the costs of attending training seminars for the purpose of learning about our advisory business. We also may pay for costs associated with client seminars done for the purpose of acquiring or retaining clients for us. We may pay territorial/regional wholesaler compensation based in whole or in part on revenues generated from a wholesaler's territory or region. Such compensation is separately negotiated and is not based on individual clients.

**FINANCIAL INFORMATION**

A balance sheet for CLS as of December 31, 2013 is attached.

# CLS Investments, LLC

(A Wholly Owned Subsidiary of  
NorthStar Financial Services Group, LLC)

Balance Sheet as of December 31, 2013, and  
Independent Auditors' Report



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Managers  
CLS Investments, LLC  
Omaha, Nebraska

We have audited the accompanying balance sheet of CLS Investments, LLC, a wholly owned subsidiary of NorthStar Financial Services Group, LLC (the "Company"), as of December 31, 2013 and the related notes to the balance sheet.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of these financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of CLS Investments, LLC as of December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 20, 2014

**CLS INVESTMENTS, LLC**  
**(A Wholly Owned Subsidiary of NorthStar Financial Services Group, LLC)**

**BALANCE SHEET**  
**AS OF DECEMBER 31, 2013**

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**ASSETS**

ASSETS:

Cash	\$ 98,262
Receivables	3,240,822
Due from affiliate	1,252,044
Prepaid advisory fees expense	202,197
Fixed assets — net of accumulated depreciation of \$1,717,285	160,291
Goodwill	794,395
Other assets	<u>217,664</u>

TOTAL	<u>\$5,965,675</u>
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**LIABILITIES AND MEMBER'S EQUITY**

LIABILITIES:

Accounts payable and accrued expenses	\$3,182,986
Advisory fees payable	1,636,462
Unearned advisory fee revenue	287,737
Due to affiliate	<u>9,049</u>

Total liabilities	5,116,234
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COMMITMENTS AND CONTINGENCIES (See Note 4)

MEMBER'S EQUITY	<u>849,441</u>
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TOTAL	<u>\$5,965,675</u>
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See notes to balance sheet.

**CLS INVESTMENTS, LLC**  
**(A Wholly Owned Subsidiary of NorthStar Financial Services Group, LLC)**

**NOTES TO BALANCE SHEET**  
**AS OF DECEMBER 31, 2013**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

CLS Investments, LLC (the “Company”) is an Omaha, Nebraska based registered investment advisor providing investment advice and portfolio management services to individuals, corporations, and retirement plans through a network of independent representatives. The Company derives substantially all of its revenue from fee-based asset management support arrangements for clients of its solicitors. The Company’s clients are located throughout the United States.

The Company is a wholly owned subsidiary of NorthStar Financial Services Group, LLC (“NorthStar” or “Parent”).

**Basis of Accounting** — The Company maintains its accounting records and prepares its financial statement in accordance with accounting principles generally accepted in the United States of America.

**Estimates** — The preparation of the balance sheet in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

**Receivables** — The Company evaluates the collectibility of receivables throughout the year and establishes an allowance for bad debts for all accounts or portions thereof considered uncollectible. No allowance was recorded against receivables at December 31, 2013.

**Fixed Assets** — Fixed assets are recorded at cost. Depreciation and amortization are computed using straight-line and accelerated methods over the following ranges of estimated useful lives:

Computer equipment	3–7 years
Telephone equipment	5 years
Furniture and fixtures	5–7 years

**Goodwill** — In accordance with FASB ASC 350-20, *Goodwill*, goodwill is assessed for impairment at least annually. Any excess of carrying value over fair value is recognized as an impairment loss. During this assessment, management relies on a number of factors, including operating results, business plans, and anticipated future cash flows.

**Income Taxes** — The Company, as a wholly owned subsidiary of NorthStar, is a disregarded entity for income tax purposes under the provisions of the Internal Revenue Code. Accordingly, income from the Company is reported and respective income taxes are paid by the members of the Parent and, as a result, no provision for federal income taxes is provided as it relates to the taxable income of the Company.

Also, no provision has been made for any amounts which may be advanced or paid as draws to the members of the Parent to assist them in paying taxes on the Company’s income.

**Revenue Recognition** — Fee income from investment advisory and asset management services is recognized ratably on a straight-line basis over the contract period. Customers are billed an advisory fee computed as a percentage of assets under management. Advisory fees billed in advance are recorded as unearned revenue and are amortized ratably on a straight-line basis into income over the remaining unexpired contract term.

Solicitor expense is for services performed by third parties related to the investment advisory services performed by the Company and is recognized ratably over the same period as the related revenues.

## 2. FIXED ASSETS

Fixed assets at December 31, 2013, consisted of the following:

Computer equipment	\$ 1,539,162
Telephone equipment	14,949
Furniture and fixtures	<u>323,465</u>
	1,877,576
Less accumulated depreciation	<u>(1,717,285)</u>
	<u>\$ 160,291</u>

## 3. GOODWILL

Goodwill was tested for impairment at the reporting unit level and must be tested annually thereafter utilizing a two-step methodology. The initial step requires the Company to determine the fair value of each reporting unit. If the fair value exceeds the carrying value, no impairment is to be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of this unit may be impaired. The amount of the impairment, if any, is then measured in the second step.

In connection with NorthStar's purchase of the Company, effective January 1, 2003, all previously existing goodwill of the acquired companies was eliminated. At that time, NorthStar determined the carrying value of its assets and liabilities was less than the fair value and the final allocation of the purchase price resulted in the Company recording goodwill in the amount of \$794,395.

The Company performed its annual impairment testing of goodwill as of December 31, 2013, and determined no impairment loss was required to be recognized in 2013.

## 4. COMMITMENTS AND CONTINGENCIES

The Company entered into an Investment Research Agreement and an Asset Purchase Agreement, each dated December 16, 2003, with Schield Management Company ("Schield"). Beginning with the quarterly period ended March 31, 2004, and ending with the quarterly period ending December 31, 2013, the terms of the Asset Purchase Agreement provides for forty quarterly payments of \$125,000 to be adjusted upward or downward based on the aggregate value of assets under Company management that transferred from Schield. The terms of the Investment Research Agreement provide for payments based on the value of assets under Company management in designated programs. In August 2006, Schield assigned the Investment Research Agreement to Capital Cities Asset Management, Inc. (CCAM) and the Company now pays both Schield and CCAM their respective portions.

The Company, along with NorthStar, Orion Advisor Services, LLC (“Orion”) (a wholly owned subsidiary of NorthStar), Gemini Fund Services, LLC (“Gemini”) (a wholly owned subsidiary of NorthStar), Gemcom, LLC (a wholly owned subsidiary of NorthStar), and Northern Lights Compliance Services, LLC (NLC) (a wholly owned subsidiary of NorthStar) are named borrowers on a \$3,000,000 line of credit, which is collateralized by assets of all the companies. There was not an outstanding balance at December 31, 2013.

The Company, along with NorthStar, Orion, and Gemini are named guarantors on a series of equipment financing notes, which are collateralized by assets of all the companies. The outstanding balance of \$6,038,329 is included on NorthStar’s consolidated balance sheet at December 31, 2013.

## **5. RELATED PARTY TRANSACTIONS**

NorthStar assesses each of its subsidiaries’ ratable share of certain overhead expenses. In addition, the Company is billed for time and products of the NorthStar marketing and internal audit divisions.

In the ordinary course of business, the Company may advance funds to NorthStar. The Company had a due from affiliate of \$1,252,044 at December 31, 2013, related to NorthStar.

NorthStar’s members own 99.9% of the shares outstanding of Constellation Trust Company (“Constellation”). The Company entered into a service agreement with Constellation, whereby Constellation will provide custody-related services for the Company’s clients. The Company had an accrued liability in the amount of \$525,857 to Constellation at December 31, 2013, included in the accompanying balance sheet under the caption of accounts payable and accrued expenses.

The Company pays Orion for operational support services.

The Company pays Northern Lights Distributors, LLC (NLD) (a wholly owned subsidiary of NorthStar) for service fees. The Company had a payable to NLD of \$9,049, at December 31, 2013, included in due to affiliate.

Transactions with related parties are not necessarily indicative of revenues and expenses which would have occurred had the parties not been related.

## **6. EMPLOYEE BENEFIT PLAN**

NorthStar sponsors a 401(k) defined contribution plan to assist the Company’s eligible employees in providing for retirement or other future financial needs. Participants may contribute up to 75% of their salary, subject to certain limitations. NorthStar contributes an amount determined annually by the Board of Managers.

## **7. SUBSEQUENT EVENTS**

The subsequent events for the Company have been evaluated by management through March 20, 2014, the date the balance sheet was available to be issued. It was determined that there were no subsequent events to recognize or disclose in the balance sheet presented herein.

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