



# FORM ADV Part 2A Firm Brochure

## Northern Capital Management, Inc.

2700 S. Southeast Blvd. • Suite 205 • Spokane, WA • 99223-4984, USA • T 509.456.2526 • TF 800.826.9803 • F 509.456.2550  
[www.ncm-inc.com](http://www.ncm-inc.com)

*March 30, 2015*

This Brochure provides information about the qualifications and business practices of Northern Capital Management, Inc. Please note 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. Northern Capital Management, Inc. is a registered investment adviser and registration does not imply any level of skill or training. For more information about Northern Capital Management, Inc., visit the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). If you have questions about the contents of this Brochure, please contact Sarah Miller, Chief Compliance Officer, at (509) 456-2526 or (800) 826-9803 extension 21 or via email to [sarah@ncm-inc.com](mailto:sarah@ncm-inc.com).

### Item 2 – Summary of Material Changes

Northern Capital Management, Inc. updates and distributes this document annually or, in the event of material changes, more frequently. This section summarizes changes made since the previous *annual* brochure:

1. The Minimum Account Size, previously \$300,000 for new clients, has been removed and is no longer applicable.
2. Additional services offered:
  - a. Northern Capital Management, Inc. has purchased a subscription to the financial planning software eMoney. As part of annual account reviews or upon request, clients may be given access to the system for cash flow and financial planning purposes. In coordination with an Investment Advisor Representative, clients may receive a login to the system to view their information online. Upon request, clients may also obtain printed reports, such as a financial and/or cash flow plan and net worth statement.
3. Additional Conflicts of Interest Disclosed:
  - a. 529 Plans: Representatives have a conflict of interest when recommending 529 Plans. Advisor Representatives may recommend Savings-Based 529 Plans over Pre-Paid Plans or other plan types due to the ease of downloading account information into our firm's portfolio management software. Savings-Based Plans can be reviewed more easily than other plan options and additional management services may be provided for a fee. Specifically, the Kansas state 529 Plan (sponsored by Charles Schwab) and the Virginia state 529 Plan (sponsored by College America, using American Funds options) are often recommended. While the 529 Plan offered by a client's state of residence is taken into consideration, whether Savings or Pre-Paid, the plan ultimately recommended to the client may be more expensive or have fewer state-tax incentives. Regardless, advisors must adhere to the fiduciary standard when recommending 529 Plans.
4. Exceptions to continuous and ongoing investment management:
  - a. Advice and trading for 529 Plans vary depending on the plan selected. Some 529 Plans are recommended initially and reviewed upon client request. Some plans are linked to the firm and reviewed annually and after certain life changing events. Some plans are age-based and allocations automatically adjust as a child nears college age, therefore reviews occur annually or upon request.
  - b. Held Away Accounts are reviewed and rebalanced on a quarterly basis rather than continually and are excluded from trading projects.

Our firm will deliver a copy of this section to its clients within 120 days of the close of its fiscal year to make sure clients are aware of any material changes to the firm's business philosophies and practices. A complete copy of this Brochure is also available on our website at [www.ncm-inc.com](http://www.ncm-inc.com). To view the

Brochure online, enter our website as a guest and click the “Important Disclosures” link at the right hand side of the web page. Clients may request a full copy of the latest version at any time by contacting Sarah Miller, Chief Compliance Officer.

### **Item 3 – Table of Contents**

<b>Item 1 – Cover Page.....</b>	<b>1</b>
<b>Item 2 – Summary of Material Changes.....</b>	<b>1</b>
<b>Item 3 – Table of Contents .....</b>	<b>2</b>
<b>Item 4 – Advisory Business .....</b>	<b>2</b>
<b>Item 5 – Fees and Compensation.....</b>	<b>5</b>
<b>Item 6 – Performance-Based Fees and Side-By-Side Management .....</b>	<b>7</b>
<b>Item 7 - Types of Clients.....</b>	<b>7</b>
<b>Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>7</b>
<b>Item 9 - Disciplinary Information .....</b>	<b>10</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations.....</b>	<b>10</b>
<b>Item 11 - Code of Ethics .....</b>	<b>12</b>
<b>Item 12 - Brokerage Practices.....</b>	<b>13</b>
<b>Item 13 - Review of Accounts.....</b>	<b>17</b>
<b>Item 14 - Client Referrals and Other Compensation .....</b>	<b>18</b>
<b>Item 15 – Custody .....</b>	<b>18</b>
<b>Item 16 - Investment Discretion.....</b>	<b>19</b>
<b>Item 17 - Voting Client Securities.....</b>	<b>20</b>
<b>Item 18 - Financial Information .....</b>	<b>20</b>
<b>Item 19 - Requirements for State-Registered Advisers .....</b>	<b>20</b>
<b>Brochure Supplement(s).....</b>	<b>20</b>
<b>Professional Designations Explained .....</b>	<b>21</b>

### **Item 4 – Advisory Business**

#### **Company History**

Northern Capital Management, Inc. has been in business since 1992. The name Northern Capital Management, Inc. was established in 2003. Northern Capital Management, Inc. is an affiliate to the Registered Investment Advisor Capital Retirement Plan Services, Inc. (Est. 2012) and the broker-dealer NCM Securities, Inc. (Est. 1993). All three entities are incorporated and owned solely by James K. Wilson.

#### **General Services Offered**

Services offered are tailored to the type of client seeking our assistance. Administrative and non-investment related services are provided for no additional charge. Each service offered by our firm is described below, but each client should consult their Financial Advisory Agreement for the specific services they are contracted to receive. Services commonly include:

#### ***Financial Planning***

- Development of financial and/or cash flow plans and net worth statement.
- Access to financial planning software eMoney.
- Explanation of budgeting principles and assistance with goal setting.
- Planning for retirement, *including*:
  - Helping clients anticipate when they can retire.
  - Anticipating income needs in retirement.
  - Creating investment and withdrawal strategies for retirement.
  - Helping clients decide when to take Social Security benefits.
- Planning for college expenses and other financial goals.
- Legacy planning related to the transfer of wealth upon a client’s death.

### ***Wealth Management***

- Ongoing and continuous management of portfolio allocations on a discretionary or non-discretionary basis. See Item 16 (Investment Discretion) for more information.
- Vetting, selection and monitoring of investments. See Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) for more information.
- Monitoring of economic and market conditions on a continuous basis.
- Educational materials, publications and/or webinars, as we deem appropriate.
- Account reviews offered annually, but available upon request.

### ***Investment Advice***

Northern Capital Management, Inc. tailors investment advice to the individual needs of clients through the use of assigned Investment Objectives (“IOs”). Representatives meet with clients to discuss financial planning topics, tolerance for risk, long-term plans and goals. Based on the detailed information collected, representatives help clients select a suitable Investment Objective (“IO”). Client portfolios are invested per the IO selected. Investments are managed by Northern Capital Management, Inc. according to the relationship established in the advisory contract.

### **Investment Objectives**

Northern Capital Management, Inc. has an Investment Committee that meets regularly to review Investment Objectives (“IOs”) available to clients. IOs range from the most aggressive investors to highly risk adverse investors. The Committee creates target allocations for each IO. The target allocations are called Allocation Models (“models”). Some IOs have a Base and Plus allocation model available. The *Plus* model allows the Committee the latitude to increase stock exposure above the Base model for clients slightly more aggressive than other clients assigned the same IO.

### **Selecting an Investment Objective (“IO”)**

Each client must approve in writing the IO being used to manage assets. The advisor may select a Base or Plus model within the framework of the selected IO without additional written client consent. If approved by the client and the firm, a custom model may be selected, if clearly outlined and documented in writing.

### **Account Trading Restrictions**

The majority of clients are discretionarily managed by Northern Capital Management, Inc. This means the firm is permitted to place trades in the portfolio without contacting the client first. See Item 16 (Investment Discretion) for more information. From time to time a client who is discretionarily managed will desire to restrict trading for specific accounts or securities within a discretionarily managed portfolio. Northern Capital Management, Inc. allows two levels of restrictions to accommodate these requests. Restrictions are limited and must be made in writing.

Please note if an entire portfolio is to be restricted, it will become a non-discretionary management arrangement and these restrictions will no longer apply.

Two types of account trading restrictions are “Contact First” Accounts and “No Trading” Accounts.

- The **Contact First Account** is used for clients that want to be contacted prior to Northern Capital Management, Inc. placing trades in a specific account within a discretionarily managed portfolio. Accounts coded as “Contact First” may not be reviewed or traded as quickly as discretionarily managed assets.
- The **No Trading Account** is used for clients that want to direct all trades in an account within a discretionarily managed portfolio.

### **Investment Restrictions: Allowed**

- **Contact First Securities:** A security coded as “Contact First” requires the firm to contact the client prior to trading that security. The security may be *included* in the client’s portfolio allocations and the advisor will review and rebalance the client’s managed portfolio making recommendations to the client if and when the advisor thinks it advisable to trade the security. The security *is* included

when calculating the management fee when the advisor is accommodating the position within the managed portfolio and adjusting other managed investments to accommodate the position.

- **Hold Securities:** A security on “Hold” by written request is considered a client-directed asset. The security may be *included* in the client’s portfolio allocations and the advisor will review and rebalance the client’s managed portfolio *around* the asset. Unless requested in writing, the advisor does not review, monitor or make recommendations for securities on hold. The security *is* included when calculating the management fee when the advisor is accommodating the position within the managed portfolio and adjusting other managed investments to accommodate the position.
- **Unmanaged/Client Directed Securities:** A security that is “Unmanaged” is considered to be a client-directed asset. The security is *excluded* from the client’s portfolio allocations. The advisor does not review, monitor or make recommendations for unmanaged securities. The client directs all trades for unmanaged assets. The security is *excluded* when calculating the management fee.

#### Investment Restrictions: Prohibited

- Clients are not permitted to impose restrictions against specific companies, industries or sectors. Examples include:
  - Specific individual stocks or bonds like Coca Cola, McDonald’s, etc.
  - “Sin” industries like gambling or tobacco.
  - Specific sectors like foreign stocks, precious metals, commodities, etc.

#### *Administrative Services*

All clients are provided:

- Monthly or quarterly account statements directly from custodians;
- Unlimited consultations via email, telephone or meetings in our office;
- Access to our website and secure client document portal: [www.ncm-inc.com](http://www.ncm-inc.com);
- Portfolio reports posted to the client portal quarterly or delivered upon request;
- Access to educational materials;
- Access to our Strategic Partner program. See Item 14 (Client Referrals and Other Compensation) for more information.

#### *Non-Investment Related Services*

We offer:

- Tax data sufficiency checks, upon request;
- Required Minimum Distribution assistance;
- Assistance with class action Proof of Claim and Release Forms. Be advised we do not provide legal advice or act on behalf of the client in legal proceedings.

#### *Services Not Offered*

We do not:

- Offer Wrap Fee Programs;
- Sell insurance;
- Provide legal or tax advice outside the scope of Certified Financial Planner™ Designations. (See Brochure Supplements)

#### **General Services Offered to All Retirement Plans**

The service each plan receives is detailed in the Financial Advisory Agreement. Services offered are tailored to the type of retirement plan seeking our assistance. Core services provided to plans commonly include:

- *Investment Consulting Services*
- *Fiduciary Services*
- *Participant Resources and Education*

### ***Services Specific to Retirement Plans with a Menu of Investment Alternatives***

Plans that offer a menu of investment alternatives to participants commonly receive the following additional services:

- Recommendations for the selection of Designated Investment Alternatives and Qualified Default Investment Alternatives commonly referred to as “the menu of investment options;”
- Monitoring of the menu of investment options;
- Employee benefit booklets, upon request;
- Reviews of the Plan and plan assets offered annually, but available upon request;
- Educational materials, decision making materials, publications, and/or webinars, as we deem appropriate.

### ***Services Specific to Pooled Retirement Plans without a Menu***

Plans that invest plan assets on behalf of all participants rather than offering a menu to participants, may receive the following additional services:

- Discretionary or Non-Discretionary investment management of plan assets using an assigned Investment Objective. As described in the section above called “Discretionary Management by Investment Objective” and Item 16 (Investment Discretion) for more information.
- 3(38) Fiduciary Services: The Plan Sponsor has hired Northern Capital Management, Inc. to be an Investment Manager for the plan and make investment decisions on behalf of the plan. This includes full discretion, authority and control of plan assets. Northern Capital Management, Inc. assumes fiduciary responsibility and liability over decisions made under these arrangements, but if the Plan Sponsor overrides an investment decision made by the advisor, the Plan Sponsor agrees to assume the sole Fiduciary responsibility for that specific decision. This arrangement does not remove other fiduciary responsibilities of the Plan Sponsor.

### **Assets Under Management**

As of December 31, 2014, the values of regulatory assets under management were as follows:

Discretionarily Managed: \$249,028,071  
Non-Discretionary Managed: \$1,431,779  
Total Managed: \$250,459,850

See Item 16 (Investment Discretion) for more information about Discretionary and Non-Discretionary management arrangements.

## **Item 5 – Fees and Compensation**

### **Compensation**

Northern Capital Management, Inc. is compensated for advisory services by charging a fixed percentage of assets under management or assets under advisement. This is called our “management fee” or “advisory fee.” The annual fee rate is listed on the client’s Financial Advisory Agreement. Fees are payable on a six month lagging basis. Clients can request to pay fees on a lagging annual basis, but this is not an arrangement preferred by Northern Capital Management, Inc.

**Management fees are negotiable.**

Fee structures are determined by the account size, intensity and type of the engagement. Commonly, Northern Capital Management, Inc. charges a fixed percentage, but our firm can elect to charge fixed fees (not including subscription fees), a flat annual fee, combination of a fixed percentage with a flat minimum fee, create graduating scales where the fixed percentage drops off at specified breakpoints as assets under management increase, or charge commissions under the broker-dealer relationship with NCM Securities, Inc. See Item 10 (Investment Companies – Commissions, Sales Charges and Loads) and Item 12 (Brokerage Practices) for more information. Performance fees are prohibited.

## Fee Schedule

Our standard annual fee structure is 1% on assets under \$3,000,000 and .75% thereafter, with no minimum annual fee. Fees are negotiable and therefore clients should consult their Financial Advisory Agreement for detailed information regarding their specific fee arrangement and any minimum fees that apply. The firm will commonly charge a half-rate on 529 Plan accounts.

## Calculating Your Bill

Our fee is calculated every six months and is based upon the assets in the portfolio on the billing date without regard to additions or withdrawals during the prior six month period. When calculating the fee, limited partnerships and other thinly traded securities are generally valued at \$0 due to a lack of marketability and the difficulty associated with verifying a price with outside third parties, though exceptions may apply. Illiquid securities are always valued at Zero.

## Paying Your Bill

Our billing procedure is to send each client an itemized bill. This bill includes a description of how the fees were calculated and the total amount due.

**Automatic Fee Deduction:** Standard procedure for new clients is to arrange an automatic fee deduction process. Clients grant the custodian(s) authorization to process the auto deduction of fees from each of the client's accounts. Once authorization is established allowing Northern Capital Management, Inc. to deduct fees, future fees will be deducted each billing cycle until authorization is revoked in writing. Clients will continue to receive an itemized bill each cycle indicating the amount auto deducted from the client's account(s). Fee deductions can be confirmed using independent brokerage statements provided by the custodian. Clients may request to pay by check at any time.

**Pay by Check:** Clients electing to pay by check will receive an itemized bill on each billing cycle. Checks must be made payable to Northern Capital Management, Inc.

## Pre-Paying Management Fees

Northern Capital Management, Inc. does not allow for the pre-payment of management fees.

## Refunding Management Fees at Termination

Northern Capital Management, Inc. does not have a termination penalty. In the event a client wishes to terminate our services, the client is liable for fees charged for the services rendered through the termination date. Our contract allows termination by either party to take effect 30 days after the request has been provided in writing by the client or advisor.

In the event the client elects to terminate within the first 30 days of the advisor-client relationship, Northern Capital Management, Inc. will not charge a fee. The advisor-client relationship is considered to be established on the date the Financial Advisory Agreement is signed by both the client and advisor representative. Please note additional fees incurred during the account integration process or the implementation of trades is non-refundable.

## Additional Fees and Expenses

In addition to our fees, clients are responsible for the fees and expenses charged by custodians and imposed by broker-dealers. Please refer to the Brokerage Practices section (Item 12) for additional information.

Fees and expenses take many forms, but the most common include:

- **Transaction fees charged by the broker-dealer:** Examples include any transaction fees imposed by a broker dealer that Northern Capital Management, Inc. trades through on behalf of the client.
- **Mutual fund fees:** Northern Capital Management, Inc. primarily uses load-waived mutual funds, but mutual funds have Operating Expense fees that are separate from transaction fees. The Operating Expense Ratio ("OER") reflects a percentage that is paid to the manager of the mutual fund. Mutual Funds can have 12b-1 fees that are charged to investors to pay for the fund's sales and advertising expenses. OERs and 12b-1 fees are charged on an ongoing basis for as long as the mutual fund is owned.



- **Custody fees:** These are charged by some custodians for housing certain assets and/or real estate. Some custodians do not charge custody fees but are compensated in other ways (like transaction fees). See Item 12 (Broker-Dealer Arrangements – In Detail) for more information.

### ***ERISA Retirement Plan Accounts***

**Revenue Sharing Arrangements:** Revenue sharing arrangements may exist in retirement plans where a structured menu of investment options is used. In these agreements, a portion of the mutual fund's OER is paid to our firm and/or the Third Party Administrator. These fees are used to offset costs for the retirement plan and are called 12b-1 fees or Sub TA fees. Sub TA fees are intended to offset TPA fees and 12b-1s are intended to offset management fees.

**Additional Compensation for Retirement Plans:** Northern Capital Management, Inc. manages some retirement plans with a structured menu of investment options that pay commissions to NCM Securities, Inc. from the American Funds mutual fund group. Examples include larger asset retirement plans utilizing loaded A shares and smaller asset plans. For this reason, plans that pay a sales charge ("up front commission") are not charged a separate management fee by Northern Capital Management, Inc. See the "Supervised Persons Receive Commissions" section below and Item 12 (reference NCM Securities, Inc. under Brokerage Practices) for more information.

### **Supervised Persons Receive Commissions**

Compensation can be provided to employees of Northern Capital Management, Inc. who are also registered with the broker-dealer NCM Securities, Inc. In order for supervised persons to receive commissions, either by sales charges or trailing commissions, the arrangement must be disclosed to the client in writing. Once initial disclosure is made, future trades resulting in commissions must receive client consent or be part of a pre-determined and agreed upon portfolio allocation. In the case of clients that are retirement plans *with* a menu, the disclosure is provide to the Plan Sponsor and/or trustees when the menu is established and participants are provided with disclosures upon signing up for the plan.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Northern Capital Management, Inc. does not charge performance-based fees or engage in side-by-side management.

## **Item 7 - Types of Clients**

### **Types of Clients**

Northern Capital Management, Inc. works with:

- Individuals
- Trusts, Estates and Charitable Organizations
- Corporations and business entities
- Pooled Retirement Plans with or without a menu, Defined Benefit Plans and Profit Sharing Plans

### **Minimum Account Size**

There is no minimum account size for new clients.

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

The Investment Committee of Northern Capital Management, Inc. and affiliate Plan Services include the same professionals and processes.

### **Types of Investments**

Northern Capital Management, Inc. does not invest client funds in proprietary products. We do not directly manage the mutual funds or private money managers we recommend. Northern Capital Management, Inc. considers mutual fund selection to be our primary area of expertise. The majority of our advice is regarding no-load, noncommissioned, open-end mutual funds. However, our advice can also include close-end mutual funds, exchange traded funds, exchange-listed securities, and debt

securities such as corporate, municipal and governmental bonds, certificates of deposit and debt other than commercial paper. We may make recommendations regarding variable life insurance and interests in partnerships investing in real estate. Advice regarding commission based open-end mutual funds or variable annuity products are limited, but allowable. See Item 10 (Other Financial Industry Activities and Affiliations) and Item 5 (Fees and Compensation) for more information.

### **Method of Analysis:**

The Investment Committee utilizes fundamental investment analysis in determining the types of investments to be recommended to clients. The main sources of information used in our research includes Morningstar products, financial newspapers, other magazines and websites (both paid and non-paid subscriptions), research material prepared by outside entities including custodians and earnings analysts, corporate rating services, annual reports, prospectuses, filings with the Securities and Exchange Commission, company Press Releases, investment company sales and advertising literature, and discussions with individuals deemed to have expert or specialized knowledge.

Fundamental research requires the Investment Committee to evaluate economic, political and monetary factors including industry trends and business cycles, production, inventories and demand across different industries and sectors, and underlying financial health of a particular company or asset. This includes revenues, earnings, future growth potential, return on equity, profit margins, earnings per share, and so on, to determine an asset's underlying value and potential for future growth. Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of factors considered when evaluating the investment.

### **Long-Term Investment Strategy**

Long-Term investing is the primary focus of Northern Capital Management, Inc.'s Investment Committee. The decisions of the Investment Committee are focused on long term macro level trends. Short term trades is not a prominent part of Northern Capital Management, Inc.'s trading practices however, recommendations related to tax loss harvesting strategies or short term opportunistic trades, for our more aggressive clients, are permissible. As a firm we do not attempt to "time the market" with short market movements or intraday trading and we prefer longer-term investing strategies.

### **Mutual Fund Manager Reviews**

Open-end mutual funds are reviewed on an ongoing basis by the Investment Committee using the following process:

Initial Reviews: Mutual funds are vetted and selected by the Investment Committee through a vetting process. The initial review of a mutual fund includes but is not limited to reviews of the fund's management tenure, risk rating and performance relative to other funds considered peers.

Ongoing Reviews/Fund Advocates: Reviews occur as information regarding the various mutual funds becomes available through subscriptions, articles, newspapers and conversations with fund sponsors. A member of the Investment Committee is assigned to each fund for ongoing reviews, monitoring and reporting recommendations back to the Committee.

Quarterly: Mutual fund manager performance is evaluated upon receipt of research data provided by Advisor Workstation (a product of Morningstar). The Investment Committee compares the performance of selected mutual funds to other funds considered peers. The Committee looks for fundamental changes to the fund's management or portfolio and considers any recommendations made by the Fund Advocate. In these reviews, the Investment Committee determines when fundamental changes and/or portfolio underperformance warrants the replacement of the fund. Mutual fund reviews do not necessarily result in trades.

#### Exceptions:

- During times of extreme movements in the investment markets, when a mutual fund manager's capability to mitigate losses becomes unachievable given the magnitude of forced redemptions from the mutual fund, quarterly testing may be suspended until such time as the Investment Committee determines conditions have adequately changed.



- 529 Plan Options are reviewed annually upon receipt of Morningstar's Annual 529 Ranking report.

## **Reviewers**

Investments and client portfolios are reviewed by supervised licensed individuals. Reviewers must have a bachelor's degree, a minimum of two years relevant investment industry experience, and maintain a national securities license Series 6 or 7 and Series 65 or Series 66 (a Series 63 and Series 65 equivalent). Reviewers must also be in good standing with FINRA and the Securities Exchange Commission. See Item 10 (Broker-Dealer Registered Representatives) for a list of the current individuals considered to be qualified reviewers. See the Brochure Supplements for more information on these individuals.

## **Conflicts of Interest Associated with Specific Investments:**

529 Plans: Representatives have a conflict of interest when recommending 529 Plans. Advisor Representatives may recommend Savings-Based 529 Plans over Pre-Paid Plans or other plan types due to the ease of downloading account information into our firm's portfolio management software. Savings-Based Plans can be reviewed more easily than other plan options and additional management services may be provided for a fee. Specifically, the Kansas state 529 Plan (sponsored by Charles Schwab) and the Virginia state 529 Plan (sponsored by College America, using American Funds options) are often recommended. While the 529 Plan offered by a client's state of residence is taken into consideration, whether Savings or Pre-Paid, the plan ultimately recommended to the client may be more expensive or have fewer state-tax incentives. Regardless, advisors must adhere to the fiduciary standard when recommending 529 Plans.

## **Risk of Loss**

Securities investments are not guaranteed. Investing in securities involves risk of loss that clients should be prepared to bear. As with all investments, there are inherent, unavoidable and often unforeseeable risks in investing in securities. These risks will vary depending on the nature of the investment, the strategy pursued, the type of instrument used to pursue or give effect to that strategy, the conditions and performance of the U.S. and global economies, as well as the performance/financial condition of the individual company or entity issuing the security. As with all investments, the value of the investment at the time of sale will fluctuate and might be greater or less than the value at the time of purchase. Primary risks inherent in investing in the types of securities used for client accounts include, but are not limited to, risk of loss of principal; interest-rate risk; credit risk; reinvestment risk; economic risk; political risks; market disruptions; exchange disruptions or malfunctions; currency risk (principally for foreign securities); liquidity risk; risk of default; inflation and market volatility in general. Additional risks include inaccurate data used by Northern Capital Management, Inc. while making recommendations (despite our efforts to verify information as accurate) and negative tax consequences as a result of recommendations. While Northern Capital Management, Inc. seeks to assess the merits of investing in a particular security or recommending a third-party investment manager based upon an assessment of the perceived risks and potential rewards, there are no assurances that our assessments will be correct or that subsequent events or company, market, or investment manager changes will not render the assessment incorrect at a later time.

## ***Additional Risks to Consider***

Inverse Securities: Inverse securities, as indicated by the name, seek investment results that are opposite to that of an assigned benchmark or index. Risk factors include but are not limited to liquidity and deviations from expected rates of return. Many inverse securities include derivatives using complex trading strategies to generate returns. The nature of these derivatives can lead to inaccurately-priced positions in the fund and they may not perform as anticipated.

Index Funds: An index mutual fund (open, closed or exchange listed) aims to replicate the movements of an index of a specified financial market. Risk factors include but are not limited to muted returns and tracking errors.

**Leveraged Mutual Funds:** Leveraged Mutual Funds often seek investment results that are amplified or multiples of the performance of an index or benchmark they track. Risk factors include but are not limited to higher volatility, trading restrictions, deviations from anticipated returns and the potential for higher fees and OERs.

**Investing for Dividends and Interest Only:** Clients utilizing the Investment Objectives Pure Equity Income and/or Long Term Income will receive a separate disclosure called “Investing for Dividends and Interest” that explains associated risks.

**Fund of Funds:** A “Fund of Funds” is a mutual fund with underlying investments comprised solely of other mutual funds. Risks include but are not limited to higher fees and lower returns for investors.

**Commodities, including Precious Metals:** Investments in commodities, including precious metals, may vary greatly. Some investments may be to purchase the commodity directly, some through companies producing or developing the commodity (mining stock, for example) and some through derivatives. Risks include but are not limited to loss of principal, leverage, and high volatility.

**Alternatives to Fixed Income Investing:** During low interest rate environments, the Investment Committee may use alternatives to traditional bonds to satisfy the fixed income requirement of a portfolio. Alternatives may include Alternative Bond Funds (which exchange interest rate risk for higher default risk), cash in lieu of bonds (which can create a negative rate of return), and/or Balanced and Flexible Mandate Funds (which can increase equity exposure and credit risk in a manner not obvious to investors, increase market correlation, and add exposure to international markets, precious metals, foreign currencies and/or leverage).

## **Item 9 - Disciplinary Information**

Northern Capital Management, Inc. has no disciplinary history to report. Northern Capital Management, Inc. is required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our firm. Our firm and personnel have no reportable disciplinary events to disclose at the present date.

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

Northern Capital Management, Inc. strives to put the interest of our clients before our own at all times and, where conflicts of interest exist, fully disclose them. As Investment Advisor Representatives, we have a fiduciary responsibility to make recommendations in the best interest of our clients. In this Brochure, you will find disclosure of all material conflicts of interest, including the potential for our firm and our employees to earn commissions from advisory clients in addition to the fees clients pay. Since the amount of compensation we receive may vary depending on the custodian and/or broker-dealer we recommend to you, Northern Capital Management, Inc. and its representatives may have a conflict of interest in making recommendations regarding custodians, broker-dealers and mutual fund purchases. **Disguising or hiding fees is prohibited.**

### **Affiliated Broker-Dealer Registered Representatives**

The following employees of Northern Capital Management, Inc., in alphabetical order, are also registered with NCM Securities, Inc., an affiliated broker-dealer. The individuals marked with an \*\*\* may collect commissions (sales charges, loads, 12b-1 fees) from the sale of mutual funds.

- Molly J. Chase
- Richard P. Cullen \*\*\*
- Laura E. “Elizabeth” Hail-Stutzke
- David B. Holloway \*\*\*
- Joshua H. McLaughlin
- Sarah J. Miller
- Deborah A. Sandeno
- Michelle L. Warner
- James K. Wilson \*\*\*

Although clients will commonly receive recommendations for no-load mutual funds and this disclaimer would not apply in those cases, a few clients may also receive recommendations from

representatives of Northern Capital Management, Inc. who are also registered representatives of our affiliated broker-dealer NCM Securities, Inc. and the recommendations to purchase American Funds *on a direct-way basis*, may result in compensation, in the form of commissions, being paid to the representative. This creates a monetary incentive for the representative to recommend buying American Funds shares on a direct-way basis instead of purchasing load-waived shares of the same investment through an alternative custodian. Northern Capital Management, Inc. employees must disclose to the client all commissions or fees associated with such recommendations *at the time* the recommendation or a trade is placed. Additionally, all recommendations must undergo a suitability determination.

Another conflict of interest also exists regarding account balances held *directly and solely* at the American Funds. This mutual fund group may pay the registered representative 0.25% annual fees as long as these account balances remain direct-way. This compensation presents a conflict of interest to the representative when recommending an account remain at American Funds directly or be moved to another custodian.

### **Insurance Agents**

The following employees of Northern Capital Management, Inc., in alphabetical order, are licensed insurance agents in addition to being registered representatives. The individuals marked with an \*\*\* may collect commissions from the sale of variable annuity products.

- Molly J. Chase
- Richard P. Cullen \*\*\*
- David B. Holloway \*\*\*
- Michelle L. Warner

These individuals, in their capacity as insurance agents and registered representatives, are able to make recommendations related to the replacement of *existing* variable annuity products into *new* variable annuity products. They may also make recommendations while servicing existing variable annuity contracts. New sales are prohibited unless they are associated with a replacement. Although clients may receive recommendations for replacements into non-commissioned variable annuity products, clients may also receive recommendations to purchase a variable annuity product resulting in compensation, in the form of commissions, being paid to the representative. This creates a monetary incentive for the representative to recommend buying the commission based product instead of the non-commission based product. Northern Capital Management, Inc. employees must disclose to the client all commissions or fees associated with such recommendations at the time the recommendation is made. Additionally, all recommendations must undergo a suitability determination.

### **Response to this Conflict of Interest**

Disclosure: The following steps are taken to ensure Northern Capital Management, Inc. honors its fiduciary duty with respect to recommendations of direct-way American Funds purchases and variable annuity products that may result in a commission paid to registered representatives:

- Registered persons must ensure products recommended are suitable for clients;
- Registered persons must disclose to clients in writing all commissions or fees to be paid to the representative at the time the recommendation is made to purchase such investments;
- Clients must be told they are not obligated to purchase investment products from our employees or affiliated companies that involve sales charges, commissions, trails or 12b-1 fees;
- Registered persons with NCM Securities, Inc. must provide clients with proper disclosures, including a fund prospectus, explaining fees and other forms of compensation;
- Sales activity of registered persons is supervised; and
- Education is provided to registered persons regarding their responsibilities as a fiduciary.

Northern Capital Management, Inc. primarily recommends the load-waived F series share class of American Funds mutual funds (available through Charles Schwab and other broker-dealers) to avoid

sales charges to registered persons. An individual will pay advisory fee *or* commission under the broker-dealer, but not both.

**Retirement Plans:** ERISA prohibits plan fiduciaries from engaging in certain conflicts of interest, called Prohibited Transactions. In the event an ERISA plan is custodied at the American Funds on a direct-way basis, contributions from participants may result in commissions (sales charges, loads, 12b-1 fees) paid to a registered representative. This registered representative may also provide advisory services under Northern Capital Management, Inc. or our affiliate Capital Retirement Plan Services, Inc. to the Plan Sponsor. Consulting services provided under the advisory arrangement requires the Plan Sponsor to select the menu and custodian. As a registered representative, the individual provides education to participants regarding the menu. The following criteria must also be met:

1. **Billing Arrangement:** Commissions must be the sole source of revenue from the plan. The advisor may not charge a management or advisory fee in addition to commissions paid.
2. **Fair and Reasonable Plan Costs:** Commissions are allowable if the total amount collected is reasonable when compared to services rendered.
3. **Non-Discretionary Management:** Representatives of NCM Securities, Inc. cannot have the authority to move plan balances discretionarily. The Plan Sponsor and/or Participants must approve all transactions that will result in a commission paid to a registered representative.
4. **Eligible Investment Advice Arrangements:** Advice, if provided, will be provided in compliance with ERISA and, if necessary, under an Eligible Investment Advice Arrangement.
5. **Annual Plan Review:** A review of share classes used by the plan (including revenue sharing arrangements and commission schedules) will be completed annually.
6. **Annual Fiduciary Review:** A comparison of commission based plan structures, including services and costs, will be made to alternative non-commission based plan structures annually. Recommendations for changes to the plan structure, in response to the fiduciary review, will be made to the Plan Sponsor and/or trustees as needed.

### Outside Business Activity

Employees must receive prior approval of outside employment activity to ensure any material conflicts of interests in such activities are properly addressed and disclosed. Management monitors outside employment activities to verify.

## Item 11 - Code of Ethics

### Code of Ethics

A Code of Ethics (Code) has been adopted and is designed to comply with Rule 204A-1 under the Investment Advisers Act of 1940 (Advisers Act). The Code is based upon the principle that Northern Capital Management, Inc. and its employees owe a fiduciary duty to our clients. The Code is designed to ensure this high ethical standard continues to be applied. The excellent name and reputation of our firm is a reflection of the ethical conduct of each employee. Northern Capital Management, Inc. has created written supervisory procedures for the firm and the Code is created as part of these procedures. ***We will provide a copy of our Code of Ethics to any current or prospective client, upon request.***

### *Highlights from our Code of Ethics*

**Policy on Employee Personal Trading:** The Code establishes rules of conduct for all employees. It is designed to govern personal securities trading activities in employee accounts, among other things. According to the Code, employees agree to conduct their affairs, including their personal securities transactions, in such a manner as to avoid:

- Serving their personal interests ahead of clients.
- Taking inappropriate advantage of their position with the firm.
- Prohibited or undisclosed conflicts of interest.
- Any abuse of their position of trust and responsibility.

The purpose of the Code is to preclude activities which may lead to or give the appearance of undisclosed conflicts of interest, illegal insider trading and other forms of prohibited or unethical business conduct.

Participation or Interest in Client Transactions: The Investment Committee manages portfolios for many of our employees. Therefore, investments and trading strategies recommended by the Committee for client accounts may also be recommended for employee accounts. Purchases or sales of mutual funds, exchange traded securities, and variable annuities that are recommended to clients may be traded in employee accounts also. Currently, there are no policies or procedures in place to prevent this from occurring. However, the execution transactions must be made in such a way to honor the Code and not put an employee's personal interests ahead of our clients. Employee transactions into individual stock, individual bonds and exchange traded funds require prior approval. Registered Principals complete these reviews to ensure transactions are not violating our Code and trades are not placed ahead of pending client orders for the same security.

Employees are prohibited from:

- Buying and selling directly to or from a client account.
- Participating in client trades by way of aggregation or allocation.

Duplicate statements for employee transactions are reviewed by the Chief Compliance Officer.

Trade Error Policy: It is the policy of Northern Capital Management, Inc. to exercise the utmost care when handling client orders and correcting orders when a trade error occurs. When an employee of Northern Capital Management, Inc. is notified or discovers a trade error, the Chief Compliance Officer is notified immediately for review and correction of the order. Depending on the situation, the type of error and the custodian involved, the correction of trade error will be facilitated differently. Regardless of the method, Northern Capital Management, Inc.'s philosophy stays the same:

- The party responsible for the error will bear the cost of correcting the error. If an employee of Northern Capital Management, Inc. is responsible for the error, Northern Capital Management, Inc. will bear the cost. Clients will always be made whole.
- Employees are not allowed to correct their own trade errors due to the conflict of interest that arises.
- Northern Capital Management, Inc. will arrange for the reversing of an erroneous trade as allowed by the custodian.
- Gains in client accounts caused by trade errors, discovered after settlement, will generally be credited to the affected client account unless the custodian prohibits this practice, in which case the gain will be donated to charity.
- Losses in client accounts caused by trade errors will be reversed or reimbursed. If the custodian will not allow Northern Capital Management, Inc. to reverse the erroneous trade, Northern Capital Management, Inc. will fully reimburse the client in another way.

## **Item 12 - Brokerage Practices**

### **Selecting Broker-Dealers**

Northern Capital Management, Inc. has discretion regarding the selection of broker-dealers for client accounts. In selecting broker-dealers on behalf of our clients, Northern Capital Management, Inc. does not use the lowest possible trading cost as the main determining factor. Final broker-dealer selections are based on a comprehensive review of fees, services, historical professional relationships, reputation, financial strength, custody capabilities, order entry and execution systems, commission rates, transaction fees, execution capability, reporting features, technology, research, customer service, and tools provided to the Investment Committee and Compliance Department. Northern Capital Management, Inc. also considers "Soft Dollar" arrangements.

### **Soft Dollar Arrangements**

Northern Capital Management, Inc. does not believe clients pay higher fees or commissions as a result of working with our recommended broker-dealers. Our firm receives research and brokerage services that enhance the investment advice provided to clients, but this is in exchange for assets held in custody and not connected to transactions. As a result, "soft dollar" arrangements do not



exist. However, the research, brokerage services and other materials received from broker-dealers in exchange for custody business creates a conflict of interest. This conflict of interest is described in the next section.

### **Conflicts of Interest**

As a fiduciary, Northern Capital Management, Inc. endeavors to act in the best interest of its clients. The requirement that clients use specific broker-dealers for transactions is largely due to the fact the broker-dealer is also the custodian for the client's assets. These custodians/broker-dealers are selected in large part based upon the products and services provided to Northern Capital Management, Inc. Because the cost or quality of services provided to clients is not the only determining factor in Northern Capital Management, Inc.'s selection of the broker-dealer, material conflicts of interest exist. In order to address this conflict of interest, Northern Capital Management, Inc. monitors the cost structures of various custodians/broker-dealers in effort to minimize trading costs for clients *while* maximizing other benefits to Northern Capital Management, Inc. *and* clients.

### **Current Broker-Dealer Arrangements**

Formal agreements have been established between Northern Capital Management, Inc. and the following broker-dealers for various client relationships:

- Charles Schwab & Company, including Great West Annuities and the Schwab 529 platform.
- TD Ameritrade
- TIAA CREF
- Fidelity Investments
- *Affiliate* NCM Securities, Inc.
- Charles Schwab Trust Company
- Wilmington Trust Company
- Mountain West
- Pensco

To the extent the client is able to transfer or rollover assets to these custodians, Northern Capital Management, Inc. will require the use of these custodians and the broker-dealer services they provide.

### **Broker-Dealer Arrangements – In Detail**

Charles Schwab & Company (Schwab), Great West, TD Ameritrade, Fidelity, Charles Schwab Trust Company and Wilmington Trust Company serve as broker-dealers *and* custodians for client accounts. Northern Capital Management, Inc.'s affiliate NCM Securities, Inc. serves as a broker-dealer but *not* a qualified custodian. Any assets invested through NCM Securities, Inc. are custodied with Capital Bank & Trust for the American Funds mutual fund group or another qualified custodian. See Item 15 for more information regarding custody.

Most client assets consist of investments in mutual funds, ETFs, exchange-traded securities and similar vehicles and instruments. If a client holds an alternative asset, Northern Capital Management, Inc. may request bids from a variety of broker-dealers to attempt to "find a market." Northern Capital Management, Inc. primarily recommends our clients establish brokerage accounts with Charles Schwab.

#### ***Charles Schwab & Company ("Schwab")***

Schwab provides Northern Capital Management, Inc. with access to Schwab's institutional trading platform and custody services. This includes access to brokerage, custody and research services. Typically the same kinds of services are not available to Schwab retail clients. For example, institutional clients have access to some investments, including mutual funds, at lower initial minimum requirements than retail investors. The services provided are available to most independent investment advisors at no additional cost contingent upon an advisor committing a specific amount of business (assets in custody or trading) to the custodian.

**Custody Fees:** This custodian does not charge a separate fee for custody but is compensated through transaction related fees for trades executed through the broker-dealer or trades that settle into accounts custodied with the broker-dealer. Northern Capital Management, Inc. attempts to use non-

transaction fee funds as much as we are able without compromising our investment strategies or taking undue investment risk.

**Benefits to Clients:** Schwab makes available products and services that benefit Northern Capital Management, Inc. clients. These services include providing Northern Capital Management, Inc. with software and other technology to access client account data, process trades for clients, provide research, pricing information and other market data to clients. Schwab also provides a platform for deducting fees from client accounts and assisting with other back-office functions related to record keeping and client reporting. These services are used for a substantial number of Northern Capital Management, Inc.'s accounts, including accounts not maintained at Schwab.

**Business Development:** Schwab makes available services intended to help Northern Capital Management, Inc. manage and develop its business including consulting, publications and conferences that focus on practice management, information technology, business succession, regulatory compliance and marketing. Schwab may also pay independent third parties to provide these services to Northern Capital Management, Inc. Schwab makes additional products and services available that benefit Northern Capital Management, Inc.'s business but may not necessarily benefit client accounts.

**Discounts:** Schwab may discount or waive fees it would otherwise charge to Northern Capital Management, Inc. Schwab may also pay all or a part of the fees for a third-party services. The relationship with Schwab currently provides our firm with discounts to Morningstar's research software and a free subscription to Compliance11.

### ***TD Ameritrade ("TDA")***

TDA provides Northern Capital Management, Inc. with access to institutional trading and custody services. This includes access to brokerage, custody and research services. Typically the same kinds of services are not available to retail platform clients. For example, institutional clients have access to some investments, including mutual funds, at lower initial minimum requirements than retail investors. The services provided are available to most independent investment advisors at no additional cost contingent upon an advisor committing a specific amount of business (assets in custody or trading) to the custodian.

**Recommendations:** Northern Capital Management, Inc. does not actively recommend TDA as the broker-dealers for client accounts. Northern Capital Management, Inc. maintains relationships with this broker-dealer in order to accommodate existing client accounts, new client accounts already custodied at TDA and provide a broker-dealer option in addition to Schwab.

**Custody Fees:** This custodian does not charge a separate fee for custody but is compensated through transaction related fees for trades executed through the broker-dealer or trades that settle into accounts custodied with the broker-dealer. Northern Capital Management, Inc. attempts to use non-transaction fee funds as much as we are able without compromising our investment strategies or taking undue investment risk.

### ***NCM Securities, Inc.***

NCM Securities, Inc. has been in business since 1993. NCM Securities, Inc. is incorporated and owned solely by James K. Wilson. The name, originally Bergeron & Wilson Securities, Inc., has changed throughout the years. James has retained majority ownership since the start of the firm. Select investment adviser representatives and clerical associates are registered representatives with NCM Securities, Inc. Member FINRA.

**Commissions:** Recommendations from Northern Capital Management, Inc. to be executed through NCM Securities, Inc. will result in compensation being paid to the representative both on an initial and ongoing basis. See Item 10 (Other Financial Industry Activities and Affiliations) and Item 5 (Supervised Persons Receive Commissions) for more information.

**Agreements:** NCM Securities, Inc. *does not* currently have any agreement or responsibility to provide Northern Capital Management, Inc. with research, products or services. The client does not pay higher or lower sales charges or trailing commissions as a result of using NCM Securities, Inc. versus other direct-way mutual fund broker-dealers. However, the amount of the commissions paid by the client to representatives of NCM Securities, Inc. are likely to be higher than what the client would pay if they bought the no-load share class of the same mutual fund through another broker-dealer like Charles Schwab.

Custody Fee: Not applicable. NCM Securities, Inc. is not a custodian.

Transaction Fees: Not applicable. Northern Capital Management, Inc. employees will not utilize our affiliated broker-dealer NCM Securities, Inc. to affect securities transactions beyond the direct-way purchase of American Funds mutual funds or a limited number of variable annuity contracts. This is because NCM Securities, Inc. is a limited broker-dealer and does not provide additional transaction services.

***TIAA CREF (“TIAA”)***

***Fidelity Investments (“Fidelity”)***

***Charles Schwab Trust Company (“CSTC”)***

***Wilmington Trust Company (“Wilmington”)***

TIAA, Fidelity, CSTC and Wilmington provide Northern Capital Management, Inc. with access to trading and custody services for retirement plan related accounts.

TIAA and Fidelity are used when a client is a participant of a retirement plan and the account must remain on the TIAA or Fidelity platform and the client has requested a discretionary management arrangement for the account. These accounts are bound to a menu of investment options selected by the Plan Sponsor for the retirement plan. Northern Capital Management, Inc. can agree to manage the client’s assets at TIAA or Fidelity directly. This arrangement requires a Financial Advisory Agreement with the participant.

CSTC and Wilmington are used to custody structured menu retirement plans. These custodians can pay commissions, more concisely revenue sharing fees, when used as a platform for these retirement plans. See Item 5 (Additional Fees and Expenses) for more information regarding revenue sharing. These plans have a single account at CSTC or Wilmington for the retirement plan. The retirement plan hires a Third Party Administrator (“TPA”) and/or record keeper to track the plan assets by participant. Trades are submitted to the TPA. The TPA records the transactions for each participant and forwards the trades to the custodian for execution. Northern Capital Management, Inc. does not trade directly. All trades, whether placed by the participant or Northern Capital Management, Inc. are initiated through the TPA. Northern Capital Management, Inc. can agree to discretionarily manage a participant’s assets through a separate Financial Advisory Agreement.

Custody Fees: TIAA and Fidelity custody fees vary depending on the retirement plan. Northern Capital Management, Inc. is not involved in the fee deduction process. CSTC and Wilmington charge annual custody fees, at comparable rates, to retirement plans. Custody fees can be a fixed dollar amount or a combination of a fixed fee and percentage of assets under management, depending on the client arrangement. Custody fees are invoiced to the plan quarterly. Plan trustees can elect for the plan to pay the custody fees or pass the fees through to the retirement plan participants. CSTC and Wilmington work with the TPA to process these fees, including fee deductions, for the plan. Northern Capital Management, Inc. is not involved in this fee deduction process.

***Mountain West (“Mountain West”)***

***Pensco Trust Company (“Pensco”)***

Mountain West and Pensco provide Northern Capital Management, Inc. with access to custody services for non-standard assets (also called “alternative” assets) such as hard-asset real estate investments held within an IRA account, promissory notes, ownership in Limited Liability Corporations, etc. Northern Capital Management, Inc. may be linked as the advisor on the client’s account and charge a management fee for assisting the client with services related to the account. An example would be facilitating property tax payments for property held within an IRA. Northern Capital Management, Inc. only recommends Mountain West or Pensco on an “as needed” basis.

Custody Fees: Mountain West and Pensco charge annual custody fees, at comparable rates. Custody fees are a fixed dollar amount. Custody fees are paid to the custodian and are not included in Northern Capital Management, Inc. separate management fee.

**Brokerage for Client Referrals**

Northern Capital Management, Inc. has no formal arrangement regarding referrals to be received from broker-dealers. When a referral is made to or from a broker-dealer no compensation is received or paid as a result. Northern Capital Management, Inc. has no obligation to maintain any specific amount of business (including assets under custody or trading activity) in response to client referrals.

**Northern Capital Management, Inc.**

To date, Schwab and CSTC have a history of referring clients to Northern Capital Management, Inc. Other broker-dealers listed do not.

### **Directed Brokerage**

Northern Capital Management, Inc. does not allow directed brokerage. Northern Capital Management, Inc. will not accept client instructions to direct brokerage transactions to a particular broker-dealer.

## **Item 13 - Review of Accounts**

### **Review of Accounts**

Over time, client portfolios will deviate from the Investment Objective model assigned. Performance of investments, deposits and withdrawals, etc. can cause a portfolio to deviate from the assigned model rather quickly. In order to keep the investments in portfolios compliant with the assigned IO models, reviews and rebalances must periodically occur. See Item 4 (Advisory Business) for more information related to management by Investment Objective.

### **Portfolio Specific Reviews**

Reviews of account allocations and financial plans with clients are offered annually and available upon request. Commonly, this review occurs during account review meetings with an advisor representative. This review could also occur in response to an unscheduled meeting, telephone call or email communication with the client.

Life changing events may also prompt a review of the Investment Objective. We ask clients to keep our office informed of all life-changing events that may affect the client's financial profile. Examples include changes to health (including illness or disability), changes to marriage status (including divorce or marriage), death or severe illness of a close family member (spouse or dependents) and any other changes that may affect how your investments should be managed. Account reviews will lead to portfolio rebalances as advisor representatives deem necessary.

### **Client Wide Reviews**

In addition to portfolio specific reviews described above, Investment Committee members also complete account reviews in various ways:

Annual Reviews: At a minimum, reviews of all managed accounts occur annually. These reviews are commonly incidental to client-wide trades directed by the Investment Committee.

Ongoing Reviews: The Investment Committee makes recommendations to purchase or sell investments throughout the year. These trades may be implemented client-wide or for specific Investment Objectives, but are generally executed within a short time frame. Called "trading projects," examples include selling out of a particular investment/market sector and funding a new investment/market sector with the proceeds. While processing trading projects, Portfolio Managers also complete account reviews to ensure all eligible client accounts participate in the trading project and accounts remain in compliance with assigned allocation models. Portfolio Managers also review accounts while investing cash or selling investments in preparation for an upcoming withdrawal.

Exceptions to continuous and ongoing investment management:

- Advice and trading for 529 Plans vary depending on the plan selected. Some 529 Plans are recommended initially and reviewed upon client request. Some plans are linked to the firm and reviewed annually and after certain life changing events. Some plans are age-based and allocations automatically adjust as a child nears college age, therefore reviews occur annually or upon request.
- Held Away Accounts are reviewed and rebalanced on a quarterly basis rather than continually and are excluded from trading projects.

### **Block Trades and Aggregation of Client Orders Policy**

Whenever feasible, trade orders will be aggregated when Adviser Representatives desire to purchase or sell the same security for multiple clients. Block orders merge more than one client transaction into a single aggregated trade to be executed by the broker-dealer in one block. The block trade, now a single trade, creates one price per share to be received by all clients participating in the block order.

Once the block order is executed, the aggregated transactions are separated out again and each client's trade is recorded in their account(s).

## **Item 14 - Client Referrals and Other Compensation**

### **Referrals**

From time to time, various professionals and firms introduce clients to Northern Capital Management, Inc. Northern Capital Management, Inc. does not receive referral fees and there are no written quid pro quo arrangements. Northern Capital Management, Inc. maintains a list of professionals that we recommend to clients and we anticipate referrals from these professionals in return. These professionals are referred to as our "Strategic Partners." Northern Capital Management, Inc. commonly recommends professionals in the following areas: banking, accounting, legal, insurance, real estate, elder care, estate planning, Third Party Administration and recordkeeping. We do not recommend professionals in the following areas:

- Sponsor or syndicators of limited partnerships;
- Futures Commission Merchants, Commodity Pool or commodity trading advisors.

### **Solicitors**

Northern Capital Management, Inc. does not currently have solicitor arrangements. When and if Northern Capital Management, Inc. hires a solicitor to seek out potential clients for our firm, under these contracted arrangements, Northern Capital Management, Inc. will pay compensation, direct or indirect, to the solicitor in exchange for new advisory business. Solicitor activities are supervised by our firm and solicitor arrangements must be disclosed to potential clients in writing prior to the client's completion of a Financial Advisory Agreement.

### **Gifts and Entertainment**

In the past, professionals have sent Northern Capital Management, Inc. or our affiliates a gift in thanks for a referral (such as a gift basket, gift certificate, or provided a discount on a service). Additionally, existing clients and non-client entities have periodically received gifts from our affiliates in thanks for a referral. These gifts are not obligatory or part of any formal referral arrangement and we anticipate similar situations arising for Northern Capital Management, Inc. in the future.

## **Item 15 – Custody**

Northern Capital Management, Inc. works with a number of custodians/broker-dealers. Charles Schwab serves as Northern Capital Management, Inc.'s primary custodian for client accounts, except annuities, which are custodied at Great West Insurance Group. At least quarterly, clients receive account statements from the custodian. Trade confirmations are also provided by the custodian after trades are executed. Clients are responsible for reviewing custodial statements and trade confirmations and comparing them to reports provided by Northern Capital Management, Inc. Our reports may vary slightly from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities. Clients should contact the Chief Operations Officer, Michelle Warner, immediately if any significant discrepancies or errors are discovered.

Northern Capital Management, Inc. does not generally take possession of client money or securities, although Northern Capital Management, Inc. generally has the authority to deduct its advisory fees from client accounts. Exceptions apply for a limited number of clients who have hired Northern Capital Management, Inc. to complete bill pay services on their behalf or select an advisor representative as a Power of Attorney or Trustee for their accounts. As required by the Securities and Exchange Commission, these custody arrangements are audited annually by a qualified third party accountant subject to the standards of the Public Company Accounting Oversight Board.

Northern Capital Management, Inc. may work with custodians to process transactions or money movement on the client's behalf, however Northern Capital Management, Inc. will use websites, software and databases belonging to Northern Capital Management, Inc. and not the client's personal login information to do so. Northern Capital Management, Inc. will not take possession, custody or



control of client assets by obtaining a client's personal login credentials. Clients should not provide personal login credentials to Northern Capital Management, Inc. or our staff unless it is to establish the management of a "held away" account.

Northern Capital Management, Inc. manages Held Away accounts, an arrangement where Northern Capital Management, Inc. receives the client's usernames and password to a website in order to manage the client's account. This is allowed provided the following requirements are satisfied:

1. Held Away accounts are authorized by the client in writing.
2. Clients with Held Away accounts receive a written confirmation from Northern Capital Management, Inc. that access to the client's username and password does *not* create a custody arrangement.
3. The Chief Compliance Officer reviews each Held Away account initially and on an annual basis to confirm access to the login credentials does not create a custody situation.

## **Item 16 - Investment Discretion**

Northern Capital Management, Inc. maintains discretionary trading relationships with most clients.

**Discretionary Management:** Discretionarily managed clients delegate all investment decisions to the advisor. The advisor, without obtaining additional client consent, can make all investment related decisions including the securities to be bought or sold, the amount of the securities to be bought or sold, the broker-dealer used to execute the trade and any commission rates or fees paid.

**Exception:** Transactions resulting in sales charges paid to representatives of NCM Securities, Inc. require disclosure to the client and will not be made discretionarily. See Item 5 (Supervised Persons Receive Commissions) for more information about this disclosure.

### **Non-Discretionary Management:**

Non-Discretionarily managed clients want ongoing monitoring and investment advice, but they do not authorize the advisor to make automatic investment decisions on their behalf. The Advisor must contact the client to recommend all trades and the client can either accept or deny the recommendation. For those clients who chose not to grant investment discretion, there may be delays in the execution of investment recommendations. We execute transactions on behalf of our discretionary clients before contacting non-discretionary clients. While we will make every reasonable effort to mitigate the impact of this circumstance, it is possible that non-discretionary accounts may receive less favorable trade executions that may result in poorer overall investment performance than discretionarily managed clients.

Northern Capital Management, Inc. has a small number of individual clients who would be considered non-discretionary. Individual clients may complete a non-discretionary Financial Advisory Agreement at the onset of the relationship or, under a discretionary arrangement, the client may select a specific account or security that is non-discretionary. See Item 4 (Investment Restrictions Allowed to Clients) for more information.

### **Unmanaged/Client-Directed or "Courtesy" Accounts**

Unmanaged accounts, also referred to as "Courtesy" accounts, are client-directed and are not monitored or managed by our firm. Likewise, they are not charged a management fee by our firm. Previously called "Non-Monitoring clients," unmanaged account owners do not want the advisor to make recommendations or trade on their behalf. The advisor *does not* review, supervise or monitor investments, except upon client request. The accounts are linked to Northern Capital Management, Inc. for informational purposes only.

### **Plans with a Menu of Investment Alternatives**

Balances in menu-based retirement plans are participant-directed. The Plan Sponsor may receive advice regarding the menu, but this is not considered a "management" arrangement. The Plan Sponsor may grant Northern Capital Management, Inc. discretionary authority over the menu of options available to participants however, while the participant remains responsible to self-direct their

plan balances, the arrangement is not considered “management.” Instead, these arrangements are considered “Assets Under Advisement” and do not count toward the firm’s Regulatory Assets Under Management. Review Item 4 (Advisory Business) for more information.

### **Item 17 - Voting Client Securities**

Northern Capital Management, Inc. has no authority to vote proxies on behalf of advisory clients. Upon client request, Northern Capital Management, Inc. may offer assistance regarding proxy matters. However, clients always retain proxy voting responsibilities.

### **Item 18 - Financial Information**

Northern Capital Management, Inc. is not required to provide a Schedule G balance sheet.

### **Item 19 - Requirements for State-Registered Advisers**

Northern Capital Management, Inc. is a federally registered investment advisor.

### **Brochure Supplement(s)**

Northern Capital Management, Inc. is required to prepare a brochure supplement for each of the following supervised persons:

- Any supervised person who formulates investment advice for a client and has direct client contact; and
- Any supervised person who has discretionary authority over a client’s assets, even if the supervised person has no direct contact with the client.

*Supplements are attached and employees are listed in alphabetical order by last name.*

## Professional Designations Explained

Educational background and business experience is highlighted on each brochure supplement. To help clients understand the values of these designations, the following summary for each designation is provided. The goal is to explain the minimum qualifications required for each designation.

Additional information can be found through FINRA's website at:

<http://apps.finra.org/DataDirectory/1/prodesignations.aspx>

### ***Certified Financial Planner® (CFP®)***

The Certified Financial Planner® (or CFP®) is a professional designation from the Certified Financial Planner Board of Standards, Inc.

**Purpose:** To obtain expertise in the following areas: 1) General Principles of Finance and Financial Planning, 2) Insurance Planning, 3) Employee Benefits Planning, 4) Investment and Securities Planning, 5) State and Federal Income Tax Planning, 6) Estate Tax, Gift Tax, and Transfer Tax Planning, 7) Asset Protection Planning, 8) Retirement Planning, 10) Estate Planning

**Minimum qualifications:**

- Prerequisite: Minimum education and industry experience standards apply.
  - Education: Candidates must have a bachelor's degree (or higher), or its equivalent, in any discipline, from an accredited college or university.
  - Experience: The CFP Board requires a CFP® to have three years of full-time relevant personal financial planning experience.

**For more information:** <http://www.cfp.net/become-a-cfp-professional/cfp-certification-requirements>

### ***Registered Paraplanner<sup>SM</sup> or RP®***

The Registered Paraplanner<sup>SM</sup> or RP® is a professional designation from the College for Financial Planning®.

**Purpose:** To gain basic, practical knowledge of the following areas: 1) the Financial Planning Process, 2) Financial Statements & Cash Flow Management, 3) the Time Value of Money, 4) Investment Principles & Mutual Funds, 5) Equities & Debt Instruments, 6) Tax Planning, 7) Retirement Planning, 8) Introduction to Insurance, 9) Life & Health Insurance, and 10) Estate Planning.

**Minimum qualifications:**

- Prerequisite:
  - Experience: Individuals must complete a three-month long internship program in which they obtain verification from their immediate supervisor or employer documenting their mastery of the set of basic financial planning-related skills.

**For more information:** <http://cffpdesignations.com/>

### ***Accredited Investment Fiduciary® (AIF®)***

The Accredited Investment Fiduciary® (or AIF®) is a professional designation from Fiduciary360.

**Purpose:** To obtain a thorough knowledge of and ability to apply fiduciary practices as well as being able to assist others in implementing proper policies and procedures with regard to fiduciary standards.

**For more information:** <http://www.fi360.com/main/designations.jsp>

### ***Insurance Licenses (Washington and Idaho)***

**Purpose:** Provides an individual with the qualifications necessary to sell insurance policies and products under our *affiliated* broker-dealer NCM Securities, Inc. Member FINRA

**Minimum qualifications:** Qualifications vary by state.

## **FINRA Registrations Explained**

FINRA is the largest independent regulator for all securities firms doing business in the United States. Certain designations are required of employees conducting business under a registered investment advisor (Northern Capital Management, Inc.) and other designations are required of employees conducting business under a broker dealer (Northern Capital Management, Inc.'s *affiliate* NCM Securities, Inc.) All of these examinations are created by the North American Securities Administrators Association (NASAA) and are administered by FINRA.

### **Registrations for Employees (Registered Representatives and Investment Advisor Representatives):**

#### ***Series 6 - Investment Company Products/Variable Contracts Limited Representative***

Purpose: Provides an individual with the qualifications necessary to act as a registered representative and process transactions *exclusive to* mutual funds, unit investment trusts, variable annuities, and variable life insurance policies under the broker-dealer.

#### ***Series 7 - General Securities Representative***

Purpose: Provides an individual with the qualifications necessary to act as a registered representative and process transactions in *all types* of corporate securities, excluding commodities and futures, under a broker-dealer.

#### ***Series 66 (Uniform Combined State Law)***

Purpose: The Series 66, along with successful completion of the Series 7 or Series 6, provides an individual with the qualifications necessary to act as an investment professional able to register as a securities agent and investment advisor. Individuals may take 2 tests for the Series 63 and Series 65 licenses separately or, alternatively, obtain both licenses at one time by passing the Series 66 exam. *Series 63 + Series 65 = Series 66*

#### ***Series 63 (Uniform Securities Agent Law)***

Purpose: The Series 63, along with successful completion of the Series 7 or Series 6, provides an individual with the qualifications necessary to solicit orders for any type of security in a particular state. Individuals may take the Series 63 exam or obtain the license by passing the Series 66 exam.

#### ***Series 65 (Uniform Investment Advisors Law)***

Purpose: The Series 65 provides an individual with the qualifications necessary to operate as an Investment Advisor Representative in certain states. The exam focuses on topic areas such as retirement planning, portfolio management strategies, and fiduciary obligations. Individuals may take the Series 65 exam or obtain the license by passing the Series 66 exam.

### **Registrations for Supervisors and Compliance Professionals:**

#### ***Series 99 – Operations Professional***

Purpose: Provides an individual with the qualifications necessary to complete work that is essentially supervisory in nature over client-facing back office functions, including persons who design and implement back-office operations and control systems, while not being required to complete the Series 66 and Series 7 exam.

#### ***Series 24 – General Securities Principal***

Purpose: Provides an individual with the qualifications necessary to manage or supervise representatives of a broker dealer (NCM Securities, Inc.) in investment banking, training, solicitation, as well as the general conduct of business operations as required by FINRA.

#### ***Series 27 – Financial Operations Principal***

Purpose: Provides an individual with the qualifications necessary to prepare and maintains the books and records of the member as required under securities industry rules and regulations. The designation also requires an understanding of the broker-dealer's minimum net capital requirement. This is a required designation of a Chief Financial Officer for a broker-dealer.