

## **Item 1: Cover Page**

### **Part 2A of Form ADV Firm Brochure**

January 9, 2014

#### **Main Street Financial Management LLC**

SEC File No. 801-77405

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This brochure provides information about the qualifications and business practices of Main Street Financial Management LLC. If you have any questions about the contents of this brochure, please contact David Lyon at 312-635-1700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration with the SEC or state regulatory authority does not imply a certain level of skill or expertise.

Additional information about Main Street Financial Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2: Material Changes**

This Firm Brochure is our disclosure document prepared according to new regulatory requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

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## Item 4: Advisory Business

### A. Description of Your Advisory Firm

Main Street Financial Management LLC ("MSFM," "we," "us," and/or the "firm") is an SEC-registered investment adviser based in Chicago, Illinois. The firm is a Delaware limited liability company, and is not a subsidiary of, nor does it control, another industry entity. David Lyon is the firm's managing member, and he maintains a majority of the firm's membership units (i.e., shares). The firm has been offering investment advisory services since 2012.

### B. Description of Advisory Services Offered

MSFM provides a range of investment advisory solutions to its clients. We provide investment management services through the engagement of third-party institutional investment managers, as well as ongoing and continuous supervision of clients' portfolios through our own investment supervisory services offering. For those interested in areas such as cash flow and budgeting, education funding, retirement planning, risk management and estate planning, as well as investment advice, we provide our financial planning and investment consultation services.

MSFM gathers required information through in-depth personal interviews and questionnaires. Information gathered includes a client's current financial status, investment objectives, future goals, and attitudes toward risk, which may include the following information and/or documents:

- Wills, codicils, and trusts
- Insurance policies
- Mortgage information
- Tax returns
- Current financial specifics including W-2s or 1099s
- Information on current retirement plans and benefits provided by your employer
- Statements reflecting current investments in retirement and non-retirement accounts
- Completed risk profile questionnaires or other forms provided by our firm

It is important that the information and financial statements you provide are accurate. We may, but are not obligated to, verify the information you have provided, which will then be used in the financial planning or investment advisory process.

We do not provide legal or accounting services. With your consent, we may work with your other advisors (attorneys, accountant, etc.) to assist with coordination and implementation of accepted strategies. You should be aware that these other advisors will charge you separately for their services and these fees will be in addition to our advisory fees.

Our firm will use its best judgment and good faith effort in rendering its services. MSFM cannot warrant or guarantee any particular level of account performance or that your account will be profitable over time. Past performance is not necessarily indicative of future results.

**B.1. Financial Planning and Investment Consultation Services**

We generally do not charge for financial planning and investment consultation services provided the client has engaged us to supervise the client's investment assets on an ongoing basis.

Our services may be broad-based (sometimes coined "comprehensive planning") or more narrowly focused, as you desire. If several or all of the services described are provided together through a broad-based plan, the total time needed to complete these services may be less than the time it would take to complete each service separately because of the efficiency gained by combining more than one service.

*Cash Flow and Debt Management* - We will conduct a review of your income and expenses to determine your current surplus or deficit along with advice on prioritizing how any surplus should be used or how to reduce expenses if they exceed your income. Advice may also be provided on which debts to pay off first based on factors such as the interest rate of the debt and any income tax ramifications. We may also recommend what we believe to be an appropriate cash reserve that should be considered for emergencies and other financial goals, a review of accounts (such as money market funds) for such reserves, plus strategies to save desired amounts.

*Risk Management* - Our services include an analysis of your exposure to major risks that could have a significant adverse impact on your financial picture, such as premature death, disability, property and casualty losses, or the need for long-term care. Advice is provided on ways to minimize such risks and about weighing the costs of purchasing insurance versus the benefits of doing so and, likewise, the potential costs of not purchasing insurance (self-insuring).

*Employee Benefits* - We will provide review and analysis as to whether you, as an employee, are taking the maximum advantage possible in your employee benefits. If you are a business owner, we will consider and/or recommend the various benefit programs that can be structured to meet both business and personal retirement goals.

*Retirement Planning* - Our retirement planning services typically include projections of your likelihood of achieving your financial goals, with financial independence usually the primary objective. For situations where projections show less than the desired results, we may make recommendations that include showing you the impact on those projections by making changes in certain variables (i.e., working longer, saving more, spending less, taking more risk with investments). If you are near retirement or already retired, advice may be given on appropriate distribution strategies to minimize the likelihood of running out of money or having to adversely alter spending during your retirement years.

*Tax Planning Strategies* - While our firm does not offer tax preparation, we will work with your tax professional to assist in structuring your financial life to identify tax-saving opportunities. Our advice includes ways to minimize current and future income taxes as a part of your overall financial planning picture. For example, we may make recommendations on which type of account(s) or specific investments should be owned based in part on their "tax efficiency," with consideration that there is always a possibility of future changes to federal, state, or local tax laws and rates that may impact your situation.

*Education Planning* - Our college funding advisory services may include projecting the amount that will be needed to achieve post-secondary education funding goals, along with advice on ways for you to save the desired amount. Recommendations as to savings strategies are included, and advice might also include the “pros and cons” of various college savings vehicles, such as Section 529 college savings plans, and any advantages to you (i.e., reduction of income taxes) of using a particular state’s Section 529 plan or prepaid savings plan or another plan, such as Coverdell Education Savings Accounts.

*Estate Planning* - This usually includes an analysis of your exposure to estate taxes and your current estate plan, which may include whether you have a will, powers of attorney, trusts, and other related documents. Our advice also typically includes ways for you to minimize or avoid future estate taxes by implementing appropriate estate planning strategies, such as the use of applicable trusts. We always recommend that you consult with a qualified attorney when you initiate, update, or complete estate-planning activities. We may provide you with contact information for attorneys who specialize in estate planning when you wish to hire an attorney for such purposes. From time to time, with your approval or request, we will participate in meetings or phone calls between you and your attorney.

*Investment Consultation* - Our investment consultation services may involve providing information on the types of investment vehicles available, employee stock options, investment analysis and strategies, asset selection and portfolio design, as well as assisting you in establishing your own investment account at a selected broker-dealer, custodian, or third-party investment manager (collectively, we term as “service providers”). The strategies and types of investments we may recommend are further discussed in Item 8 of this brochure.

*Periodic Review* - We strongly urge our clients to notify us of any change in their circumstances and to schedule a review any time there is such a change. An annual review should be considered even if there is not a substantial change, because tax laws, estate laws, and insurance and investment products are rapidly evolving.

#### **B.1.a. Broad-Based vs. Modular Planning**

A broad-based plan is an endeavor that requires detail; therefore, certain variables can affect the cost involved in the development of the plan: the quality of your own records, complexity and number of current investments, diversity of insurance products and employee benefits you currently hold, size of the potential estate, special needs of the client or their dependents, among others. While certain broad-based plans may require 10 or more hours to complete, complex plans may require more than 20 hours to complete.

Alternatively, we may concentrate on reviewing only a specific area (modular planning), such as college funding, portfolio allocations, or evaluating the sufficiency of your retirement plan.

Note that when these services focus only on certain areas of your interest or need, your overall situation or needs may not be fully addressed due to limitations you may have established. Whether a broad-based or modular plan, we will present you with a summary of our recommendations, guide you in the implementation of some or all of them, and offer periodic reviews thereafter.

Unless stated to the contrary in your agreement, upon completion of our presentation or delivery of advice through this form of planning service, our engagement is typically concluded. You are always encouraged to contact our firm at any time in the future to re-engage our services.

In all instances involving our financial planning and investment consultation services, you retain full discretion over all implementation decisions and are free to accept or reject any recommendation we make.

## **B.2. Investment Supervisory Services**

You may also engage our firm to implement investment strategies that we have recommended to you. Depending on your risk profile and needs, among other considerations, your portfolio may involve the employment of one or more investment strategies, as well as either a broad range or more narrowly focused choice of investment vehicles, described in further detail in Item 8 of this brochure.

We generally provide our investment supervisory services only under a discretionary authority agreement, and our services may include the following:

- Investment strategy
- Investment policy statement
- Asset allocation
- Asset selection
- Risk tolerance
- Regular portfolio monitoring
- Periodic rebalancing

Where appropriate, we will prepare an investment policy statement (IPS) or similar document reflecting your investment objectives, time horizon, tolerance for risk, as well as any account constraints you may have for the portfolio. Your IPS will be designed to be specific enough to provide future guidance while allowing flexibility to work with changing market conditions. Since the IPS to a large extent will be a product of information and data you have provided, you will be responsible for reviewing and providing final approval of the document/plan.

In addition to providing us with information regarding your personal financial circumstances, investment objectives and tolerance for risk, you are required to provide the firm with any reasonable investment restrictions that should be imposed on the management of your portfolio, and to promptly notify us of any changes in such restrictions or in your personal financial circumstances, investment objectives, goals and tolerance for risk. On a quarterly basis, our reports to you will remind you of your obligation to inform the firm of any such changes or any restrictions that should be imposed on the management of the client's account. We will also contact you at least annually to determine whether there have been any changes in your personal financial circumstances, investment objectives, and tolerance for risk.



**B.2.a. Self-Directed Brokerage Retirement Accounts (Discretionary)**

To the extent the client has a self-directed retirement plan brokerage account, MSFM, subject to written authorization from the client, will exercise investment discretion in accordance with the provisions of Items 4.B.2. and 16 of this Brochure.

**B.2.b. Non-Brokerage Self-Directed Retirement Accounts (Non-Discretionary)**

MSFM will only provide non-discretionary portfolio management services to 401(k) plan participants who do not have a self-directed brokerage retirement plan account.

**B.3. Third-Party Investment Managers**

Following our consultation session and plan development, we may recommend you engage a third-party investment manager to implement a portion of your investment plan. Prior to recommending a third-party investment manager, our firm will conduct what we believe to be an appropriate level of due diligence to include ensuring the third-party manager is appropriately registered or notice-filed within your jurisdiction, if required.

At least annually thereafter, a due diligence review will be performed from both a compliance and performance perspective to determine that the selected third-party manager remains an appropriate fit. We will review each third-party investment manager's performance over an extended period of time and on a continuing basis, as well as at least quarterly, to discuss any potential concerns or recommended changes to our third-party managers.

Under this type of engagement, we will gather information from you about your financial situation, investment objectives, and reasonable restrictions you may want to impose on the management of the account, and we will then provide this data to the third-party investment manager to develop the portfolio. Third-party managers will invest on behalf of a client account in accordance with the strategies set forth in their own requisite documents, which will be provided to you by our firm prior to your portfolio employing their strategies.

The selected third-party investment manager typically assumes discretionary authority over an account, and some of these programs may not be available for those clients who prefer an account to be managed under a non-discretionary engagement.

**C. Client-Tailored Services and Client-Imposed Restrictions**

Each client's account will be managed on the basis of the client's financial situation and investment objectives and in accordance with any reasonable restrictions imposed by the client on the management of the account—for example, restricting the type or amount of security to be purchased in the portfolio.

**D. Wrap Fee Programs**

MSFM does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

## **E. Client Assets Under Management**

As of December 31, 2012, MSFM has over \$224 million of client assets under its management, all under discretionary account authority.

## Item 5: Fees and Compensation

### A. Methods of Compensation and Fee Schedule

#### A.1. Investment Supervisory Fees

Our investment supervisory services fees include financial planning and consulting services, and advisory fees are based on the reporting period ending value of your account as described in the following table:

<u>Assets Under Managements</u>	<u>Annual Fee Rate</u>
First \$150,000	2.00%
Next \$500,000	1.00%
Next \$1,500,000	0.75%
Next \$3,000,000	0.65%
Next \$5,000,000	0.50%
Above \$10,150,000	Negotiable

For the benefit of discounting your asset-based fee, we may aggregate investment supervisory services accounts for the same individual or two or more accounts within the same family, or accounts where a family member has power of attorney over another family member's or incompetent person's account (family is defined as spouse, children, or parents). Should investment objectives be substantially different for any two or more household accounts, requiring different investment approaches or operational requirements, we reserve the right to apply our fee schedule separately to each account.

Asset-based fees are always subject to the investment advisory agreement between the client and MSFM. Our published fees may be discounted at the firm's discretion and are not negotiable. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs. We may modify the fee at any time upon 30 days' written notice to you.

Although MSFM may collect the third-party managers' fees, please understand that fees for our investment supervisory services are separate and distinct from the fees charged by such third-party managers.

A client investment advisory agreement may be canceled at any time by the client upon written notice, or by the firm upon 30 day's prior written notice. Upon termination of any account, any unearned, prepaid fees will be refunded. If the firm's Brochure was not delivered at least 48 hours prior to entering into the investment advisory contract, then the client has the right to terminate the engagement without penalty within five business days after entering into the agreement.

## **A.2. ERISA Fees**

### **A.2.a. Self-Directed Brokerage Retirement Accounts (Discretionary)**

Fees for self-directed brokerage retirement accounts (discretionary) will be 75 bps (0.75%). Such fees are always subject to the investment advisory agreement between the client and MSFM. Our published fees may be discounted at the firm's discretion and are not negotiable. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs. We may modify the fee at any time upon 30 days' written notice to you.

### **A.2.b. Non-Brokerage Self-Directed Retirement Accounts (Non-Discretionary)**

Fees for non-brokerage self-directed retirement accounts (non-discretionary) will be 50 bps (0.5%). Such fees are always subject to the investment advisory agreement between the client and MSFM. Our published fees may be discounted at the firm's discretion and are not negotiable. Such fees are payable quarterly in advance. The fees will be prorated if the investment advisory relationship commences otherwise than at the beginning of a calendar quarter. Adjustments for significant contributions to and distributions from a client's portfolio are prorated for the quarter in which the change occurs. We may modify the fee at any time upon 30 days' written notice to you.

## **A.3. Financial Planning and Consultation Services Fees (where there are no supervised assets)**

The firm generally does not charge for financial planning and investment consultation services provided the client has engaged the firm to supervise the client's investment assets on an ongoing basis. Should there be no supervised assets, the firm reserves the right to charge the client for financial planning and investment consultation services at a fixed fee that takes into consideration factors such as the estimated amount of time dedicated to the engagement as well as the complexity of the project and client financial profile, and the fee will range from \$1,500 to \$15,000. Fees are due upon delivery of the client plan or investment advice.

## **B. Client Payment of Fees**

Clients may elect to be billed directly for our fees or may authorize us to directly debit our fees from their accounts. Generally, our clients authorize us under our agreement to directly deduct our fees from the client's account. If the client provides us such authorization, the custodian's periodic statements will show each fee deduction from the account. Clients may withdraw this authorization for direct billing of these fees at any time by notifying us or their custodian in writing.

MSFM will deduct advisory fees directly from the client's account provided that (i) the client provides written authorization to the qualified custodian, and (ii) the qualified custodian sends

the client a statement, at least quarterly, indicating all amounts disbursed from the account. The client is responsible for verifying the accuracy of the fee calculation, as the client's custodian will not verify the calculation.

Annualized asset-based fees for investment supervisory and financial planning services will be billed quarterly in advance. The first billing cycle will begin once the agreement is in effect and will be prorated for the days remaining in the quarter. Fee payments will generally be assessed within 15 days of each billing cycle.

Accounts will be valued in accordance with the values disclosed on the statement the client receives from the custodian for the purpose of verifying the computation of the advisory fee. In the absence of a market value, MSFM may seek an independent third-party opinion or a good faith determination by a qualified associate of our firm.

### **C. Additional Client Fees Charged**

Any custodial or transactional fees (sometimes termed "brokerage fees") assessed by selected service providers, individual retirement account fees, or qualified retirement plan account termination fees will be borne by the account holder and are per those provided in current, separate fee schedules of any selected service provider.

All fees paid for investment advisory services are separate and distinct from the fees and expenses charged by exchange-traded funds, mutual funds, third-party investment managers, private placements, broker-dealers, and custodians retained by clients. Such fees and expenses are described in each exchange-traded fund and mutual fund's prospectus, each third-party investment manager's Form ADV and Brochure and Brochure Supplement or similar disclosure statement, each private placement's confidential offering memoranda, and by any broker-dealer or custodian retained by the client. Clients are advised to read these materials carefully before investing. If a mutual fund also imposes sales charges, a client may pay an initial or deferred sales charge as further described in the mutual fund's prospectus. A client using MSFM may be precluded from using certain mutual funds or separate account managers because they may not be offered by the client's custodian.

Please refer to the Brokerage Practices section (Item 12) for additional information regarding the firm's brokerage practices.

### **D. Prepayment of Client Fees**

MSFM requires the prepayment of investment supervisory fees. MSFM's fees will either be paid directly by the client or disbursed to MSFM by the qualified custodian of the client's investment accounts, subject to prior written consent of the client. The custodian will deliver directly to the client an account statement, at least quarterly, showing all investment and transaction activity for the period, including fee disbursements from the account.

A client investment advisory agreement may be canceled at any time by the client upon written notice, or by the firm upon 30 day's prior written notice. Upon termination of any account, any unearned, prepaid fees will be refunded. If the firm's Brochure was not delivered at least 48

hours prior to entering into the investment advisory contract, then the client has the right to terminate the engagement without penalty within five business days after entering into the agreement. Should the client terminate an engagement after this date, fees for any time or charges incurred by the firm in the preparation of a plan or investment allocation, and/or the number of days the investment account had been under the firm and any third-party investment manager's supervision, may be assessed. We will promptly return any unearned amount upon receipt of a written termination notice.

For those clients who utilize our third-party investment management or investment supervisory services, our firm will not be responsible for future allocations, transactional services, or investment advice upon receipt of a termination notice. Upon termination, it will be necessary that we inform the custodian and/or third-party investment manager serving the account that the relationship between the firm and the client has been terminated.

## **E. External Compensation for the Sale of Securities to Clients**

Our firm and any affiliated associates are engaged for fee-only services and we attempt to recommend "no load" investments whenever appropriate. We do not charge or receive a commission or mark-up on your securities transactions, nor will the firm and our associates be paid a commission on your purchase of a securities holding that we recommend.

We do not receive "trailer" or SEC Rule 12b-1 fees from an investment company we may recommend. Fees charged by issuers are detailed in prospectuses or product descriptions and you are encouraged to read these documents before investing. Our firm and its associates receive none of these described or similar fees or charges.

You have the option to purchase recommended investments through your own selected service provider, which would occur outside of our advisory services agreement (i.e., self-directed investing).

Certain professionals of MSFM are also licensed insurance agents. They may recommend insurance products and receive a commission for doing so. Please be advised there is a potential conflict of interest in that there is an economic incentive to recommend insurance products. Also be advised that MSFM professionals strive to put their clients' interests first and foremost. Other than for insurance products that require a securities license, such as variable insurance products, clients may utilize any insurance carrier or insurance agency they desire.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

MSFM does not charge performance-based fees and therefore has no economic incentive to manage clients' portfolios in any way other than what is in their best interests.

## Item 7: Types of Clients

We provide our advisory services to individuals and high-net worth individuals, trusts, estates, charitable organizations and foundations.

For investment services provided by MSFM, we do not require minimum income levels, minimum level of assets, or other conditions for our range of asset-based investment services. However, third-party investment managers may impose minimum account sizes or minimum fee requirements. Please review their disclosure documents carefully before investing.

Where there are no supervised assets to charge and the client engages MSFM to provide financial planning and consultation services, there is a minimum fee of \$1500, which the client may be able to obtain more favorable pricing elsewhere for comparable services.



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

### **A. Methods of Analysis and Investment Strategies**

#### **A.1. Method of Analysis**

When we are engaged to provide investment advice to a client, we will first gather and consider several factors, including the following:

- Current financial situation
- Current and long-term needs
- Investment goals and objectives
- Level of investment knowledge
- Tolerance and appetite for risk
- Social concerns involving investments
- Restrictions, if any, on the management of their portfolio

We may employ what we believe to be an appropriate blend of fundamental, technical, and cyclical analyses. For example, fundamental analysis may involve evaluating economic factors including interest rates, the current state of the economy, or the future growth of an industry sector. Technical and cyclical analysis may involve studying the historical patterns and trends of securities, markets, or economies as a whole in an effort to determine potential future behaviors, the estimation of price movement, and an evaluation of a transaction before entry into the market in terms of risk and profit potential.

In addition to our own research, the firm's recommendations may also be drawn from research sources that include corporate rating services, investment analysis and reporting software, materials from economists and other industry professionals, annual reports, prospectuses, and regulatory filings.

We make asset allocation and investment policy decisions based on these and other factors. We will discuss with you how, in our best judgment, to meet your objectives while at the same time seeking a prudent level of risk exposure.

#### **A.2. Investment Strategies**

We recognize that each client's needs and goals are different; subsequently, portfolio strategies and underlying investment vehicles may vary. Generally, we subscribe to a Core + Satellite investment strategy, which blends passive (or index) and active investing, where passive investments are used as the basis or "core" of a portfolio and actively managed investments are added as "satellite" positions.

With this strategy, the portfolio core holdings are indexed to potentially more efficient asset classes, while outlying selections are often limited to active holdings that are attempting to outperform a particular sector, or a selection of particular positions to increase core diversification, or to improve portfolio performance, or reduce risk during downward trends in the market and during times of uncertainty.

For example, the core of a portfolio may be built with low-cost index funds or ETFs/ETNs; satellite holdings would include active holdings with unique strategies that are believed capable of adding value beyond a stated benchmark over a full market cycle. The core may represent the majority of the total portfolio, using primarily index funds or index-based ETFs/ETNs. The remainder of the portfolio may then employ mutual funds, ETFs/ETNs, and managed futures funds that take a shorter duration to assist in the over-or-under allocation to specific sectors, regions, assets classes, etc.

### **A.3. Mutual Funds, Third-Party Separate Account Managers, Limited Offerings, and Individual Securities**

MSFM may recommend (i) separate account managers to manage client assets; (ii) no-load and load-waived mutual funds and individual securities (including fixed income instruments); and (iii) limited offerings. Such management styles will include, among others, large-cap, mid-cap and small-cap value, growth and core; international and emerging markets; and alternative investments. MSFM may also assist the client in selecting one or more appropriate manager(s) for all or a portion of the client's portfolio. Such managers will typically manage assets for clients who commit to the manager a minimum amount of assets established by that manager—a factor that MSFM will take into account when recommending managers to clients.

A description of the criteria to be used in formulating an investment recommendation for mutual funds, ETFs/ETNs, individual securities (including fixed-income securities), managers, and limited offerings is set forth below.

MSFM has formed relationships with third-party vendors that

- provide a technological platform for separate account management
  - prepare performance reports
- perform due diligence monitoring of mutual funds, managers and limited offerings
- perform billing and certain other administrative tasks

MSFM may utilize additional independent third parties to assist it in recommending and monitoring individual securities, mutual funds, managers and limited offerings to clients as appropriate under the circumstances.

MSFM reviews certain quantitative and qualitative criteria related to mutual funds and managers and to formulate investment recommendations to its clients. Quantitative criteria may include

- the performance history of a mutual fund or manager evaluated against that of its peers and other benchmarks
- an analysis of risk-adjusted returns
- an analysis of the manager's contribution to the investment return (e.g., manager's alpha), standard deviation of returns over specific time periods, sector and style analysis
- the fund, sub-advisor or manager's fee structure
- the relevant portfolio manager's tenure

Qualitative criteria used in recommending mutual funds or managers include the investment objectives and/or management style and philosophy of a mutual fund or manager; a mutual

fund or manager's consistency of investment style; and employee turnover and efficiency and capacity. MSFM will discuss relevant quantitative and qualitative factors pertaining to its recommendations with clients prior to a client's determination to retain a mutual fund or manager.

Quantitative and qualitative criteria related to mutual funds and managers are reviewed by MSFM on a quarterly basis or such other interval as mutually agreed upon by the client and MSFM. In addition, mutual funds or managers are reviewed to determine the extent to which their investments reflect efforts to time the market, or evidence style drift such that their portfolios no longer accurately reflect the particular asset category attributed to the mutual fund or manager by MSFM (both of which are negative factors in implementing an asset allocation structure). Based on its review, MSFM will make recommendations to clients regarding the retention or discharge of a mutual fund or manager.

MSFM may negotiate reduced account minimum balances and reduced fees with managers under various circumstances (e.g., for clients with minimum level of assets committed to the manager for specific periods of time, etc.). There can be no assurance that clients will receive any reduced account minimum balances or fees, or that all clients, even if apparently similarly situated, will receive any reduced account minimum balances or fees available to some other clients. Also, account minimum balances and fees may significantly differ between clients. Each client's individual needs and circumstances will determine portfolio weighting, which can have an impact on fees given the funds or managers utilized. MSFM will endeavor to obtain equal treatment for its clients with funds or managers, but cannot assure equal treatment.

MSFM will regularly review the activities of mutual funds and managers selected by the client. Clients that engage managers or who invest in mutual funds should first review and understand the disclosure documents of those managers or mutual funds, which contain information relevant to such retention or investment, including information on the methodology used to analyze securities, investment strategies, fees and conflicts of interest. Similarly, clients qualified to invest in limited offerings should review the private placement memoranda or other disclosure materials relating to such vehicles before making a decision to invest.

#### **A.4. Material Risks of Investment Instruments**

MSFM typically invests in open-end mutual funds and exchange-traded funds for the vast majority of its clients. However, for certain clients, MSFM may effect transactions in the following types of securities:

- Equity securities
- Warrants and rights
- Mutual fund securities
- Exchange-traded funds
- Exchange-traded notes
- Fixed income securities
- Corporate debt securities, commercial paper, and certificates of deposit
- Municipal securities

- U.S. government securities
- Private placements

#### **A.4.a. Equity Securities**

Investing in individual companies involves inherent risk. The major risks relate to the company's capitalization, quality of the company's management, quality and cost of the company's services, the company's ability to manage costs, efficiencies in the manufacturing or service delivery process, management of litigation risk, and the company's ability to create shareholder value (i.e., increase the value of the company's stock price). Foreign securities, in addition to the general risks of equity securities, have geopolitical risk, financial transparency risk, currency risk, regulatory risk and liquidity risk.

#### **A.4.b. Warrants and Rights**

Warrants are securities, typically issued with preferred stock or bonds that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

#### **A.4.c. Mutual Fund Securities**

Investing in mutual funds carries inherent risk. The major risks of investing in a mutual fund include the quality and experience of the portfolio management team and its ability to create fund value by investing in securities that have positive growth, the amount of individual company diversification, the type and amount of industry diversification, and the type and amount of sector diversification within specific industries. In addition, mutual funds tend to be tax inefficient and therefore investors may pay capital gains taxes on fund investments while not having yet sold the fund.

#### **A.4.d. Exchange-Traded Funds ("ETFs")**

ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> ("QQQs<sup>SM</sup>"), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market. The funds, as a shareholder of another investment company, will bear their pro-rata portion of the other investment company's advisory fee and other expenses, in addition to their own expenses.

Investing in ETFs involves risk. Specifically, ETFs, depending on the underlying portfolio and its size, can have wide price (bid and ask) spreads, thus diluting or negating any upward price movement of the ETF or enhancing any downward price movement. Also, ETFs require more frequent portfolio reporting by regulators and are thereby more susceptible to actions by hedge funds that could have a negative impact on the price of the ETF. Certain ETFs may employ leverage, which creates additional volatility and price risk depending on the amount of leverage utilized, the collateral and the liquidity of the supporting collateral.

Further, the use of leverage (i.e., employ the use of margin) generally results in additional interest costs to the ETF. Certain ETFs are highly leveraged and therefore have additional volatility and liquidity risk. Volatility and liquidity can severely and negatively impact the price of the ETF's underlying portfolio securities, thereby causing significant price fluctuations of the ETF.

#### **A.4.e. Exchange-Traded Notes ("ETNs")**

ETNs are structured debt securities. ETNs' liabilities are unsecured general obligations of the issuer. Most ETNs are designed to track a particular market segment or index. ETNs have expenses associated with their operation, with investors bearing a pro rata portion of the ETN's expenses. The risks of owning an ETN generally reflect the risks of owning the underlying securities the ETN is designed to track, although lack of liquidity in an ETN could result in it being more volatile than the underlying portfolio of securities. In addition, because of ETN expenses, compared to owning the underlying securities directly it may be more costly to own an ETN. The value of an ETN security should also be expected to fluctuate with the credit rating of the issuer.

#### **A.4.f. Fixed Income Securities**

Fixed income securities carry additional risks than those of equity securities described above. These risks include the company's ability to retire its debt at maturity, the current interest rate environment, the coupon interest rate promised to bondholders, legal constraints, jurisdictional risk (U.S or foreign) and currency risk. If bonds have maturities of ten years or greater, they will likely have greater price swings when interest rates move up or down. The shorter the maturity the less volatile the price swings. Foreign bonds have liquidity and currency risk.

#### **A.4.g. Corporate Debt, Commercial Paper, and Certificates of Deposit**

Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, the firm may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

Commercial paper and certificates of deposit are generally considered safe instruments, although they are subject to the level of general interest rates, the credit quality of the issuing bank and the length of maturity. With respect to certificates of deposit, depending on the length of maturity there can be prepayment penalties if the client needs to convert the certificate of deposit to cash prior to maturity.

#### **A.4.h. Municipal Securities**

Municipal securities carry additional risks than those of corporate and bank-sponsored debt securities described above. These risks include the municipality's ability to raise additional tax revenue or other revenue (in the event the bonds are revenue bonds) to pay interest on its debt and to retire its debt at maturity. Municipal bonds are generally tax free at the federal level, but may be taxable in individual states other than the state in which both the investor and municipal issuer is domiciled.

#### **A.4.i. U.S. Government Securities**

U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States.

#### **A.4.j. Private Placements**

Private placements carry significant risk in that companies using the private placement market conduct securities offerings that are exempt from registration under the federal securities laws, which means that investors do not have access to public information and such investors are not provided with the same amount of information that they would receive if the securities offering was a public offering. Moreover, many companies using private placements do so to raise equity capital in the start-up phase of their business, or require additional capital to complete another phase in their growth objective. In addition, the securities issued in connection with private placements are restricted securities, which means that they are not traded on a secondary market, such as a stock exchange, and they are thus illiquid and cannot be readily converted to cash.

## **B. Investment Strategy and Method of Analysis Material Risks**

Our investment strategy is custom-tailored to the client's goals, investment objectives, risk tolerance, and personal and financial circumstances.

### **B.1. Margin Leverage**

Although MSFM, as a general business practice, does not utilize leverage, there may be instances in which exchange-traded funds, other separate account managers and, in very limited circumstances, MSFM will utilize leverage. In this regard please review the following:

The use of margin leverage enhances the overall risk of investment gain and loss to the client's investment portfolio. For example, investors are able to control \$2 of a security for \$1. So if the

price of a security rises by \$1, the investor earns a 100% return on their investment. Conversely, if the security declines by \$.50, then the investor loses 50% of their investment.

The use of margin leverage entails borrowing, which results in additional interest costs to the investor.

Broker-dealers who carry customer accounts require a minimum equity requirement when clients utilize margin leverage. The minimum equity requirement is stated as a percentage of the value of the underlying collateral security with an absolute minimum dollar requirement. For example, if the price of a security declines in value to the point where the excess equity used to satisfy the minimum requirement dissipates, the broker-dealer will require the client to deposit additional collateral to the account in the form of cash or marketable securities. A deposit of securities to the account will require a larger deposit, as the security being deposited is included in the computation of the minimum equity requirement. In addition, when leverage is utilized and the client needs to withdraw cash, the client must sell a disproportionate amount of collateral securities to release enough cash to satisfy the withdrawal amount based upon similar reasoning as cited above.

Regulations concerning the use of margin leverage are established by the Federal Reserve Board and vary if the client's account is held at a broker-dealer versus a bank custodian. Broker-dealers and bank custodians may apply more stringent rules as they deem necessary.

### **B.2. Short-Term Trading**

Although MSFM, as a general business practice, does not utilize short-term trading, there may be instances in which short-term trading may be necessary or an appropriate strategy. In this regard, please read the following:

There is an inherent risk for clients who trade frequently in that high-frequency trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

### **B.3. Short Selling**

MSFM generally does not engage in short selling but reserves the right to do so in the exercise of its sole judgment. Short selling involves the sale of a security that is borrowed rather than owned. When a short sale is effected, the investor is expecting the price of the security to decline in value so that a purchase or closeout of the short sale can be effected at a significantly lower price. The primary risks of effecting short sales is the availability to borrow the stock, the unlimited potential for loss, and the requirement to fund any difference between the short credit balance and the market value of the security.

### **B.4. Option Strategies**

Various option strategies give the holder the right to acquire or sell underlying securities at the contract strike price up until expiration of the option. Each contract is worth 100 shares of the underlying security. Options entail greater risk but allow an investor to have market exposure to a particular security or group of securities without the capital commitment required to purchase



the underlying security or groups of securities. In addition, options allow investors to hedge security positions held in the portfolio. For detailed information on the use of options and option strategies, please contact the Options Clearing Corporation for the current Options Risk Disclosure Statement.

MSFM as part of its investment strategy may employ the following option strategies:

- Covered call writing
- Long call options purchases
- Long put options purchases

#### **B.4.a. Covered Call Writing**

Covered call writing is the sale of in-, at-, or out-of-the-money call option against a long security position held in the client portfolio. This type of transaction is used to generate income. It also serves to create downside protection in the event the security position declines in value. Income is received from the proceeds of the option sale. Such income may be reduced to the extent it is necessary to buy back the option position prior to its expiration. This strategy may involve a degree of trading velocity, transaction costs and significant losses if the underlying security has volatile price movement. Covered call strategies are generally suited for companies with little price volatility.

#### **B.4.b. Long Call Option Purchases**

Long call option purchases allow the option holder to be exposed to the general market characteristics of a security without the outlay of capital necessary to own the security. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

#### **B.4.c. Long Put Option Purchases**

Long put option purchases allow the option holder to sell or “put” the underlying security at the contract strike price at a future date. If the price of the underlying security declines in value, the value of the long put option increases. In this way long puts are often used to hedge a long stock position. Options are wasting assets and expire (usually within nine months of issuance), and as a result can expose the investor to significant loss.

### **C. Security-Specific Material Risks**

There is an inherent risk for clients who have their investment portfolios heavily weighted in one security, one industry or industry sector, one geographic location, one investment manager, one type of investment instrument (equities versus fixed income). Clients who have diversified portfolios, as a general rule, incur less volatility and therefore less fluctuation in portfolio value than those who have concentrated holdings. Concentrated holdings may offer the potential for higher gain, but also offer the potential for significant loss.



## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

Neither MSFM nor its affiliates are registered broker-dealers and do not have an application to register pending.

### **B. Futures or Commodity Registration**

Neither MSFM nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator, or commodity trading adviser and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

#### **C.1. Investment Grade Technologies LLC**

Investment Grade Technologies LLC, a separately owned company by David Lyon, is a technology platform made available to MSFM clients, non-affiliated investment advisory firms, and their professionals for financial and estate planning purposes. MSFM clients receive access to this technology platform at no additional cost.

#### **C.2. Insurance Sales**

Certain managers, members, and registered employees of MSFM are licensed insurance agents. With respect to the provision of financial planning services, MSFM professionals may recommend insurance products offered by certain insurance carriers and receive commissions for sales of such products.

Please be advised that there is a potential conflict of interest in that there is an economic incentive to recommend insurance carriers and other investment products offered through such insurance carriers. Please also be advised that MSFM strives to put its clients' interests first and foremost. For products requiring a securities and insurance license, clients may be limited to those insurance carriers that have a selling agreement with MSFM's employing broker-dealer.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

Although MSFM does not receive any remuneration from advisers, investment managers, or other service providers that it recommends to clients, the firm engages sub-advisers to manage MSFM client accounts and receives a portion of the advisory fees charged by MSFM for its investment management services.

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

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

In accordance with the Advisers Act, MSFM has adopted policies and procedures designed to detect and prevent insider trading. In addition, MSFM has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of MSFM's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the chief compliance officer of MSFM. MSFM will send clients a copy of its Code of Ethics upon written request.

MSFM has policies and procedures in place to ensure that the interests of its clients are given preference over those of MSFM, its affiliates, and its employees. For example, there are policies in place to prevent the misappropriation of material non-public information, and such other policies and procedures reasonably designed to comply with federal and state securities laws.

### **B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest**

MSFM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory). In addition, MSFM does not recommend any securities to advisory clients in which it has some proprietary or ownership interest.

### **C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest**

MSFM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which MSFM specifically prohibits. MSFM has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest,
- prohibit front-running, and
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow MSFM's procedures when purchasing or selling the same securities purchased or sold for the client.

#### **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

MSFM, its affiliates, employees and their families, trusts, estates, charitable organizations, and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other MSFM clients. MSFM will make a reasonable attempt to trade securities in client accounts at or prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. Trades executed the same day will likely be subject to an average pricing calculation. It is the policy of MSFM to place the client's interests above those of MSFM and its employees.

## Item 12: Brokerage Practices

### A. Factors Used to Select Broker-Dealers for Client Transactions

#### A.1. Custodian Recommendations

When engaged to provide investment consultation services, we may recommend the service provider with whom your assets are currently maintained. Should you prefer a new service provider, our recommendation of another service provider would be based on your needs, overall cost, and ease of use.

MSFM considers the financial strength, reputation, operational efficiency, cost, execution capability, level of customer service, and related factors in recommending broker-dealers or custodians to advisory clients.

MSFM participates in the institutional customer program of TD Ameritrade Institutional, division of TD Ameritrade, Inc. ("TD Ameritrade"), member FINRA/SIPC/NFA, and may recommend TD Ameritrade to clients for custody and brokerage services. There is no direct link between MSFM's participation in the program and the investment advice it gives to its clients, although MSFM receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. Although MSFM may recommend that clients establish accounts at TD Ameritrade, it is the client's decision to custody assets with TD Ameritrade. MSFM is independently owned and operated and not affiliated with TD Ameritrade. For MSFM client accounts maintained in its custody, TD Ameritrade generally does not charge separately for custody services, but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through TD Ameritrade or that settle into TD Ameritrade accounts.

MSFM also receives from TD Ameritrade certain additional economic benefits ("Additional Services") that may or may not be offered to any other independent investment advisors participating in the program. Specifically, the Additional Services include BP Analytics, Yodlee, and Morningstar. TD Ameritrade provides the Additional Services to MSFM in its sole discretion and at its own expense, and MSFM does not pay any fees to TD Ameritrade for the Additional Services. MSFM and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

MSFM's receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to MSFM, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, MSFM's client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with MSFM, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, MSFM may have an incentive to recommend to its clients that the assets under management by MSFM be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. MSFM's receipt of Additional Services does not diminish its duty to act in the best interests of its clients, including to seek best execution of trades for client accounts.

**A.1.a. Soft Dollar Arrangements**

MSFM does not utilize soft dollar arrangements. MSFM does not direct brokerage transactions to executing brokers for research and brokerage services.

**A.1.b. Institutional Trading and Custody Services**

TD Ameritrade provides MSFM with access to its institutional trading and custody services, which are typically not available to retail investors. These services are generally available to independent investment advisors on an unsolicited basis, at no charge to them so long as a certain minimum amount of the advisor's clients' assets are maintained in accounts at TD Ameritrade. These services are not contingent upon committing to any specific amount of business (assets in custody or trading commissions). TD Ameritrade brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

**A.1.c. Other Products and Services**

TD Ameritrade may also make available to MSFM software and other technology that

- Provide access to client account data (such as trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide research, pricing, and other market data
- Facilitate payment of MSFM's fees from its clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

TD Ameritrade may also offer other services intended to help MSFM manage and further develop its business enterprise. These services may include

- Compliance, legal, and business consulting
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

TD Ameritrade may also provide other benefits, such as educational events or occasional business entertainment of personnel. In evaluating whether to recommend that clients custody their assets at TD Ameritrade, MSFM may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers, and not solely the nature, cost, or quality of custody and brokerage services provided by TD Ameritrade, which may create a potential conflict of interest.

**A.1.d. Independent Third Parties**

TD Ameritrade may make available, arrange, and/or pay third-party vendors for the types of services rendered to MSFM. TD Ameritrade may discount or waive fees it would otherwise

charge for some of these services or all or a part of the fees of a third party providing these services to MSFM.

**A.1.e. Additional Compensation Received from Custodians**

MSFM may participate in institutional customer programs sponsored by broker-dealers or custodians. MSFM may recommend these broker-dealers or custodians to clients for custody and brokerage services. There is no direct link between MSFM's participation in such programs and the investment advice it gives to its clients, although MSFM receives economic benefits through its participation in the programs that are typically not available to retail investors. These benefits may include the following products and services (provided without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research-related products and tools
- Consulting services
- Access to a trading desk serving MSFM participants
- Access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts)
- The ability to have advisory fees deducted directly from client accounts
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to MSFM by third-party vendors

The custodian may also pay for business consulting and professional services received by MSFM's related persons, and may pay or reimburse expenses (including travel, lodging, meals and entertainment expenses for MSFM's personnel to attend conferences). Some of the products and services made available by such custodian through its institutional customer programs may benefit MSFM but may not benefit its client accounts. These products or services may assist MSFM in managing and administering client accounts, including accounts not maintained at the custodian as applicable. Other services made available through the programs are intended to help MSFM manage and further develop its business enterprise. The benefits received by MSFM or its personnel through participation in these programs do not depend on the amount of brokerage transactions directed to the broker-dealer.

MSFM also participates in similar institutional advisor programs offered by other independent broker-dealers or trust companies, and its continued participation may require MSFM to maintain a predetermined level of assets at such firms. In connection with its participation in such programs, MSFM will typically receive benefits similar to those listed above, including research, payments for business consulting and professional services received by MSFM's related persons, and reimbursement of expenses (including travel, lodging, meals and

entertainment expenses for MSFM's personnel to attend conferences sponsored by the broker-dealer or trust company).

As part of its fiduciary duties to clients, MSFM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by MSFM or its related persons in and of itself creates a potential conflict of interest and may indirectly influence MSFM's recommendation of broker-dealers such as TD Ameritrade for custody and brokerage services.

## **A.2. Brokerage for Client Referrals**

MSFM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

## **A.3. Directed Brokerage**

### **A.3.a. MSFM Recommendations**

MSFM typically recommends TD Ameritrade as custodian for clients' funds and securities and to execute securities transactions on its clients' behalf.

### **A.3.b. Client-Directed Brokerage**

Occasionally, clients may direct MSFM to use a particular broker-dealer to execute portfolio transactions for their account or request that certain types of securities not be purchased for their account. Clients who designate the use of a particular broker-dealer should be aware that they will lose any possible advantage MSFM derives from aggregating transactions. Such client trades are typically effected after the trades of clients who have not directed the use of a particular broker-dealer. MSFM loses the ability to aggregate trades with other MSFM advisory clients, potentially subjecting the client to inferior trade execution prices as well as higher commissions.

## **B. Aggregating Securities Transactions for Client Accounts**

### **B.1. Best Execution**

MSFM, pursuant to the terms of its investment advisory agreement with clients, has discretionary authority to determine which securities are to be bought and sold and the price of such securities. MSFM recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. MSFM will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to the following:

- The financial strength, reputation and stability of the broker
- The efficiency with which the transaction is effected
- The ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)



- The availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- The efficiency of error resolution, clearance and settlement
- Block trading and positioning capabilities
- Performance measurement
- Online access to computerized data regarding customer accounts
- Availability, comprehensiveness, and frequency of brokerage and research services
- Commission rates
- The economic benefit to the client
- Related matters involved in the receipt of brokerage services

Consistent with its fiduciary responsibilities, MSFM seeks to ensure that clients receive best execution with respect to clients' transactions by blocking client trades to reduce commissions and transaction costs. To the best of MSFM's knowledge, these custodians provide high-quality execution, and MSFM's clients do not pay higher transaction costs in return for such execution.

Commission rates and securities transaction fees charged to effect such transactions are established by the client's independent custodian and/or broker-dealer. Based upon its own knowledge of the securities industry, MSFM believes that such commission rates are competitive within the securities industry. Lower commissions or better execution may be able to be achieved elsewhere.

## **B.2. Security Allocation**

Since MSFM may be managing accounts with similar investment objectives, MSFM may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by MSFM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to such accounts.

MSFM's allocation procedures seek to allocate investment opportunities among clients in the fairest possible way, taking into account the clients' best interests. MSFM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

MSFM's advice to certain clients and entities and the action of MSFM for those and other clients are frequently premised not only on the merits of a particular investment, but also on the suitability of that investment for the particular client in light of his or her applicable investment objective, guidelines and circumstances. Thus, any action of MSFM with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice, or actions of MSFM to or on behalf of other clients.

## **B.3. Order Aggregation**

Orders for the same security entered on behalf of more than one client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of

all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All clients participating in each aggregated order will receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average priced. However, when a trade is to be executed for an individual account and the trade is not in the best interests of other accounts, then the trade will only be performed for that account. This is true even if MSFM believes that a larger size block trade would lead to best overall price for the security being transacted.

#### **B.4. Allocation of Trades**

All allocations will be made prior to the close of business on the trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the clients in the order, taking into account all relevant factors including, but not limited to, the size of each client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

MSFM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if MSFM determines that such arrangements are no longer in the best interest of its clients.

## Item 13: Review of Accounts

### A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved

For investment consultation services, reviews will be conducted by your financial advisor and normally involve analysis and possible revision of your previous plan or investment allocation. Unless provided for in your engagement agreement, reviews are generally conducted under a new or amended agreement.

Investment supervisory services accounts are reviewed on a periodic basis, typically quarterly or more frequent when necessary. These reviews are completed by your financial advisor and firm supervisory personnel (i.e., our compliance staff), and a copy of revised IPS or asset allocation reports will be provided upon request.

For accounts served by a recommended third-party investment manager, we will periodically review reports provided to you by your third-party investment manager, and we will contact you at least annually to review your financial situation and objectives. We will communicate information to your third-party investment manager as warranted and assist you in understanding and evaluating the services provided by the third-party manager. In certain instances, you may be able to communicate with your selected third-party investment manager.

### B. Review of Client Accounts on Non-Periodic Basis

MSFM may perform ad hoc reviews on an as-needed basis if there have been material changes in your investment objectives or risk tolerance, or a material change in how we formulate investment advice.

For non-periodic events, we will communicate information to your third-party investment manager as warranted, and in certain circumstances you may be able to communicate directly with the selected third-party investment manager.

### C. Content of Client-Provided Reports and Frequency

We may provide portfolio reports if we are engaged to provide periodic asset allocation or investment advice; however, we do not provide ongoing performance reporting under a financial planning or investment consultation services engagement.

For our investment supervisory services accounts, our firm may provide quarterly reports or position performance summary reports, and annual realized gains/loss reports for taxable accounts. Some of our clients may receive additional reports depending on their specific requirements. A client may also receive quarterly portfolio or performance reports directly from their selected third-party investment manager.

A copy of revised plans or asset allocation reports will be provided to you upon request.

Your independent custodian also provides regular account statements directly to you. The custodian's statement is the official record of the client's securities account and supersedes any statements or reports created on behalf of the client by MSFM.

## Item 14: Client Referrals and Other Compensation

### A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest

#### A.1. TD Ameritrade

We may receive an economic benefit from external sources in the form of the support products and services they make available to us and other independent investment advisors. As disclosed under Item 12, our firm participates in the TD Ameritrade Institutional customer program and we may recommend TD Ameritrade Institutional to our clients for custody and brokerage services. There is no direct link between our participation in the program and the investment advice we give our clients, although our firm receives economic benefit through its participation in the program that are typically not available to “retail investors.” These benefits include the following products and services (provided either without cost or at a discount):

- Receipt of duplicate client statements and confirmations
- Research related products and tools
- Consulting services
- Access to a trading desk serving our clients
- Access to block trading (which provides our ability to aggregate securities transactions for execution and then allocate the appropriate shares to our client’s accounts)
- The ability to have advisory fees deducted directly from our client’s accounts per our written agreement
- Access to an electronic communications network for client order entry and account information
- Access to mutual funds with no transaction fees, and to certain institutional money managers
- Discounts on compliance, marketing, research, technology, and practice management products or services provided to our firm by third-party vendors

Some of the noted products and services made available by TD Ameritrade Institutional may benefit our firm but may not directly benefit a client account, and certain research and other previously referenced services may qualify as “brokerage or research services” under Section 28(e) of the Securities Exchange Act of 1934.

The availability of these services from TD Ameritrade Institutional benefits our firm because it does not have to produce or purchase them as long as our clients maintain assets in accounts at TD Ameritrade Institutional. Therefore, there is an appearance of a conflict of interest since our firm may have an incentive to select or recommend TD Ameritrade Institutional as its custodian based on our firm’s interest in receiving these benefits rather than on our clients’ interest in receiving favorable trade execution.

As part of our fiduciary duty, MSFM endeavors at all times to put the interests of our clients first. We believe it is important to mention that the benefit received by our firm through participation

in a custodian's program does not depend on the amount of brokerage transactions directed to TD Ameritrade Institutional, and our selection of TD Ameritrade Institutional as custodian is in the best interests of our clients since the selection is primarily supported by the scope, quality, and price of their services, not just those services that benefit only our firm.

### **A.2. Investment Grade Technologies LLC**

MSFM may recommend its affiliate technology platform, Investment Grade Technologies LLC. MSFM clients receive access to this technology platform at no additional cost. Please see Item 10.C. for more information.

### **A.3. Participation in Boards or Committees**

Investment advisor representatives of our firm may hold individual membership or serve on boards or committees of professional industry associations. Generally, participation in any of these entities requires payment of membership fees, adherence to ethical guidelines, as well as experiential and educational requirements.

A benefit these entities may provide to the investing public is the availability of online search tools that allow interested parties (prospective clients) to search for individual participants within a selected state or region. These passive websites may provide means for interested persons to contact a participant via electronic mail, telephone number, or other contact information, in order to interview the participating member. The public may also choose to telephone association staff to inquire about an individual within their area, and would receive the same or similar information. A portion of these participants' membership fees may be used so that their name will be listed in some or all of these entities' websites (or other listings).

Prospective clients locating our firm or one of our associates via these methods are not actively marketed by the noted associations. Clients who find us in this way do not pay more for their services than clients referred to us in another fashion, such as by another client. We do not pay these entities for prospective client referrals, nor is there a fee-sharing arrangement reflective of a solicitor engagement.

## **B. Advisory Firm Payments for Client Referrals**

MSFM does not pay for client referrals and does not receive any compensation other than advisory fees charged to its clients.

## Item 15: Custody

Clients will receive at least quarterly account statements directly from their custodian containing a description of all activity, cash balances, and portfolio holdings in the client's account. MSFM urges its clients to compare the account balance(s) shown on their MSFM account statements to the quarter-end balance(s) on their custodian's monthly statement. The custodian's statement is the official record of the account.

## **Item 16: Investment Discretion**

Clients may grant a limited power of attorney to MSFM with respect to trading activity in their accounts by signing the appropriate custodian limited power of attorney form. In those cases, MSFM will exercise full discretion as to the nature and type of securities to be purchased and sold and the amount of securities for such transactions. Investment limitations may be designated by the client as outlined in the investment advisory agreement.



## Item 17: Voting Client Securities

MSFM does not take discretion with respect to voting proxies on behalf of its clients. MSFM will endeavor to make recommendations to clients on voting proxies regarding shareholder vote, consent, election or similar actions solicited by, or with respect to, issuers of securities beneficially held as part of MSFM supervised and/or managed assets. In no event will MSFM take discretion with respect to voting proxies on behalf of its clients.

Except as required by applicable law, MSFM will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

Accounts managed by a selected third-party investment manager may have proxy voting executed by the portfolio manager or a qualified proxy voting service of the third-party manager's choice. It is important for clients to review the selected third-party investment manager's ADV Part 2A to determine their proxy voting policies. Clients may also obtain copies of their written proxy voting policies and procedures as well as information on how proxies were voted for an account by requesting such information directly from that entity. Clients should also note that third-party investment managers will typically not disclose how proxies were voted unless requested in writing by the client or the client's legal representative.

From time to time, securities held in the accounts of clients will be the subject of class action lawsuits. MSFM has no obligation to determine if securities held by the client are subject to a pending or resolved class action lawsuit. MSFM also has no duty to evaluate a client's eligibility or to submit a claim to participate in the proceeds of a securities class action settlement or verdict. Furthermore, MSFM has no obligation or responsibility to initiate litigation to recover damages on behalf of clients who may have been injured as a result of actions, misconduct, or negligence by corporate management of issuers whose securities are held by clients.

Where MSFM receives written or electronic notice of a class action lawsuit, settlement, or verdict affecting securities owned by a client, it will forward all notices, proof of claim forms, and other materials to the client. Electronic mail is acceptable where appropriate and where the client has authorized contact in this manner.

## **Item 18: Financial Information**

### **A. Balance Sheet**

MSFM does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

MSFM does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.

# **Main Street Financial Management LLC Privacy Notice**

**FACTS****What Does Main Street Financial Management LLC Do With Your Personal Information?****The Law**

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share and protect your personal information. Please read this notice carefully to understand what we do.

**Our Policy**

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Income
- Employment and residential information
- Social security number
- Cash balance
- Security balances
- Transaction detail history
- Investment objectives, goals, and risk tolerance

When you close your account, we continue to share information about you according to our policies.

**Your Rights**

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Main Street Financial Management chooses to share; and whether you can limit this sharing.

**Please Note:** If you are a *new* customer, we do not share your personal information other than to provide services or as otherwise legally required. When you are *no longer* our customer, this policy continues to apply to you.

**Definitions**

Everyday Business Purposes	The actions necessary by financial companies to run their business and manage customer accounts, such as providing investment advisory and financial planning advice, processing securities transactions, and otherwise providing financial services to you.
Affiliates	Main Street Financial Management has the following affiliate: <ul style="list-style-type: none"> <li>• Investment Grade Technologies LLC</li> </ul>
Non-Affiliates	Main Street Financial Management does not share information with non-affiliates for marketing purposes.
Joint Marketing	Main Street Financial Management does not engage in joint marketing with non-affiliates.

Reasons we can share your personal information	Does Main Street Financial Management share?	Can you limit this sharing?
For our everyday business purposes—such as to provide advice, process your transactions, and maintain your account(s)	Yes	No
For our marketing purposes—to offer our products and services to you	No	We do not share
For joint marketing with other financial companies	No	We do not share
For our affiliates' everyday business purposes—information about your transactions and experiences	Yes	No
For our affiliates' everyday business purposes—information about your creditworthiness	No	We do not share
For our affiliates to market to you	No	We do not share
For non-affiliates to market to you	No	We do not share
<b>Contact Us</b>	Call Main Street Financial Management at 312-635-1700	

Sharing Practices	
How often does Main Street Financial Management notify me about their practices?	We must notify you about our sharing practices when you open an account and each year while you are a customer.
How does Main Street Financial Management protect my personal information?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.
How does Main Street Financial Management collect my personal information?	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>• establish an investment advisory relationship</li> <li>• contract for financial planning services</li> <li>• open an account or deposit money with custodians</li> <li>• purchase or sell securities with executing broker-dealers</li> </ul> <p>We also collect your personal information from others, such as custodians, broker-dealers, or other companies.</p>
Why can't I limit all sharing?	<p>Federal law gives you the right to limit sharing only for</p> <ul style="list-style-type: none"> <li>• affiliates' everyday business purposes—information about your creditworthiness</li> <li>• affiliates to market to you</li> <li>• non-affiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>