

# **2014**

## **DISCLOSURE BROCHURE**

### **FULCRUM ADVISORY SERVICES, LLC**

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This Disclosure Brochure provides clients with information about the qualifications and business practices of Fulcrum Advisory Services, LLC ("FAS"). Please contact Cynthia Lyons, Chief Compliance Officer of Fulcrum Advisory Services, LLC, at 314-336-3120 or email [CDL@fulcrumsecurities.com](mailto:CDL@fulcrumsecurities.com), if you have questions about the content of this brochure. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority. Additional information on the disciplinary history of FAS is available on the Internet at [www.adviserinfo.sec.gov/IAPD/](http://www.adviserinfo.sec.gov/IAPD/). You can search this site by a unique identifying number known as a CRD number. The CRD number for Fulcrum Advisory Services, LLC is 131777.

**March 2014**

## 1. ABOUT FULCRUM ADVISORY SERVICES, LLC

FAS is a fee-only, independent investment advisory firm registered with the Securities and Exchange Commission. Registration does not imply a certain level of skill or training. The expertise and training requirements for all FAS associates are detailed in Section 19 of this brochure.

## 2. MATERIAL CHANGES

No material changes for FAS since the annual amendment update on March 31, 2012.

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#### 4. ADVISORY BUSINESS

- A. FAS has been offering advisory service since 2006. The principal owner is Mr. William P. Behrens, President & CEO, and Ms. Cynthia Lyons is Secretary and the Chief Compliance Officer.

FAS is registered with the Securities Exchange Commission (SEC). FAS is under common ownership with Fulcrum Securities, LLC, a broker/dealer registered with the FINRA and in each state in which it conducts business. FAS is under common control and ownership as AHM Asset Management, LLC, an investment advisor registered with the SEC and in each state in which it conducts business.

- B. Through its investment advisor representatives, FAS provides financial planning, consulting and fee-only investment advisory services to individuals, pension and profit sharing plans, trusts, estates or charitable organizations, corporations or other business entities.
- C. FAS and its affiliates consult with clients and potential clients to determine their advisory needs. Information is obtained from each client or potential client to determine their investment objectives, income, net worth (not including residence), age, tax status, employment history, investment experience, and risk tolerance.
- D. FAS acts as a sponsor for wrap fee programs offered by Lockwood. These programs are detailed in this brochure under Third Party Advisor section.
- E. As of March 2014 FAS provided investment advisory services for 71 accounts with \$21,370,000 under management of which FAS uses discretion and for 737 accounts with \$139,000,000 under management of which FAS does not use discretion.

#### Third Party Advisor

##### *Lockwood's Managed Money Markets*

The AdvisorFlex Portfolio (AFP), Lockwood Investment Strategy (LIS) and Lockwood Asset Allocation Portfolios (LAAP) products (collectively, the "Managed Products") are discretionary managed account products housed in a single portfolio, available only through a Consultant, as described below

##### *AdvisorFlex Portfolios (AFP)*

AdvisorFlex offers a series of objectives-based strategies, managed by Lockwood that provides investors with access to professionally managed solutions and seeks to address the unique challenges presented at each phase of the investor lifecycle, from wealth accumulation, to the transition into retirement, and ultimately, the management and distribution of income.

The AdvisorFlex product includes three (3), objectives-based strategies, Appreciation, Income and Preservation (the "Strategies"), with multiple models within each strategy, as described below. AFP consists of sixteen (16) models/asset allocation strategies ("Models"). The three strategies are described in brief below and in detail in Exhibit C hereto.

The Appreciation Strategy is designed to provide the long-term level of returns associated with equity and fixed income asset classes, while seeking above average risk-adjusted levels of appreciation. The Appreciation Strategy models, representing various levels of expected risk and return, are:

- Appreciation Model I
- Appreciation Model II
- Appreciation Model III
- Appreciation Model IV
- Appreciation Model V
- Appreciation Model VI

Model I is the most conservative model and Model VI is the most aggressive. The underlying Appreciation Strategy models seek to achieve their objectives through tilts toward asset classes with above-average cumulative return potential, as well as asset classes that pay a premium to investors with a long-term time horizon.

The Preservation Strategy is designed to provide the long-term level of returns typically associated with equity and fixed income asset classes, while seeking downside protection and a lower level of long-term volatility, relative to respective standard capitalization-weighted indices. The Preservation Strategy Models, representing various levels of expected risk and return are:

- Preservation Model I
- Preservation Model II
- Preservation Model III
- Preservation Model IV
- Preservation Model V

Model I is the most conservative and Model V is the most aggressive. The underlying Preservation Strategy models seek to achieve their objectives through tilts toward non-cyclical economic sectors, higher quality securities, and alternative strategies that may alter the risk characteristics of the portfolio. The Income Strategy is designed to provide an above-average level of yield while maintaining a diversified portfolio. The Income Strategy models, representing various levels of expected risk and return, are:

- Income Model I
- Income Model II
- Income Model III
- Income Model IV
- Income Model V

Model I is the most conservative and Model V is the most aggressive. The underlying Income Strategy models seek to achieve their objectives through the use of numerous asset classes which may include high dividend-yielding stocks, real estate investment trusts, master limited partnerships, closed-end funds, fixed income, and preferred securities.

The Advisor*Flex* Models are intended to align with the different phases of the investor life cycle, from wealth accumulation, to transition into retirement and ultimately, the management and distribution of income. Each of the Models contains specific investment selections. Disclosures relating to the specific investment selections are contained herein and should be reviewed in detail by each Client. The Client and his/her Consultant are responsible for selecting the appropriate Model for the Client.

Lockwood may make available research reports relating to the investment selections within the Models and prepared by Morningstar, LLC ("Morningstar").

Lockwood offers three (3) variations of the Advisor*Flex* Portfolio Product.

#### 1. Standard Advisor*Flex* Product

In the first variation, Lockwood makes available through the program sponsor all 16 Models and over 100 investment options to Consultants and his/her Client. For each investment selection within a Model, Lockwood identifies several options from which the Client and his/her Consultant may choose. Within each Model, there will be primary investment selections ("Primary Selections") and alternate investment selections ("Alternate Selections") from which the Client and his/her Consultant may choose.

At any time and in Lockwood's sole discretion, Lockwood may reclassify a Primary Selection as an Alternate Selection. In such a case, existing Accounts holding the Primary Selection may retain the Selection or affirmatively change to the new Primary Selection. In each instance, Lockwood will issue an "alert" to identify the new Primary Selection. In the event that a Primary Selection is eliminated from a Model altogether, all Accounts in the Model holding the current Primary Selection will default to the new Primary Selection. In the event that Lockwood removes one of the Alternate Selections, affected Accounts will default to either the Primary Selection or another, available Alternate Selection, as determined by Lockwood.

In certain instances when a Client selects both Primary Selections and Alternate Selections to complete a Model, the mixture of Primary Selections and Alternate Selections may result in changes to the weightings within an asset allocation.

Certain asset classes may contain only Primary Selections; Alternate Selections will not be made available in those cases, in Lockwood's sole discretion.

#### 2. Fully Discretionary Advisor*Flex* Product

The second variation provides Consultants and his/her Clients with models consisting of Lockwood's Primary Selections. Lockwood has full discretion over these models and they may not be modified by the Client or Consultant and do not include Alternate Selections.

#### 3. Customized Advisor*Flex* Product

The third variation allows wrap fee sponsors to customize their Advisor*Flex* program. Lockwood and wrap program sponsor create models consisting of both Primary Selections and Alternate Selections.

In each variation of Advisor*Flex*, Lockwood will implement certain updates and changes to the Models ("Model Updates") throughout the life of the Client's Advisor*Flex* account. Each Client has given Lockwood the limited discretion to implement such Model Updates, and the Client and his/her Consultant are responsible for reviewing all such Model Updates and how such Model Updates may impact an individual Client's Account. A Model Update may include replacing one investment vehicle with another and/or changing the asset allocation within a Model.

#### 4. Other Applicable Provisions.

Lockwood, in its sole discretion, may rebalance a Client Account in such instances as are in the Client's best interests. Lockwood reviews each Account's drift from the selected Model on a regular basis and rebalances a Client Account as the circumstances warrant.

Lockwood monitors the asset allocations and oversees the investment selections to ensure the AFP models and investments are performing as expected. Multiple factors are considered any time a change is recommended.

The Client grants limited discretion to his/her Consultant to make changes to Primary Selections and Alternate Selections in Client's Advisor*Flex* account and to make other decisions relating to the AFP Account on the Client's behalf.

The minimum size for AFP accounts is \$50,000.00, with minimum, subsequent contributions of \$1,000.00. Lockwood, in its sole discretion, may waive the minimum account size. Accounts may be funded with cash equivalents or shares of investment selections included within a given Model.

#### *Lockwood Investment Strategies (LIS)*

LIS is a discretionary, multi-discipline managed account product housed in a single portfolio with five core models. The five (5) core models span the risk/return spectrum from current income model to growth model within the context of a diversified portfolio. A Client may also choose from four (4) additional models which include exposure to non-traditional asset classes, as described more fully below. Lockwood, serving as the Portfolio Manager, determines asset allocation and selects both Sub-Advisers and specific investment vehicles for each investment style based on its proprietary modeling strategies, as well as its macroeconomic outlook and investment discipline.

Lockwood selects Sub-Advisers and/or investment vehicle(s), such as an ETF or mutual fund, for each investment style. When selected for inclusion within the program, each Sub-Adviser electronically provides its model portfolio (buy-list) to Lockwood. As Portfolio Manager, Lockwood combines each of the model portfolios into one Investment Strategies portfolio designed to perform and act similar to the target benchmark for the portfolio. Lockwood gathers each of the portfolios and runs an optimization program that seeks to minimize tax implications and create better tracking to the target benchmark. This process is sometimes referred to as "overlay management." The Sub-Advisers and investment vehicles currently employed in LIS portfolios are listed in Exhibit B, hereto, and are subject to change at Lockwood's sole discretion.

Until April 30, 2006, Parametric Portfolios Associates served as the overlay manager for LIS. Effective May 1, 2006, LCM assumed the role of the overlay manager for all LIS portfolios. Lockwood currently provides overlay management services for the LIS portfolios. When Lockwood selects investment vehicles for each investment style component of each of the portfolios, a number of factors are evaluated. Not only must the vehicle stand on its own investment merits, but it also must fit within the overall strategy. The amount allocated to an investment style component may determine which instrument may be used to manage that portion of the portfolio. An instrument such as a mutual fund or ETF may be utilized to allow broad market exposure to be achieved for lower dollar values. Lockwood may substitute an ETF for a mutual fund held in the model portfolio if such mutual fund is not available to a Client in a particular jurisdiction. A basket of individual securities supplied by a Sub-Adviser may be used for allocations where Lockwood seeks active securities selection. Lockwood reviews Sub-Adviser and investment vehicle combinations to determine the most

Lockwood offers a series of strategies limited to traditional asset classes only effective combination of investments to satisfy the goals of the portfolio. Lockwood also pays considerable attention to fees, liquidity, investment minimums, and operational issues as they pertain to the implementation and inclusion of investment vehicles and Sub-Advisers in the portfolios. (Traditional) and a series of Strategies that include traditional and non-traditional investment asset classes (Alternative) for implementation.

**Traditional Strategies:**

Lockwood offers five (5) LIS diversified, discretionary, investment portfolios that generally include allocations to traditional asset classes including, but not limited to U.S. Fixed Income, U.S. Large-Cap Equity, U.S. Small-Cap Equity, U.S. Mid-Cap Equity and Non-U.S. Equity. In addition, the investment portfolios may also include allocations to REITs and Gold Bullion.

The asset classes represented within the investment portfolios are comprised of:

*Fixed Income:* Lockwood employs a broad-based, passive approach for its fixed income allocation, represented by the Barclay's Capital Aggregate Bond Index, which has exposure to a diversified mix of corporate and government bonds. As market opportunities warrant, Lockwood may combine a core allocation to the Barclay's Capital Aggregate Bond Index with satellite allocations to various segments of the global fixed income market.

*Large-Cap Equity:* Due to market efficiencies, Lockwood takes a passive approach to the large-cap equity market, focusing on low-cost, broad-based investment vehicles, represented by the S&P 500 Index and the Russell 1000® Index. As market conditions warrant, Lockwood may overweight the large cap allocation to the growth or value style.

*Small-Cap and Mid-Cap Equity:* Lockwood generally employs an active approach in its allocation to small-cap and mid-cap stocks. This segment of the market, represented by the Russell 2000® Index and the Russell 2500® Index, is inherently more volatile than its large-cap counterpart and, therefore, often carries a lesser weight than the large-cap portion.



*Non-U.S. Equity:* Lockwood generally employs an active approach in its allocation to non-U.S. equity. The MSCI EAFE Index represents this asset class. The international allocation is incorporated for both diversification and capital appreciation potential. The asset class as a whole has a relatively low correlation to domestic equity over time and, therefore, may help diversify the portfolio while providing potential for growth. As market opportunity warrants, Lockwood may include allocations to other international sub-asset classes, such as Emerging Markets and International Small-Cap Equity.

*REITs:* Lockwood may have an allocation to REITs and if so, it generally employs a passive approach in its allocation to Real Estate Investment Trusts (REITs). The asset class is represented by the NAREIT-Equity Index, which has had a low correlation to the stock and bond markets. Any allocation to REITs is intended to lessen overall portfolio volatility and provide income via its dividend yield.

*Gold Bullion:* Lockwood may have an allocation to Gold through an ETF designed to mirror as closely as possible the performance of the price of Gold. Any allocation to Gold is intended to seek to offset volatility in the traditional equity and fixed income asset classes. Lockwood may use both active and passive vehicles in any of its asset classes as market conditions or the availability of investment vehicles warrant.

The Traditional Strategies models, representing various levels of expected risk and Model I is the most conservative model, with the majority of the model allocated to fixed income and the balance to equities; Model V is the most aggressive model, with 100% of the model allocated to equities.

- Current Income: Model I
- Growth & Income: Model II
- Conservative Growth: Model III
- Moderate Growth: Model IV
- Growth Model V

Using a long-term, strategic approach to its asset allocation methodology, Lockwood shifts its models from time to time based on macroeconomic models and changing investment fundamentals. Additionally, Lockwood seeks to make relatively small adjustments within its allocation models, rather than making significant shifts between asset classes, in an effort to further reduce the volatility of the portfolios. The decision to increase or reduce exposure to an asset class is driven by secular changes to key economic and market-related factors, which may include shifts in absolute and relative valuations, expected earnings growth, or the impact of changing interest rates.

#### **Alternative Strategies:**

Lockwood also offers four (4) diversified, discretionary, investment portfolios that include allocations to the non-traditional investment asset class, with the expectation of offering comparable to slightly reduced returns with less volatility than the Traditional Strategies.

Based on proprietary research, Lockwood has defined the non-traditional investment class to include the following asset classes: convertible arbitrage, distressed securities, equity hedge, equity market neutral, event-driven, fund-of-funds, merger arbitrage, macro strategies and commodities.

Lockwood employs a fundamental valuation approach and employs a proprietary five-factor model to generate expected returns, risk and correlation for the traditional asset classes it includes in its investment strategies. A similar approach is employed to determine risks and correlations, and set return requirements for including the alternative asset class in the asset allocation decision. The following issues are among those considered for non-traditional assets: 1.) expected compensation for potential illiquidity, 2.) transparency and pricing of underlying securities, 3.) implementation costs/fees, and 4.) the use of leverage.

The core asset allocation models offered within the LIS Alternative Strategies are:

Alternative Model II	Growth & Income
Alternative Model III	Conservative Growth
Alternative Model IV	Moderate Growth
Alternative Model V	Growth

#### *Lockwood Asset Allocation Portfolios (LAAP)*

LAAP is a discretionary, multi-discipline managed account product housed in a single portfolio. Lockwood, serving as the Portfolio Manager, determines asset allocation strategy and selects investment vehicles for each investment style component of the portfolios, based upon proprietary modeling strategies, macroeconomic outlook and investment research discipline. The five (5) LAAP models are:

Model I	Current Income
Model II	Growth & Income
Model III	Conservative Growth
Model IV	Moderate Growth
Model V	Growth

Model I is the most conservative model, with the majority of the model allocated to fixed income and the balance to equities; Model V is the most aggressive model, with 100% of the model allocated to equities.

These portfolios may consist of open and closed-end mutual funds, exchange-traded funds and other types of securities, as determined by Lockwood, in its sole discretion.

#### *Other Programs*

##### **1. Subadviser to Mutual Fund**

Lockwood serves as a subadviser to the First Puerto Rico Strategic Growth Fund (the "Fund"), a non-diversified, open-end management investment company registered under the Puerto Rico Investment Companies Act.

The Fund is comprised of one, separately managed pool of assets, or Portfolio. In compliance with specific provisions of Puerto Rico law, up to 80% of the assets of the Portfolio are managed by Lockwood, while at least 20% of the assets are invested in Puerto Rico issued equity and fixed income securities.

The investment adviser to the Fund is Santander Asset Management, which manages the Fund's overall investment policy, strategic asset allocation, portfolio rebalancing and risk management of the Portfolio's assets. Santander Securities, LLC serves as the Fund's distributor.

With respect to Lockwood's role as a subadviser to the Fund, Lockwood is compensated by Santander Asset Management. Lockwood receives, monthly in arrears, 35 (thirty-five) basis points of average weekly net assets of the Fund under management by Lockwood.

Persons considering investment in the First Puerto Rico Strategic Growth Fund should carefully review the Fund's Prospectus. With respect to tax considerations, potential investors should review the Fund's Prospectus and consult a qualified tax professional.

## 2. Investment Selections

Lockwood may, for a fee, provide third-party financial services firms with its list of the investment vehicles used in AFP and such firm will offer a product similar to AFP to its Clients.

## 3. Other Discretionary Managed Account Products

Lockwood may offer other discretionary managed account products, including Lockwood Investment Strategies Longevity Income Solutions ("LIS<sup>2</sup>") in the programs it sponsors. (See the Form ADV, Part 2, Schedule H Brochure for the applicable Lockwood sponsored program).

### *Specific Disclosures*

Investment vehicles used in the Managed Products may use derivatives which are often more volatile than other investments and may magnify the vehicle's gains and losses. An investment vehicle that uses derivatives could be negatively affected if the change in market value of its securities fails to correlate adequately with the values of the derivatives it purchased or sold. Investors considering these types of investments should have a long-term horizon.

Alternative investment products are not for everyone and entail risks that are different from more traditional investments. Alternative investment strategies are intended for sophisticated investors and involve a high degree of risk, including, among other things, the risks inherent in investing in securities and derivatives, using leverage, and engaging in short sales. An investment in an alternative investment product or strategy is speculative and should not constitute a complete investment program. Diversification and strategic asset allocation do not assure a profit or protect against loss in declining markets.

The potential for a commodity investment vehicle to use derivative instruments, such as futures, options, and swap agreements, to achieve its investment objective may create additional risks that would not be present in the underlying securities themselves, thus raising the potential for greater investment loss.

Investment vehicles used in the Managed Products may employ the use of long and short positions, which may involve risks different from those normally associated with other types of investment vehicles, such as mutual funds. It is possible that the fund's long positions will decline in value at the same time that the value of the securities sold short increases, thus raising the potential for greater investment loss.

Market neutral investing, in using long and short positions, provides no guarantee that it will be successful in limiting the fund's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Investment in a strategy involved in long and short selling may have higher portfolio turnover rates, which may result in additional tax consequences. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Investments in REITs are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions.

Investment vehicles used in the Managed Products may invest in inflation-indexed bonds and other fixed income securities. Bonds are subject to a variety of risks including interest rate, credit, and inflation risk.

Investment vehicles used in the Managed Products may include ETF's. The Program Fees for the Managed Products do not include fees or expenses that may be associated with individual ETFs, including, but not limited to, the ETF sponsor fee, the trustee fee, ETF custodian's fee, stock exchange listing fees, SEC registration fees, printing and mailing costs, audit fees, legal fees, licensing fees, marketing expenses and other operating expenses. For more information on these expenses refer to the ETF's prospectus. There are special risks associated with ETF's, such as:

- ETF shares are not individually redeemable.
- The market price of ETF shares may differ from the net asset value.
- An active trading market for ETF shares may not exist and if it does exist, it may not be maintained over time.
- Trading of ETF shares may be halted by regulators under certain circumstances.

Investment vehicles in the Managed Products may include ETFs or mutual funds that invest in companies that focus on the provision of potable water, the treatment of water and the technology and services that are directly related to water consumption (collectively, "Water Resources") or the securities issued by such companies. Water Resources investments are subject to the risk that adverse developments in the water industry may significantly affect the value of the ETF. Companies involved in the water industry are subject to environmental considerations, taxes, government regulation, price and supply functions, competition and water conservation.

Investment vehicles in the Managed Products may include ETFs or mutual funds that invest in global companies involved in utilities, energy and transportation infrastructure (collectively "Global Infrastructure") or the securities issued by such companies. For example, Global Infrastructure includes companies involved in the management or ownership of oil and gas storage and transportation; airport services; highways and rail tracks; marine ports and services; and electric, gas and water utilities. Global Infrastructure investments are subject to emerging markets risk due to greater market volatility, lower trading volume, political and economic instability, greater risk of a market shutdown and more governmental limitations on foreign investments than typically found in developed markets. In addition, because Global Infrastructure investments include energy companies, the value of the investments will be affected by the levels of volatility of global energy prices, energy supply and demand, capital expenditures on explorations and production, energy conservation efforts, exchange rates and technological advances.

Investment vehicles in the Managed Products may include ETFs that invest in gold bullion. The price of gold has fluctuated widely over the past several years. Several factors affect the price of gold, including: global supply and demand; global or regional political, economic or financial events and situations, investors' expectations with respect to the rate of inflation; currency exchange rates and interest rates. There is no assurance that gold will maintain its long-term value in terms of purchasing power in the future.

Investment vehicles used in the Managed Products may include Exchange-Traded Notes ("ETNs"). ETNs are a type of senior, unsecured, unsubordinated debt security of the issuing company. This type of debt security differs from other types of bonds and notes because ETN returns are based upon the performance of a market index minus applicable fees, no periodic coupon payments are distributed and no principal protection exists. Similar to ETFs, ETNs are generally traded on a securities exchange. Investors can also hold the debt security until maturity. At that time the issuer is obligated to give the investor a cash amount that would be equal to the principal amount times the applicable index factor less investor fees. The index factor on any given day is a mathematical equation equal to the closing value of the underlying index on that day divided by the initial index level. The initial index level is the closing value of the underlying index on the creation/inception date of the note.

One significant risk factor that affects an ETN's value is the credit of the issuer. ETNs are synthetic investment products that do not represent ownership of the securities of the indices they track, and are backed only by the issuer's credit. The value of the ETN may drop despite no change in the underlying index due to the adverse change in issuer's creditworthiness or in perceptions of the issuer's creditworthiness.

Another significant risk factor affecting ETNs is liquidity. Upon issuance, the ETNs may not have an established trading market. There is no assurance that a trading market for the notes will develop or, if one develops, that it will be maintained. Although the issuers of the notes may apply to list certain issuances of notes on a national securities exchange, the notes may not meet the requirements. Even if there is a secondary market, it may not provide liquidity. While the issuers of the notes may make a market for the notes, they are not required to do so. If the notes are not listed on any securities exchange and the issuers of the notes were to cease acting as a market maker in the notes, it is likely that there would be no secondary market for the notes. All of these factors impact the overall liquidity of the notes and may impact the price received upon disposition of the notes.

Additional risks of investing in ETNs include limited portfolio diversification, price fluctuations, issuer default, uncertain principal repayment, and uncertain federal income tax treatment. Clients should consult their tax advisor regarding tax treatment. Investing in ETNs is not equivalent to a direct investment in an index or index components. The performance of the ETNs may vary from the actual performance of the underlying index and the performance of the underlying index components. By investing in ETNs, the owner does not have certain rights that investors in the underlying index or the underlying index components may have, such as stock voting rights. Upon sale or redemption of the ETN shares, the owner will be paid cash, and will have no right to receive delivery of any of the underlying index components or commodities or other assets underlying the index components. Similar to ETFs, ETNs have operating fees that will reduce the amount of return at maturity or on redemption, and as a result the owner may receive less than the principal amount of its investment upon sale or redemption of an ETN, even if the value of the relevant index has increased.

Investment vehicles used in the Managed Products may include mutual funds. The Program Fees for the Managed Products respectively do not include fees or expenses which may be associated with individual mutual funds, including, but not limited to, redemption fees, 12b-1 fees, other fund expenses or other applicable regulatory fees. Lockwood's affiliates, including Pershing and PAS, may receive fees from certain mutual fund families whose funds are employed in the Managed Products.

Lockwood conducts due diligence on all investment vehicles employed in the Managed Products prior to including these vehicles in any portfolio. When Lockwood selects investment vehicles for each investment style component of each of the portfolios, a number of factors are evaluated. The results of the due diligence are presented to Lockwood's investment committee for approval.

#### *Mutual Fund Selection Process*

The factors Lockwood considers when selecting a mutual fund for inclusion in a portfolio include, but are not limited to the following: investment style, whether the approach is active or passive, length of track record, stability of investment personnel, assets under management/capacity, number of holdings for actively managed funds, rate of return as compared to risk ("Alpha"), expense ratio, adherence to stated investment style, investment approach, investment performance, level of risk, mutual fund family activity and portfolio holdings.

#### *ETF Selection Process*

The factors Lockwood considers when selecting an ETF for inclusion in a portfolio include, but are not limited to the following: benchmark, tracking error, investment performance, volume, liquidity, cost, comparison to peer groups, investment objective, investment philosophy, investment process, construction methodology and portfolio holdings.

#### *Sub-Adviser Selection Process*

The factors Lockwood considers when selecting a Sub-Adviser for inclusion in a LIS portfolio include, but are not limited to the following: generation of Alpha, assets under management/capacity, number of holdings, investment style, investment approach, investment implementation review, Sub-Adviser's background, Sub-Adviser's growth plans, Sub-Adviser's commitment to the portfolio, stability and depth of investment personnel, performance composite criteria, business continuity/disaster recovery planning, compliance, investment performance, portfolio risk statistics relative to the benchmark and peers and portfolio holdings.

It is important to remember that there are risks inherent in any investment, including the loss of principal, and there is no assurance that any asset class or index will provide positive performance over time. Asset classes and/or other investment strategies not included in AFP, LIS and LAAP may exhibit similar or superior characteristics and performance than those that are included.

Clients must be United States residents to be accepted in the AFP, LIS and/or LAAP programs. Lockwood is a discretionary manager for the AFP, LIS and/or LAAP programs portfolio and, in that capacity, may change the asset, style, and investment vehicle allocations within the AFP, LIS and/or LAAP portfolios at its discretion at any time.

These products may cost the client more or less than purchasing similar services separately, assuming the services could be purchased directly from the various providers thereof. Lockwood fees may be negotiable at the discretion of, and within the means of, Lockwood.

## 5. FEES AND COMPENSATION

### Lockwood AdvisorFlex Program (AFP)

Minimum account size of \$50,000 is required for this service, with minimum subsequent contributions of \$1,000. Accounts may be funded with cash equivalents or shares of a mutual fund or EFT that are included in the chosen Model. Exceptions are possible depending on circumstances.

AFP fees are as follows:

Account Size	AFP Fee (basis points)	FAS Sponsor Fee (basis points)
First \$500,000	37	8
Next \$500,000	33	7
Over \$1,000,000	24	6

### Lockwood Investment Strategies (LIS)

This program fee includes Lock wood advisory fee, clearing, custodial and execution paid to Lockwood's affiliate Pershing, LLC. The Program fee will be billed quarterly in advance. Additional expenses associated with the specific underlying investment vehicles (such as 12b-1 fees, redemption fees and internal expense fees) may apply. Accounts within the AFP program may be house-held for billing purposes. In instances where Lockwood is serving as the Sponsor, the LIS fee may be househanded with other Lockwood accounts.

The Program Fee includes the Lockwood advisory fee, the Sub-Adviser fees, the administrative fee, and the clearing and custody fee. In addition to the Program Fee, the Consultant may add an advisory fee for his/her advisory services, subject to the applicable written agreement between the Company or its Consultant and the Client. The Program Fee does not include fees or expenses which may be associated with the underlying investment vehicles (such as, redemption fees, 12b-1 fees or other fund expenses) or other regulatory fees.

The minimum initial investment to establish an LIS account is \$250,000.00. Depending upon the model or strategy chosen by the Client, a portfolio may typically hold between 5 and 300 securities. Lockwood reserves the right to waive the minimum initial investment requirement, in its sole discretion.

The Program Fee may be negotiated, in Lockwood's sole discretion.

In instances where Lockwood is not serving as the sponsor of the program which houses the LIS account (such as, on the Managed Account Command platform), the Sponsor may include an administrative fee, in addition to the Program Fee. The Sponsor's administrative fee should be disclosed in the Sponsor's Schedule H. In certain instances, Lockwood may share a portion of its fee with the Sponsor to cover administrative services associated with sponsor activities, subject to the following schedule:

Assets	LIS Program Fee (basis points)
First \$500,000	75
Next \$500,000	55
Next \$4,000,000	40
Next \$5,000,000	35
Next \$10,000,000	30

Accounts within the LIS program may be householded for billing purposes in Lockwood's Managed Account Link, Managed Account Advisor and Lockwood Sponsored programs, only. LIS Accounts are billed quarterly in advance by Lockwood. Pershing shall provide monthly custodial statements for each Client Account. Consolidated performance reporting is available online.

#### Lockwood Asset Allocation Portfolios (LAAP)

Minimum account size of \$50,000 is required for this account. Exceptions possible depending on circumstances.

Assets	LAAP Fee (basis points)
First \$500,000	40
Next \$500,000	35
Next \$4,000,000	30
Next \$5,000,000	25
Next \$10,000,000	20

This program fee includes Lockwood management fee, clearing, custodial and execution paid to Lockwood's affiliate Pershing, LLC. The Program fee will be billed quarterly in advance. Additional expenses associated with the specific underlying investment vehicles (such as 12b-1 fees, redemption fees and internal expense fees) may apply.

#### FAS Investment Management Services

Investment management services offered by FAS may include:

- Investment analysis;
- Quarterly performance reporting;
- Advice on socially responsible investments;
- Assistance to clients in obtaining and maintaining a thorough and accurate understanding of the client's financial situation in all areas of relevance;
- Review and analysis of various financial alternatives available to the client;
- Coordination of relationships with other professional advisors, legal counsel or other interested parties as the client may identify.

FAS will charge an annual fee to be payable quarterly in advance. Fees for accounts opened at any time other than the first day of a calendar quarter will be prorated based upon the number of days remaining in a quarter after termination has been received.

Asset Total	Asset Fee (Maximum Allowable)
\$0 – \$250,000*	2.75%
\$250,001 - \$500,000	2.50%
\$500,001 - \$750,000	2.25%
\$750,001 - \$1,000,000	2.00%
\$1,000,001 - \$2,500,000	1.50%
Greater than \$2,500,000	1.25%

\*Minimum advisory account size is \$50,000



### FAS Financial Planning

FAS's estate and business planning services are generally provided to advisory clients on a monthly fee basis, which is negotiable between FAS and the client. Among the factors that will be taken into consideration in determining the fee is the amount of time an adviser representative must spend completing a client's financial analysis, the client's income and net worth, and the complexity of the client's financial situation. Fees are detailed below:

- Percentage of assets for which the plan is made, depending upon the size and make-up of the overall client portfolio, as agreed to in advance by client.
- An hourly rate of \$200 per hour minimum.
- Fixed fee are negotiated depending on the size and complexity of the plan. Payment is due upon delivery of the plan.
- FAS will not accept fees in excess of \$500 for more than 6 months in advance.

In addition, after adoption and implementation of the plan, an annual review of the plan is available under a separately negotiated agreement for a negotiated mutually agreeable fee.

In some cases FAS fees may be provided on an hourly basis, which is negotiable between FAS and the client based upon the factors listed above. Generally, the hourly rate is \$200 per hour. However, it is negotiable and may be higher depending upon the complexity of the client's financial situation.

In addition to the planning fees, FAS's adviser representatives and affiliates of FAS may receive-selling commissions or other compensation for insurance products. Any such compensation will be received in the capacity of a Financial Representative or other approved outside business activity, and not as an Adviser Representative. In the case where a client invests in a mutual fund, the client may also indirectly pay for the expenses and advisory fees charged by the mutual fund companies in which they invest.

### FAS Financial Planning Seminars

FAS may also provide seminar services by allowing its adviser representative to present approved estate and financial planning related seminar programs. FAS will select the seminar materials and also provide other related educational information for use at the seminars. The information contained in the seminar materials is not intended to be specific investment advice and does not purport to meet the investment objectives or needs of specific individuals or accounts. Attendance at a seminar does not create an advisory client relationship between FAS and seminar attendees. Seminar attendees are not considered advisory clients unless an attendee enters into a written advisory agreement with FAS subsequent to attendance at a seminar. Fees may be charged either for seminar attendance and/or for seminar materials that will be distributed to attendees.

### FAS Special Projects and Consulting

After a financial planning engagement has ended, a client may request and contract for the review of the financial plan. In general, FAS will charge \$400 per hour fee for such reviews, but the review fee is negotiable between FAS and the client based on the client's net worth and the nature of any changed circumstances. Any other special projects requested by the client will also be charged as an hourly fee.

## General Information About Fees

### Fee Only

- FAS is compensated solely by fees paid by its clients and does not accept commissions or compensation from any other source (i.e., mutual funds, insurance products or any other investment product).
- Fees are Negotiable  
In certain circumstances, fees may be negotiable.
- Fee Calculation  
The fee charged is calculated as described above and is not charged on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of an advisory client (Section 205(a)(1) of the Advisers Act).
- Termination of Advisory Relationship.  
A client agreement may be terminated at any time, by either party, for any reason upon written notice of either party. The client has the right to terminate an agreement without penalty within five (5) business days after entering into the agreement. Clients will receive, where applicable, a prorated refund of any prepaid advisory fees. Such prorated refund will be based upon actual services incurred up to and at the time of termination of FAS' services.
- Mutual Fund Fees  
All fees paid to FAS for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without the services of FAS. In that case, the client would not receive the services provided by FAS which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. To the extent that client assets are invested in money market funds or cash positions, the fees for monitoring those assets are in addition to the fees included in the internal expenses of those funds paid to their own investment managers, which are fully disclosed in each fund's prospectus. Accordingly, the client should review both the fees charged by the funds and the fees charged by FAS to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.
- Trading and other Costs  
All fees paid to FAS for investment advisory services are separate and distinct from transaction fees and/or custodian fees charged by broker dealers associated with the purchase and sale of equity securities and mutual funds. In addition, fees do not include the services of any co-fiduciaries, accountants, brokers or attorneys.
- Direct Debiting of Client Accounts  
Advisory fees may be directly debited from a client account only if the client provides written authorization permitting FAS's fees to be paid directly from the client's account held by an independent custodian and the custodian agrees to send to the client a statement, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to FAS.

## **6. PERFORMANCE-BASED FEES and SIDE-BY-SIDE MANAGEMENT**

FAS investment advisor representatives are compensated with performance based fees (incentive fees) for their placement activities in the various entities described in Section 10 of this document. FAS does not engage in Side-By-Side Management.

## **7. TYPES OF CLIENTS**

FAS's client base consists of high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, and corporate and business entities. Accepted account size is negotiable.

## **8. METHODS of ANALYSIS, INVESTMENT STRATEGIES and RISK OF LOSS**

Advisory representatives may use, without limitation, any of the following methods of analysis, sources of information and investment strategies: financial newspapers and magazines; inspections of corporate activities; corporate rating services such as Morningstar; and, annual reports, prospectuses and press releases. Advisory representatives may also utilize different investment strategies, based upon the needs of the client, which include long-term purchases, as well as, trading.

Investment advice may be offered on any investments held by a client at the start of the advisory relationship. In addition, advice will be given (but not necessarily recommendations) on all types of equity securities, mutual funds, certificate of deposits, corporate debt securities, municipal securities and government securities.

The main risk involved with FAS investment strategies is market fluctuation. All clients are advised that investing in securities involves risk of loss. The advisory representative assists the client with determining whether the client is able to bear such risks.

## **9. DISCIPLINARY INFORMATION**

Some FAS advisers may have supplemental disclosure information. See Section 19D for further information.

## **10. OTHER FINANCIAL ACTIVITIES and AFFILIATIONS**

FAS's primary business is financial management, of which investment management is a major component. FAS also offers comprehensive financial planning and consulting services. In addition, FAS advisers may be registered representatives of Fulcrum Securities and may be insurance licensed. These advisers may recommend securities and/or insurance products to clients of FAS and may earn reasonable and customary commissions on the sale of such securities and/or insurance products.

## **11. CODE of ETHICS, PARTICIPATION or INTEREST in CLIENT TRANSACTIONS and PERSONAL TRADING**

**A.** FAS has adopted a Code of Ethics pursuant to Rule 204A-1 of the Investment Advisers Act of 1940, as amended, to prevent violations of federal securities laws. The Code of Ethics is predicated on the principle that FAS owes a fiduciary duty to its clients. Accordingly, FAS expects all employees to act with honesty, integrity and professionalism and to adhere to federal securities laws. All officers, directors, members and employees of FAS and any other person who provides advice on behalf of FAS and is subject to FAS's control and supervision are required to adhere to the Code of Ethics. FAS's Code of Ethics allows the purchase of IPOs or private placements only with prior permission from FAS's Chief Compliance Officer. Clients may request to receive, at no cost, a copy of FAS's Code of Ethics, which contains its policies on employee trading, gifts, and outside business activities. Gifts of nominal value are acceptable, and all employees must disclose any outside business activities generating revenue, which must be approved by FAS's Chief Compliance Officer.

**B. Buys or Sells For FAS Securities That FAS Representatives Also Recommend To Clients**

From time to time, FAS may recommend to clients that they purchase or sell specific securities or investments in which FAS or its related personnel have some financial interest. In addition, FAS or individuals associated with FAS may buy, sell, or hold in their personal accounts the same securities that FAS recommends to its clients and in accordance with its internal compliance procedures. Such trades will occur simultaneously with or after trades placed on behalf of clients.

**C. Participation or Interest in Client Transactions**

FAS or individuals associated with FAS may buy, sell, or hold in their personal accounts the same securities that FAS recommends to its clients and in accordance with its internal compliance procedures. Such trades will occur simultaneously with or after trades placed on behalf of clients.

To minimize conflicts of interest, and to maintain the fiduciary responsibility FAS has for its clients established the following policy: An officer, director, or employee of FAS shall not buy or sell securities for a personal portfolio when the decision to purchase is substantially derived, in whole or in part, by reason of employment with FAS, unless the information is also available to the investing public on reasonable inquiry. No person associated with FAS shall prefer his or her own interest to that of any client. Personal trades in securities being purchased or sold for clients may be effected simultaneously with or after trades are effected for clients. FAS personnel may not anticipate trades to be placed for clients.

**12.A. 2. BROKERAGE FOR CLIENT REFERRALS**

FAS does not have the incentive to select or recommend a broker/dealer based on its interest in receiving client referrals.

**12.A.3. DIRECTED BROKERAGE**

Certain clients may direct FAS to use particular brokers for executing transactions in their accounts. To the extent brokerage transactions are placed with particular brokers as directed by a client, FAS' ability to achieve best execution may be eliminated. Clients who direct FAS to use particular brokers may pay higher commissions than those that do not. FAS reserves the right to decline acceptance of any client account that directs the use of a broker dealer other than Fulcrum Securities LLC, if FAS believes that the broker dealer would adversely affect FAS's fiduciary duty to the client and/or ability to effectively service the client portfolio.

**12.3.B. AGGREGATION and ALLOCATION OF TRADES**

It is the objective of FAS to provide a means of allocating trading and investment opportunities between advisory clients on a fair and equitable basis and in compliance with all applicable state and federal guidelines. With respect to clients' accounts with substantially similar investment objectives and policies, FAS may often seek to purchase or sell a particular security in each account. FAS will aggregate orders only when such aggregation is consistent with FAS's duty to seek best execution and is consistent with the investment objective of each client. No client account will be unfairly favored over any other account.

Each client that participates in an aggregated order will participate based on the average execution price in that particular security. All transaction costs will be allocated *pro rata* based on each client's participation in the transaction. All securities purchased or sold, whether the order is filled completely or partially, will then be allocated *pro rata* based on the assets of each account.

### **13. REVIEW of ACCOUNTS**

#### Investment Management Services Reviews

While the underlying securities within Investment Management Services accounts are continuously monitored, these accounts are reviewed no less frequently than annually. Accounts are reviewed in the context of each client's stated investment objectives and guidelines, ensuring that the structure of the portfolio is coordinated with these objectives. In addition, investment returns will be measured against the appropriate benchmarks in each asset class. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

#### Reports

Clients will receive statements at least quarterly. Additionally, monthly statements will be generated as a result of investment activity by the client's separate custodian. Confirmation statements will be issued for all trading activity. Monthly and/or quarterly statements will include portfolio holdings, dates and amounts of transactions, and current and prior statement values.

#### Financial Planning Reviews

These client accounts will be reviewed as contracted for at the inception of the advisory relationship.

#### Reports

Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for at the inception of the advisory relationship.

#### Consulting Services Reviews

These client accounts will be reviewed as contracted for at the inception of the advisory relationship.

#### Reports

Due to the nature of this service, FAS will not typically provide reports unless contracted for at the inception of the advisory relationship.

All client accounts are reviewed by the Branch Office Managers of FAS.

### **14. CLIENT REFERRALS and OTHER COMPENSATION**

FAS does not directly or indirectly receive or give any economic benefit for providing investment advice or other advisory services to our clients from or to anyone other than our clients.

### **15. CUSTODY**

FAS does not have custody of any client funds or securities.

### **16. INVESTMENT DISCRETION**

FAS may request that it be provided with written authority (Limited Power of Attorney) to determine the amounts of securities that are bought or sold. Any limitations on this discretionary authority shall be included in this written authority statement. Clients may change or amend these limitations as required. All such amendments shall be submitted in writing. When authorized by the client, FAS generally has discretionary authority to make the following determinations without obtaining the consent of the client before the transactions are effected: (1) which securities are bought and sold for the account and (2) the total amount of securities to be bought and sold. FAS's authority in making investment related decisions may be limited by account guidelines, investment objectives and trading restrictions, as agreed between FAS and the client.

## 17. VOTING CLIENT SECURITIES

FAS does not vote proxies on behalf of its clients. Therefore, although FAS may provide investment advisory services relative to client investment assets, FAS's clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceeding or other type events pertaining to the client's investment assets. FAS and/or the client shall correspondingly instruct each custodian of the assets to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

## 18. FINANCIAL INFORMATION

### Prepayments

FAS does not require or solicit prepayments of more than \$500 in fees per client, six months or more in advance.

### **18.B.**

#### Financial Condition

There are no financial conditions that are likely to impair FAS's ability to meet its commitments to clients.

### **18.C.**

#### Bankruptcy

FAS has not ever been subject to a bankruptcy.

## 19. REQUIREMENTS FOR STATE ADVISORS

### **EDUCATION AND BUSINESS STANDARDS**

Persons associated with FAS who provide investment advice to clients are required to have a requisite licensing and qualifications, including several years of investment experience or general business experience. Each IAR must also be registered in each State in which they provide advisory services.

### **BIOGRAPHICAL INFORMATION**

**William P. Behrens**, the firm's President & CEO was born in 1938. Before joining FAS IN 2008, Mr. Behrens served as Vice Chairmen of Northeast Securities, Inc., a financial services firm in New York where he was responsible for private client and institutional brokerage and asset management. Bill got his start on Wall Street as a securities analyst with Ernst & Company. He was later made Partner of the Firm and ultimately worked his way to CEO and Chairman of the Board. In all, Bill spent over 35 years with Ernst & Company and its successor company Investec LTD. Mr. Behrens has held a variety of senior positions in the financial services industry including ones with the Securities Industry Association, the Options Clearing Corporation, the American Stock Exchange, and the National Association of Securities Broker Dealers (now FINRA). Bill graduated from Bernard Baruch College, City University of New York, and serves as Trustee Emeritus of both the Museum of American Financial History and The Battery Conservancy. Bill also serves as a Director of ProPapa Missions America, a not-for –profit organization that provides medical services, education funding, and home construction to the indigenous peoples of Honduras. Mr. Behrens devotes approximately 20% of his time to FAS and the remainder with Fulcrum Securities, LLC.

Mr. Behrens does have past disciplinary disclosure which can be reviewed at <http://brokercheck.finra.org>.

**Cynthia D. Lyons**, Secretary and Chief Compliance Officer was born in 1968. Ms. Lyons attended Robert Morris University prior to beginning her career in the securities industry. Ms. Lyons joined FAS and

Fulcrum Securities, LLC in 2008. Her experience extends over 20 years, beginning her career with Stifel, Nicolaus & Co. in 1987. Her industry background includes retail and institutional brokerage operations, administration and finance. After leaving Stifel Nicolaus in 1995, Ms. Lyons was associated with two boutique retail broker/dealers and two investment banking firms, the last of which was Flagstone Securities, LLC in St. Louis, MO. During her tenure in banking she served a variety of functions including the Financial Operations Principal, Compliance Officer, and Operations Manager. She has a broad array of experience with the operational and compliance responsibilities related to private placement offerings and initial and secondary public offerings. She holds FINRA licensing as General Securities Principal, Financial Operations Principal, Options Principal, and General Securities Representative. Ms. Lyons devotes approximately 20% of her time with FAS and the remainder with Fulcrum Securities, LLC

Ms. Lyons does not have any current or past disciplinary disclosures.

#### 19.C. Calculation of Fees

See Item 5 of Part 2A.

#### 19.D. Disclosures

Some FAS advisers may have disclosure information. The adviser will provide a Supplemental Disclosure to all potential clients. In addition, the Supplemental Disclosure will be provided upon request.

#### 19.E. Relationships with Issues of Securities

FAS and its associated person does not have any relationship or arrangement with any issuer of securities that are not listed in Item 10C of Part 2A.

### **CLIENT COMPLAINTS**

Clients may contact Cynthia Lyons, Chief Compliance Officer of FAS, at (314) 336-3120 to submit a complaint. Written complaints should be sent to Fulcrum Advisory Services, LLC, 11975 Westline Industrial Drive, St. Louis, MO 63146.