

# Edelman Financial Services, LLC

## Investment Advisory Services

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This brochure provides information about the qualifications and business practices of Edelman Financial Services, LLC. If you have any questions about the contents of this brochure, please contact us at 888-PLAN-RIC (888-752-6742) or you may email us at [info@RicEdelman.com](mailto:info@RicEdelman.com) or write us at the address below. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or any state securities authority, nor does registration with the SEC imply a certain level of skill or training.

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

## **EDELMAN**

### **FINANCIAL SERVICES**

LLC

4000 Legato Road, 9<sup>th</sup> Floor  
Fairfax, VA 22033  
[EdelmanFinancial.com](http://EdelmanFinancial.com)  
[RicEdelman.com](http://RicEdelman.com)  
888-PLAN-RIC (888-752-6742)  
866-742-7222 (fax)  
[info@RicEdelman.com](mailto:info@RicEdelman.com)

## Item 2: Material Changes

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This brochure follows the SEC's new rules published in "Amendments for Form ADV" on July 28, 2010. It follows a new structure and contains much of the information that the old brochure did and some that it didn't. This information is accurate as of March 31, 2015.

We're required to tell you about any material changes in this updated brochure. Future brochures will contain similar summaries. Following are the material changes made to this brochure:

René E. Chaze is Chief Operating Officer of Edelman Financial Services, LLC ("EFS").

**Previous Material Changes:**

1. Edelman Financial Services, LLC is affiliated with a financial services holding company that recently changed its name. The new name is Pinnacle Summer Investments, Inc. ("PSI").

Under SEC rules, we'll give you a new brochure within 120 days of the end of our fiscal year. You may also receive updates at other times if material information changes. You may request a new brochure at any time and at no charge.

You can request a free brochure by calling us at 888-PLAN-RIC. You can also find out more about us and receive our current brochure from the SEC's website: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The site can also give you information about people who are registered, or about to be registered, as Investment Adviser Representatives of our firm.

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## Item 4: Advisory Business

### Background of Edelman Financial Services, LLC

Edelman Financial Services, LLC (“EFS” or “We”) is an investment advisory firm registered with the United States Securities and Exchange Commission under the Investment Advisers Act of 1940. EFS provides investment advisory services and financial education to consumers, institutions and other entities throughout the country. Our firm was founded in the late 1980’s by Ric and Jean Edelman. Today we are headquartered in Fairfax, Virginia and have branch offices located throughout the country.

EFS is an indirect subsidiary of Pinnacle Summer Investments, Inc. (“PSI”), a financial services holding company with principal offices in Fairfax, Virginia, and Houston, Texas. EFS is a wholly owned subsidiary of The Edelman Financial Center, LLC, which is an indirect, wholly owned subsidiary of Lee Summer, LP, a limited partnership formed by equity investors led by LEP Summer Holdings, LLC (“LEP Summer”) and The Edelman Financial Center, Inc. LEP Summer was formed by various private equity funds, including Lee Equity Partners Fund Summer AIV, L.P., which are controlled by Lee Equity Partners GP, LLC. Ric Edelman is the sole shareholder of The Edelman Financial Center, Inc. Other equity investors in Lee Summer, LP include institutional investors; members of EFS management, including most of the Principal Executive Officers named below; certain employees of EFS; and certain current and former members of management of PSI and other affiliated investment advisors. Except for LEP Summer and The Edelman Financial Center, Inc., none of the investors have an economic interest greater than 5%.

The equity securities of Lee Summer, LP do not confer voting rights. All management authority of Lee Summer, LP resides with the board of directors (the “Board”) of Lee Summer GP, LLC, its general partner. The current Board structure is comprised of (a) four director positions designated by LEP Summer, (b) three director positions designated by Ric Edelman, and (c) one independent director position appointed by mutual agreement of LEP Summer and Ric Edelman. Mr. Edelman is designated as the Chief Executive Officer of The Edelman Financial Center, LLC, with authority to conduct the operations of the business and affairs of EFS.

### Principal Executive Officers

**Fredric (Ric) M. Edelman** Chairman and Chief Executive Officer (CEO) of The Edelman Financial Center, LLC (which is the single member owner of Edelman Financial Services, LLC), Edelman Financial Services, LLC, Edelman Business Services, LLC and President, CEO, a Director and an indirect minority owner of Pinnacle Summer Investments, Inc. He is also a Director and CEO of Lee Summer GP, LLC, Summer Holdings I, LLC and Summer Holdings II, Inc. Previously, he was sole owner and Chairman of EFS from its founding in 1987 to 2005. He received an honorary doctorate in 1999 from, and is a distinguished lecturer at, Rowan University (formerly known as Glassboro State College) in New Jersey, where he graduated with honors with a B.A. in Communications in 1980. Ric is a registered representative and principal with Sanders Morris Harris Inc. (“SMH”). He is a Certified

Fund Specialist, a Chartered Mutual Fund Counselor, a Registered Financial Consultant, a Qualified Financial Planner, a Certified Retirement Counselor® and Board Certified in Mutual Funds. He is also licensed to sell securities, life and health insurance and variable annuities.

**Edward (Ed) P. Moore** President of EFS since 2005 , Director of Lee Summer GP, LLC, Summer Holdings I, LLC and Summer Holdings II, Inc. , and Pinnacle Summer Investments, Inc. Mr. Moore is also President of the Edelman Financial Center, LLC (which is the single member owner of Edelman Financial Services, LLC), and has been affiliated with EFS since 1990. He is a CERTIFIED FINANCIAL PLANNER™ and is licensed to sell securities, life and health insurance, and variable annuities. Mr. Moore is a registered representative and principal with Sanders Morris Harris Inc. He received a B.S. in Industrial Engineering from Virginia Polytechnic Institute and State University in 1983.

**Lesley V. Roberts** Chief Administrative Officer of PSI, EFS, The Edelman Financial Center, LLC, Edelman Business Services, LLC, Lee Summer GP, LLC, Summer Holdings I, LLC and Summer Holdings II, Inc. Ms. Roberts is also Assistant Secretary for The Edelman Financial Center, LLC, Edelman Financial Services, LLC and Edelman Business Services, LLC and has been affiliated with EFS since 1998, first as the Director of Human Resources. Prior to joining our firm, she was employed as a Human Resources Manager in the airline industry. Her areas of responsibility cover human resources, real estate and facilities.

**Eraine J. Parker** Chief Compliance Officer (CCO) of PSI, EFS, The Edelman Financial Center, LLC and Edelman Business Services, LLC. Ms. Parker has been affiliated with EFS since 2007. She has over 25 years of compliance and accounting experience within the financial services industry, including five years with FINRA. Prior to joining us, Ms. Parker was employed by a bank-affiliated broker-dealer and registered investment advisor for 23 years, where she served as CCO during her tenure. Ms. Parker is a registered representative and principal with Sanders Morris Harris Inc. She received a B.A. in Business Administration from Georgia State University in 1988.

**Joseph (Joe) Bottazzi** Executive Vice-President of PSI and EFS-Business Development. Mr. Bottazzi joined EFS and PSI in 2011. He was an executive with Hewlett-Packard for 31 years and served as Senior Vice President of HP's Americas Technology Services business unit, responsible for a significant number of employees and amount of annual revenue. Mr. Bottazzi received a B.S. in Marketing from Rowan University in 1980 and an M.B.A. from Fordham University in 1990.

**Christine A. Cataldo** Chief Information Officer of PSI and EFS. Ms. Cataldo has been affiliated with EFS since 2004. She is a CERTIFIED FINANCIAL PLANNER™ and a Chartered Retirement Plans Specialist<sup>SM</sup>, and is licensed to sell securities, life and health insurance, and variable annuities. Ms. Cataldo is a registered representative with Sanders Morris Harris Inc. She received a B.B.A. in Finance from The College of William & Mary in 1999.

**René E. Chaze** Chief Operating Officer of EFS, Chief Financial Officer of PSI, EFS, The Edelman Financial Center, LLC, Edelman Business Services, LLC, Lee Summer GP, LLC, Summer Holdings I, LLC, and Summer Holdings II, Inc. Mr. Chaze is also a Senior Vice-President of the latter three companies. He joined Edelman Financial Services in 2011 as VP of Business Development to work closely with the

executive team on strategic initiatives and priority growth programs. Prior to joining Edelman, he was with Ernst & Young LLP for 20 years, including nine years as a Partner. Mr. Chaze is a Certified Public Accountant actively licensed in Maryland and Virginia and is a registered representative with Sanders Morris Harris Inc. He received a B.S. from Louisiana State University in 1990, an M.T. from The University of Denver (Sturm College of Law & Daniels College of Business) in 1991, and an M.B.A. from The Wharton School of the University of Pennsylvania in 2001.

**William P. Hayes** General Counsel of PSI, EFS, The Edelman Financial Center, LLC, Edelman Business Services, LLC and Sanders Morris Harris Inc. He joined PSI in 2013 advising the executive team on legal and regulatory matters. Mr. Hayes is a registered representative with Sanders Morris Harris Inc. Prior to joining Edelman, he was the Chief Compliance Officer of AIG's Life and Retirement Division (formerly, SunAmerica Financial Group). Mr. Hayes was also the Chief Legal and Compliance Officer of Wells Fargo's Wealth Management Group in San Francisco, the Chief Compliance Officer of Nomura Securities International in New York, and a Managing Director and Assistant General Counsel of Oppenheimer & Co. in New York. Mr. Hayes began his career by practicing law at the firm of Morgan, Lewis & Bockius. He received his B.S. from SUNY at Albany in 1979 and a J.D. from New York University School of Law in 1982.

**Marvin O. Davis** Chief Marketing Officer of EFS. Mr. Davis joined Edelman Financial Services in 2013 to lead all Marketing strategy and program development, with an emphasis on extending the reach of the EFS brand and accelerating client growth. Prior to joining Edelman, he spent four years as CMO for LifeLock Inc, a leader in identity theft protection. Mr. Davis also served as CMO for Comcast, and prior to that he was VP of Advertising and Brand Management for Verizon Wireless. He began his marketing career as a brand manager at Procter & Gamble. Mr. Davis received a BBA in Marketing from Emory University in 1986, and an MBA in Marketing from Clark Atlanta University in 1990.

## Advisory Services Offered

EFS provides financial planning, investment management, financial education, and insurance services to individuals; trusts; estates; charitable organizations; foundations; high net worth individuals, pension, retirement and profit-sharing plans; institutions; and small businesses including corporations. Our wrap fee program is available to clients and other affiliated and unaffiliated registered investment advisors and their clients. Advisory personnel are also registered representatives of Sanders Morris Harris Inc., an affiliated dually registered broker-dealer and registered investment advisor subsidiary of PSI. This allows EFS investment advisory personnel to provide brokerage services to clients.

## Wrap Fee Asset Allocation Program

The Edelman Managed Asset Program® ("EMAP") is a wrap fee asset allocation program sponsored by EFS. Through EMAP, we create diversified asset allocation models for clients. The investments in these models include:

- mutual fund shares of no-load, open-end registered investment companies,



- exchange-traded funds (ETFs), and
- occasionally, variable annuities.

We don't sponsor, nor are we affiliated with, these investments.

Investment Adviser Representatives ("Advisors") meet with clients to discuss their needs. Alternatively, the client may choose to use Edelman Online, which is an Internet platform that guides the client through the process and helps him/her select an appropriate EMAP asset allocation model. Investment objectives and risk tolerance are the main factors that help us recommend an asset allocation model to clients. We also consider the client's personal situation, including age, health, family circumstances, income, expenses, assets, debts, liquidity needs, goals, personal objectives, suitability, time horizon and other relevant factors. If a client's investment objectives or financial situation changes, the client should contact EFS.

Clients are allowed to place reasonable restrictions on the management of their accounts. This includes deciding to sell or not to buy particular securities or types of securities. However, a client cannot require us to buy particular securities or types of securities. We reserve the right, at our sole discretion, to close an account if unreasonable or overly restrictive conditions are requested.

Either a client or the firm can end the relationship with written notice. We receive a wrap fee for our services and we bill clients quarterly, after a quarter closes. If the relationship ends before the quarter does, the client will not be billed for the remainder of the quarter.

## **Financial Planning**

Advisors prepare a financial plan for clients based on their financial and personal circumstances and charge a one-time fee, when the plan is created, that can be waived in part or in whole at the Advisor's discretion. Each financial planning client has the choice of selecting us to invest on his/her behalf on a limited discretionary basis (meaning we can carry out some financial transactions without first consulting the client) by establishing an Edelman Managed Asset Program® ("EMAP") account, or the client can implement the financial plan elsewhere or on his/her own. Clients who choose to implement the financial plan elsewhere will not receive ongoing investment advice from us.

EFS Advisors provide ongoing financial planning services to clients who participate in EMAP. We do not provide individual legal or tax advice. Financial planning services are tailored to the needs of each client and based on their financial situation and personal circumstances.

The Advisor may also, at his/her sole discretion, decline to assist the client with the implementation of investment strategies or choices that have not been recommended or that the Advisor deems not to be in the client's best interest.

## **Asset Allocation Program for ERISA Plans**

EFS makes the Edelman Retirement Program ("ERP") available to plan sponsors of 401(k), profit-sharing and retirement plans ("Plans"), subject to the Employee Retirement Income Security Act of

1974 (“ERISA”), as amended. Many such Plans give participants the ability to individually direct the investment of their Plan account balances. Under ERISA, a plan sponsor is generally relieved of liability for participant self-directed investment loss if certain investment options are offered under the Plan and required informational disclosures are made to participants pursuant to the applicable regulations. As part of ERP, EFS may also provide discretionary investment services to Plan sponsors. Through ERP, EFS creates and recommends a range of asset allocation models, each consisting of a diversified mix of asset classes for Plan sponsors. In addition, we recommend the underlying asset classes for the models and recommend at least one investment security for each underlying asset class. Usually, these asset classes consist of funds including, but not limited to, shares of open-end registered investment companies, such as mutual funds and ETFs (collectively, the “Underlying Funds”). We don’t sponsor, nor are we affiliated with, any of the Underlying Funds.

EFS may use its discretion to invest the Underlying Funds of each investment option from the Plan’s investment menu in a mix of investments corresponding to asset allocation models selected in accordance with the investment policy statement (“IPS”) approved by the Plan sponsor or fiduciary. Using discretionary authority granted by the Plan sponsor, EFS rebalances the mix of investments in the underlying funds for each investment option offered by the Plan periodically, in order to maintain the desired mix of investments for each investment option. In addition, EFS will occasionally modify the strategic allocations and reallocate the mix of investments in the underlying funds for each investment option offered by the Plan, based on revisions to the asset allocation model(s) in accordance with the Plan’s IPS. EFS does not have any discretion over any participant self-directed option within any Plan.

Generally, our Advisor holds an initial meeting with the Plan sponsor to explain EFS services and fees and to collect detailed financial data about the Plan. Emphasis is placed on identifying the Plan sponsor’s investment objectives and determining the financial situation of the Plan. With respect to the asset allocation models and Underlying Funds recommended to each Plan sponsor, we consider the Plan’s investment objectives, financial situation, suitability and other relevant factors.

After the Plan sponsor reviews and approves our recommendations, the asset allocation models are offered to Plan participants as investment options (the “Investment Options”). Participants will select an Investment Option for their Plan accounts. The Underlying Funds may also be available to Plan participants who do not select an Investment Option, if the Plan sponsor permits it. With the Plan sponsor’s permission, we make general educational information regarding saving for retirement and asset allocation models and the Investment Options available to the Plan’s participants. We are not responsible for reviewing or changing any participant’s decision to invest in a particular Investment Option.

On an ongoing basis, we work with the Plan sponsor’s Third Party Administrator (“TPA”) and record keeper to ensure that the selected Investment Options are properly implemented. With the Plan sponsor’s permission, we give instructions to the record keeper to do the following:

- Invest the underlying assets of each Investment Option in a mix of investments in the Underlying Fund.

- Periodically rebalance the mix of investments in the Underlying Funds for each Investment Option.
- Strategically modify the allocations for the Investment Option so as to reallocate the mix of investments.

Plan sponsors are permitted to impose reasonable restrictions on the underlying assets of Investment Options managed on behalf of the Plan. With respect to such restrictions, a Plan sponsor may request that particular securities or types of securities not be purchased, or that such securities be sold. Plan sponsors should know that we are generally unable to influence or change the mix of securities held by any Underlying Fund in which the Plan may be invested. We reserve the right, at our sole discretion, to reject any Plan sponsor account where unreasonable or overly restrictive conditions are requested. Plan sponsors are reminded to inform their Advisor if their investment objectives or financial situation changes. The professional relationship between the Plan sponsor and EFS may be terminated at will by either party upon written notice.

Plan sponsors may be introduced to ERP through other unaffiliated registered investment advisers. The unaffiliated registered investment adviser initiates and maintains the relationship with the Plan sponsor on behalf of EFS. Specifically, the Advisor does the following:

- Collects detailed financial data about the Plan
- Provides educational guidance to Plan participants regarding saving for retirement and asset allocation models
- Meets with the Plan sponsor on our behalf on a periodic basis to discuss suitability and any reasonable restrictions

The Advisor assists the Plan sponsor with the completion of the new account documentation, including the ERP Investment Management Agreement. After the ERP models and Underlying Funds have been approved by the Plan sponsor, the Advisor promptly communicates the information to EFS. The Advisor remains responsible for assessing initial and ongoing suitability of ERP and for introducing the appropriate models and Underlying Funds to the Plan sponsor. The Advisor may offer ERP or any other financial planning product(s) that meets the needs and goals of a prospective Plan sponsor.

Advisors will share in the advisory fee generated from any Plan sponsor assets that are invested in ERP. We receive no compensation or economic benefit from products or services offered by the Advisor to Plan sponsors, other than ERP. The Plan sponsor does not pay any additional fees as a result of this arrangement. None of the Underlying Funds recommended to the Plan sponsor will be sponsored by or affiliated with either entity. In addition, neither will receive any additional compensation related to the Underlying Funds other than a share of the advisory fee, which is generated through ERP.

## **The Financial Education Group**

EFS is a strong advocate of consumer education and financial literacy. The Edelman Financial Education Group is a team of financial educators who provide seminars to consumers, corporations,

associations, nonprofit organizations and community and religious groups on a variety of personal finance topics, often as a community service. Presentations are created by and based on the teachings of Ric Edelman. They are designed to explain complex financial concepts in plain English in a way that is educational, informational and entertaining. Groups may qualify to receive presentations free of charge, as part of our community service program.

Ric Edelman is a public speaker and financial educator and offers seminars on a variety of financial topics. See Item 5 for a discussion of fees.

## Institutional Advisory Services

Utilizing EMAP, EFS provides investment management services to a variety of small and midsize companies, organizations, endowments and associations. The services offered include the following:

- Investment Policy Statement — EFS assists in creating, rewriting and/or reviewing an effective Investment Policy Statement that reflects the investment needs of the entity.
- Asset Allocation Model — EFS assists in developing a diversified asset allocation strategy in accordance with the investment objectives, goals, need for liquidity and risk tolerance of the entity.
- Financial Profile — EFS performs a review of the entity's investment objectives and financial situation in order to provide an accurate assessment of the appropriate level of acceptable risk in accordance with the stated time horizon and goals.
- Investment Management — EFS provides ongoing, management of assets, including strategic rebalancing and daily account review.
- Record Keeping — EFS provides statements and online functions designed to ease the administrative needs and burdens associated with record keeping and reporting.

## Assets Under Management

EFS had the following assets under management as of February 28, 2015.

	Accounts	Assets
<b>Discretionary</b>	63,400	\$ 14,413,000,000
<b>Non-discretionary</b>	0	0
<b>Total</b>	63,400	\$ 14,413,000,000

## Item 5: Fees and Compensation

### Annual Fee Schedule for Edelman Managed Asset Program®

First \$150,000	2.00%
Next \$250,000	1.65%
Next \$350,000	1.25%
Next \$250,000	1.00%
Next \$2 million	0.75%
Next \$7 million	0.60%
Next \$15 million	0.50%
Amounts above \$25 million	negotiable

The EMAP fee includes ongoing financial planning advice by an Advisor and limited discretionary investment management, including periodic review of all investments in the EMAP asset allocation model. The fee also includes all model transaction costs (with the exception of those discussed below), custody of assets, and a subscription to *Ric Edelman's Inside Personal Finance* newsletter.

Clients pay a wrap fee, which covers brokerage execution costs, without regard to the number of transactions executed during the billing period. EFS has negotiated fees with clearing/custodying firms, and the costs do not affect the wrap fee paid by the client. Generally, transaction costs imposed by the brokerage firms are covered as part of the wrap fee. The wrap fee does not include certain account and securities-related costs, including the fees embedded in the mutual funds, ETFs or annuities in which wrap fee accounts invest. In addition, the fee does not include debit balances, related margin interest, IRA and retirement plan fees, transfer fees, SEC fees, 12b-1 fees for certain money market funds, wire transfer fees, overnight check fees, account closing fees, paper statement delivery fees, nonstandard asset fees, insufficient fund fees, returned check fees, expenses charged by the mutual funds and ETFs (including management fees, transaction charges incurred for fund-level asset allocation model trades, custody of fund assets and other fund expenses), expenses charged by the variable annuities and exchange-traded funds, or other fees or taxes that are required by law.

Occasionally, (less than 5% of the time), EFS will utilize other brokers to execute large transactions when we determine it is in our clients' best interest. This occurs when the size of the transaction in any one security is so large that it could cause the price of the security to fluctuate, up or down, resulting in an unfavorable execution price for our clients. By utilizing a broker to execute a large transaction, we reduce or eliminate the potential negative price fluctuation, in return for a fee. In these instances, the wrap fee does not include the compensation that is paid to the broker. This compensation is embedded in the price of the security which is paid by the client.

Transactions executed on behalf of EMAP clients are executed for a single wrap fee, which reduces the potential conflict of interest associated with executing a large number of orders for client accounts and earning transaction-based compensation following each order. In addition, EMAP invests client assets in no-load shares of unaffiliated open-end registered investment companies (such as mutual funds), ETFs and no-commission variable annuities. EFS and the Advisors who are authorized to recommend EMAP receive compensation based on the amount of money the client invests in the program. Therefore, our firm and Advisors have a financial incentive to recommend EMAP to clients and prospective clients. However, compensation paid to Advisors from the EMAP fee does not vary depending upon the number of trades made in EMAP client accounts. We do not earn more if fewer trades are placed. This arrangement gives us no economic incentive to place more or fewer trades through clearing broker-dealers for EMAP accounts. When calculating advisory fees, we aggregate household accounts to determine the lowest percentage if all accounts are managed as one relationship. Fees are not negotiable, other than as disclosed in the fee schedule above. Accounts with less than \$5,000 may effectively pay a fee that is greater than 2.00% due to our minimum annual fee. Full fee details are discussed in Item 7 and in the Client Services Agreement that is signed by the client. Clients should be aware that lower fees for comparable services may be available from other sources.

Clients authorize the custodian firm, on behalf of EFS, to deduct the EMAP fee from their accounts. The fee is based on the average daily balance of the client assets, including money market funds, interest and reinvested dividends. The first payment is calculated based on the number of days assets are placed in the account during a calendar quarter. Subsequent fees are determined based on the average daily balance for the quarter ending on the last day of each calendar quarter. Generally, fees are deducted from the client's account no later than the fifteenth (15th) day after the end of each quarter, in arrears. For margined accounts, the fee may be added to the margin balance unless the client elects to deposit cash or liquidate securities. If an account is terminated prior to the end of a calendar quarter, the terminating client will pay fees due up to the termination date.

Clients will pay the same fee, regardless of whether the client selects an EMAP asset allocation model through an EFS Advisor or unaffiliated registered investment advisory firm that is authorized to offer EMAP. Our firm will pay a negotiated percentage, up to 60% of the annual account fee, to registered investment advisory firms on accounts initiated and serviced by their advisors. Also, at no additional cost to the client, EFS may occasionally pay additional basis points to the registered investment advisory firm.

## Institutional

<b>EMAP Institutional Fee Schedule</b>	<b>Fee</b>
Up to \$999,999	1.40%
\$1 million to \$1,999,999	1.00%
\$2 million to \$4,999,999	0.75%
\$5 million to \$9,999,999	0.60%
\$10 million to \$24,999,999	0.50%

\$25 million +	negotiable
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The fee includes periodic access to an Advisor and the Institutional Advisory Services described in Item 4.

Clients pay a wrap fee, which covers brokerage execution costs, without regard to the number of transactions executed during the billing period. EFS has negotiated fees with clearing/custodying firms, and the costs do not affect the wrap fee paid by the client. Transaction costs imposed by the brokerage firms are covered as part of the wrap fee. EFS has negotiated fees with clearing/custodying firms, and the costs do not affect the wrap fee paid by the client.

To the extent applicable, the wrap fee does not include certain account and securities-related costs, including the fees embedded in the mutual funds, ETFs or annuities in which wrap fee accounts invest. In addition, the fee does not include debit balances, related margin interest, IRA and retirement plan fees, transfer fees, SEC fees, 12b-1 fees for certain money market funds, wire transfer fees, overnight check fees, account closing fees, paper statement delivery fees, nonstandard asset fees, insufficient fund fees, returned check fees, expenses charged by the mutual funds (including management fees, transaction charges incurred for fund-level asset allocation model trades, custody of fund assets and other fund expenses), expenses charged by the variable annuities and exchange-traded funds, or other fees or taxes that are required by law.

Occasionally (less than 5% of the time), EFS will utilize other brokers to execute large transactions when we determine it is in our clients' best interest. This occurs when the size of the transaction in any one security is so large that it could cause the price of the security to fluctuate, up or down, resulting in an unfavorable execution price for our clients. By utilizing a broker to execute a large transaction, we reduce or eliminate the potential negative price fluctuation, in return for a fee. In these instances, the wrap fee does not include the compensation that is paid to the broker. This compensation is embedded in the price of the security which is paid by the client.

Transactions executed on behalf of EMAP clients are executed for a single wrap fee, which reduces the potential conflict of interest associated with executing a large number of orders for client accounts and earning transaction-based compensation following each order. In addition, EMAP invests client assets in no-load shares of unaffiliated open-end registered investment companies (mutual funds), ETFs and no-commission variable annuities. Thus, neither our firm nor the Advisors earn any additional revenue from EMAP accounts beyond the wrap fee. However, EFS and its Advisors have a financial incentive to recommend EMAP to clients and prospective clients.

Institutional clients authorize the custodian firm, on behalf of EFS, to deduct the EMAP fee from their accounts. The fee is based on the average daily balance of the asset allocation model. The first payment is calculated based on the number of days assets are placed in the account during a calendar quarter. Subsequent fees are determined based on the average daily balance for the quarter ending on the last day of each calendar quarter. Fees are deducted from the account no later than the fifteenth (15th) day after the end of each quarter, in arrears. If an account is terminated

prior to the end of a calendar quarter, the terminating client will pay fees due up to the termination date.

## Edelman Retirement Program

ERP Plan Assets	Fee
\$0 to \$2 million	1.00%
\$2 million to \$5 million	0.85%
\$5 million to \$10 million	0.70%
\$10 million to \$15 million	0.60%
\$15 million to \$20 million	0.50%
\$20 million +	negotiable

The fee includes periodic access to an Advisor and the services provided on behalf of the Plan sponsor client as described above in Section 4. The ERP fee is payable quarterly, in arrears, no later than the thirtieth (30th) day after the end of the quarter. Except as may be otherwise agreed to by the Plan sponsor and EFS, the Plan sponsor agrees for the Plan's record keeper, custodian or other service provider to deduct the ERP fee from Plan accounts and to remit such amounts to EFS prior to the due date as provided under the ERP Investment Management Agreement, which is the standard ERP client contract. The fee is based on the balance of the total assets of the Plan accounts invested in the Investment Options as of the end of each calendar quarter. The first payment is prorated for assets that are placed in Plan accounts during a calendar quarter. Subsequent fees will be determined based on the last day of each quarter. The fee schedule above shows the annual percentages.

Occasionally, EFS will act as an ERISA 3(38) fiduciary. This means that EFS will provide only investment management services to the Plan sponsor. In such cases, EFS charges an annual fee of 0.35% of Plan assets.

The ERP fee does not cover any fees or expenses charged by any of the Underlying Funds, including but not limited to any brokerage commissions, other transaction costs, redemption fees, or any other charges or expenses imposed by the Underlying Funds. The Plan's record keeper, custodian or other service provider may charge a separate fee to cover the administrative and other record-keeping costs associated with Plan accounts invested in the Investment Options.

## Other Fees Earned by EFS

### Financial Plans

EFS may charge a one-time initial fee of \$800 for financial plan development and presentation. Clients who pay for a plan are under no obligation to implement the plan with our firm. The financial planning fee is waived in part or in whole for employees of the firm and affiliates and for *pro bono* cases at the discretion of the Advisor.



EFS Advisors are also SMH-registered representatives and receive commissions and other transaction-related fees on products sold outside of EMAP as part of an implemented financial plan. Lower fees for financial planning and securities transactions may be available from other sources. EFS Advisors have a financial incentive to recommend products that result in commission revenue. However, financial planning clients are under no obligation to implement their financial plans through us.

### **Seminars**

Seminars are offered to the public on a variety of financial topics. Fees range from \$10 to \$25, with satisfaction guaranteed or 100% of the registration fee is refunded. EFS clients do not pay fees to attend seminars, and in some instances, non-clients are provided with special event codes that allow for either discounted or free seminar admission.

### **Speaking Engagements**

Ric Edelman is a public speaker, radio show host, and host of a television show about investing and financial education. Generally, fees for his speaking engagements range from free to \$30,000 plus first-class travel expenses, depending on sponsor, date, location and program requested. For all speeches, 50% of the fee is required prior to the event, with the balance due at the conclusion of the event. Speaker fees are nonrefundable.

### **Educational Products**

EFS publishes and sells the newsletter *Ric Edelman's Inside Personal Finance* on a subscription basis for \$39.95 annually. Subscribers may cancel at any time and receive a full refund of the unused subscription. Ric Edelman's books include *The Truth About Money* (4th ed.); *The New Rules of Money*; *Ordinary People, Extraordinary Wealth*; *Discover the Wealth Within You*; *What You Need to Do Now*; *The Lies About Money*; *Rescue Your Money*; and *The Truth About Retirement Plans and IRAs*. Books are available for sale through booksellers, with prices ranging from \$9.95 to \$22.00. EFS may provide books at a discount or for no cost to organizations, individual clients or prospective clients.

### **RIC-E Trust®**

Edelman Business Services LLC ("EBS"), a wholly owned subsidiary of the Edelman Financial Center, LLC, markets the Retirement InCome for Everyone Trust® (RIC-E Trust®), which is an individual grantor trust enabling the Grantor to set aside assets for a child's retirement. Because the assets of each trust are invested in a variable annuity, assets grow tax-deferred. The trustee is named by the Grantor. American General Life Insurance Company, the issuer of the tax-deferred investment, is a subsidiary of American International Group, Inc. ("AIG"). EBS receives an administrative fee of \$400 for each RIC-E Trust® established to offset costs of establishing the trust. This fee is not associated with investment advisory services offered by EFS. Commissions from the underlying variable annuity are received by the Advisor, through his/her activity as a registered representative of SMH.

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

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EFS does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). We do not engage in side-by-side management.

See Item 5: Fees and Compensation for further details on advisory services offered.

## Item 7: Types of Clients

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EFS provides financial planning, investment management, financial advice and insurance services to individuals, trusts, estates, charitable organizations, foundations, pensions, high net worth individuals, retirement and profit-sharing plans, institutions, and small businesses including corporations.

### Minimum Account Size

#### EMAP

- Client household minimum account size is \$5,000. We may waive the minimum account size at our sole discretion.
- Minimum annual fee is \$100. We may waive the minimum annual fee at our sole discretion.
- Employee and Advisor minimum account size is \$3,000.
- Institutional minimum account size is \$500,000. We may waive the minimum account size at our sole discretion.

#### ERP

We may require a minimum dollar value of Plan assets of \$500,000, at our sole discretion, as a condition of providing our services to Plan sponsors. Minimum account size depends on the number of total assets in the Plan's trust, the current number of participants, the expected number of participants in future periods and other factors EFS deems relevant, including the Plan sponsor's financial requirements, economic circumstances and investment objectives.

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

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### Investment Strategy

EMAP relies on an investment philosophy that is based on established academic research, such as Modern Portfolio Theory and the Fama-French Three-Factor Model, and established discoveries in behavioral finance. The Modern Portfolio Theory advocates that it is not enough to look at the expected risk and return of one particular asset class. By investing in more than one asset class, an investor can reap the benefits of diversification — chief among them, a reduction in the risk level of the portfolio. The Modern Portfolio Theory addresses the benefits of diversification, also known as “not putting all your eggs in one basket.” The Fama-French Three-Factor Model, through research, found that over long periods of time, value stocks outperform growth stocks and, similarly, small cap stocks tend to outperform large cap stocks.

The EFS investment philosophy is based on the following basic principles:

- Develop highly diversified portfolios that feature a broad range of asset classes and market sectors.
- Use market-based investments, not manager-based investments.
- Hold the investments for long periods of time.
- Periodically reallocate investments as conditions warrant.
- Strategically rebalance as needed.

EMAP is diversified, invests in no-load mutual funds and ETFs, and features as many as nineteen (19) asset classes and market sectors. This approach, of course, cannot ensure investment success or prevent loss in a declining market. Past performance is no guarantee of future results.

### Methods of Analysis and Investment Selection

Based on the written EMAP agreement that clients execute, EFS is granted limited discretionary authority to implement client-approved investment strategies. Investments are selected based on past performance (as applicable), manager tenure, portfolio turnover, fees and a variety of academic statistics including beta, standard deviation, R-Squared and Sharpe Ratio. These statistics are provided by third-party vendors and the investment sponsors, and are evaluated by the Portfolio Manager as well as the EFS Investment Committee, on both an absolute and a relative basis, relying on standards set by the firm.

We may obtain and utilize information and data from a wide variety of public and private sources. Neither EFS nor our Advisors independently verify or guarantee such information and data. In categorizing the asset classes of investments, we rely on prospectuses and information obtained from the issuer or its agents, or through publicly available sources. Neither EFS nor our Advisors are

liable for any misstatement or omission contained in the information from these sources, or for any loss, liability, claim, damage or expense incurred, arising out of, or attributable to, such misstatement or omission.

Transactions for different account(s) or for other clients' accounts might not be made at the same time, may be made on different days, and may be made over multiple days. In handling purchases and liquidations, we will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers, or other corporate or financial events.

A client may impose reasonable restrictions on the management of their Account. When imposing restrictions, a client may request that particular securities or types of securities not be purchased, or that such securities be sold if held in the account. However, the client cannot request that particular securities be purchased for the account. Moreover, the client should note that it is impossible for EFS to influence or change the mix of securities held by any mutual fund or ETF included in the client's account. We reserve the right, at our sole discretion, to reject any account should the client request unreasonable or overly restrictive conditions.

## Risk of Loss

EMAP consists of a combination of no-load mutual funds, exchange-traded funds (ETFs) and, occasionally, variable annuities, all of which are subject to some or all of the following risk factors:

- **Market Risk** — Even a long-term investment approach cannot guarantee a profit. Economic, political and issuer-specific events will cause the value of securities to rise or fall. Because the value of investment portfolios will fluctuate, there is the risk that you will lose money and your investment may be worth more or less upon liquidation.
- **Foreign Securities and Currency Risk** — Investments in international and emerging-market securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.
- **Capitalization Risk** — Small-cap and mid-cap companies may be hindered as a result of limited resources or less diverse products or services, and their stocks have historically been more volatile than the stocks of larger, more established companies.
- **Interest Rate Risk** — In a rising rate environment, the value of fixed-income securities generally declines and the value of equity securities may be adversely affected.
- **Credit Risk** — Credit risk is the risk that the issuer of a security may be unable to make interest payments and/or repay principal when due. A downgrade to an issuer's credit rating or a perceived change in an issuer's financial strength may affect a security's value and, thus, impact the fund's performance.
- **Securities Lending Risk** — Securities lending involves the risk that the fund loses money because the borrower fails to return the securities in a timely manner or at all. The fund could also lose money if the value of the collateral provided for loaned securities, or the

value of the investments made with the cash collateral, falls. These events could also trigger adverse tax consequences for the fund.

- **Derivatives** — Derivatives are securities, such as futures contracts, whose value is derived from that of other securities or indices. Derivatives can be used for hedging (attempting to reduce risk by offsetting one investment position with another) or non-hedging purposes. Hedging with derivatives may increase expenses, and there is no guarantee that a hedging strategy will achieve the desired results.
- **Hedging** - While hedging can reduce or eliminate losses, it can also reduce or eliminate gains. Derivative securities are subject to a number of risks, including the following:
  - Liquidity risk
  - Interest rate risk
  - Market risk
  - Credit and management risks
  - Risk of improper valuation

Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index, and the fund could lose more than the principal amount.

- **Exchange-Traded Funds** — ETFs face market-trading risks, including the potential lack of an active market for shares, losses from trading in the secondary markets and disruption in the creation/redemption process of the ETF. Any of these factors may lead to the fund's shares trading at either a premium or a discount to its "net asset value."
- **Performance of Underlying Managers** — We select the mutual funds and ETFs in the asset allocation models. However, we depend on the manager of such funds to select individual investments in accordance with their stated investment strategy.

## Item 9: Disciplinary Information

Registered investment advisers are required to disclose all legal or disciplinary events that are material in a client's evaluation of the advisor or the integrity of the advisor's management. The following is the disciplinary item we have to report since inception.

### Administrative Proceeding

On July 17, 2006, EFS entered into an administrative proceeding with the State of Illinois for a registration matter. EFS paid a \$4,200 fine to the State of Illinois for exceeding its *de minimis* registration standard. Basically, EFS had six clients who resided in Illinois and the limit where no registration was required was five. EFS also agreed to pay the state \$1,500 for the cost of its investigation.

## Item 10: Other Financial Industry Activities and Affiliations

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### Related Persons

#### Broker/Dealer

PSI indirectly owns Sanders Morris Harris Inc., an affiliated firm that is dually registered as a broker-dealer and an investment adviser. As such, we are affiliated with a registered broker-dealer and investment adviser. In addition, certain EFS employees are also registered representatives of SMH. Our advisory personnel, solely in their capacity as registered representatives of SMH and not as Advisors of EFS, accept orders for SMH accounts from brokerage clients who may or may not be financial planning clients. When acting as registered representatives for clients, our advisory personnel execute transactions for clients through SMH and receive brokerage commissions from SMH on any products sold in this capacity. Thus, a conflict of interest exists between the interests of our advisory personnel, the broker/dealer and brokerage clients due to the fact that commissions are earned on transactions. Clients are advised that they are under no obligation to effect securities transactions with SMH or through their Advisor and that similar services may be less expensive elsewhere.

#### Other Affiliated Investment Advisors and Broker Dealer

The following registered investment advisors and broker-dealer are wholly or partially owned indirect subsidiaries of PSI, but have no material relationship with EFS and its advisory business:

- The Rikoon Group, LLC
- Leonetti & Associates, LLC
- SMH Capital Advisors, Inc.
- Miller-Green Financial Services, Inc.
- GFS Advisors, LLC
- Global Financial Services, L.L.C. (broker-dealer)

#### Insurance Agency

EFS is a licensed insurance agency and is licensed in most states. Our advisory personnel generally refer clients who wish to buy insurance products, such as life, long-term disability and long-term care insurance, to AccuQuote, an unaffiliated insurance agency that specializes in insurance brokerage and providing insurance to clients. EFS and its insurance agents are compensated a percentage of the revenues generated on the sale of such insurance products. As such, our firm and our insurance agents have a conflict of interest because of the economic incentive to sell policies that result in commissions or other sales revenue. Clients are advised that they are under no obligation to

purchase any insurance products through us or our personnel and that those products may be less expensive elsewhere.

HWG Insurance Agency, Inc. ("HWG"), is a wholly owned subsidiary of SMH. EFS Advisors may also be insurance agents of HWG. They are licensed to sell variable and fixed insurance products, and they receive insurance commissions from client transactions through HWG. As such, our advisory personnel have a conflict of interest because of the economic incentive to recommend products that result in commissions or other sales revenue. Clients are advised that they are under no obligation to purchase any insurance products through EFS or our personnel and that those products may be less expensive elsewhere.

### **Other- Equity Investors**

As discussed above in Item 4, EFS is affiliated with PSI and is an indirect, wholly owned subsidiary of Lee Summer, LP, a limited partnership formed by equity investors led by LEP Summer and The Edelman Financial Center, Inc. The equity securities of Lee Summer, LP do not confer voting rights. All management authority of Lee Summer, LP resides with the board of directors (the "Board") of Lee Summer GP, LLC, its general partner. The current Board structure is comprised of (a) four director positions designated by LEP Summer, (b) three director positions designated by Ric Edelman, and (c) one independent director position appointed by mutual agreement of LEP Summer and Ric Edelman. Mr. Edelman is designated as the Chief Executive Officer of The Edelman Financial Center, LLC, with authority to conduct the operations of the business and affairs of EFS.

Neither LEP Summer nor the other equity investors in Lee Summer, LP (other than those employed by PSI or its affiliates) have any involvement in the investment or other business operations of EFS, including with respect to EFS's investment determinations on behalf of clients. EFS exercises its own independent investment and voting discretion in accordance with its investment philosophy, fiduciary duties, and client guidelines. The partnership agreement of Lee Summer GP, LLC provides that the charter of the Audit and Risk Committee of the Board of Directors of Lee Summer GP, LLC include the investment and risk policies applicable to EFS and its other affiliates.

### **Other- Affiliate**

Edelman Business Services LLC ("EBS"), a wholly owned subsidiary of EFC, markets the Retirement InCome for Everyone Trust® (RIC-E Trust®), which is an individual grantor trust enabling the Grantor to set aside assets for a child's retirement. Because the assets of each such trust are invested in a variable annuity, assets grow tax-deferred. The trustee is named by the Grantor. American General Life Insurance Company, the issuer of the tax-deferred investment, is a subsidiary of AIG. EBS receives an administrative fee of \$400 for each RIC-E Trust® established which is used to offset the cost of establishing the trust. This fee is not associated with investment advisory services offered by EFS, although commissions to the Advisor are generated from the underlying annuity through SMH an affiliated broker/dealer as previously discussed.

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

### Code of Ethics

EFS has adopted a Code of Ethics (the “Code”) that is designed to ensure that all employees adhere to high standards of ethical conduct. The Code states that all of our employees must act in the best interest of the client at all times. It also states that employees should avoid any practice that creates or appears to create a material conflict of interest that could potentially harm a client.

In addition, the EFS Code of Ethics requires, among other things, that employees do the following:

- Submit their personal and related trading accounts to the Compliance Department for review.
- Refrain from purchasing Initial Public Offerings (IPOs).
- Refrain from trading on insider information.
- Get approval prior to purchasing a private placement.
- Comply with ethical restraints, including restrictions on giving and receiving gifts.
- Report any conduct that could potentially harm a client.

EFS has also adopted supervisory procedures that are designed to detect the following abusive behavior:

- Front-running, or trading ahead or opposite clients
- Trading in securities on the SMH and the EFS Restricted or Watch Lists
- Trading that appears to be based on insider information
- Short-term or day trading
- Trading during designated SMH blackout periods

Any officer or employee of the firm who fails to observe the EFS Code of Ethics risks serious sanctions, including personal liability and/or termination of employment.

A copy of the EFS Code of Ethics is available upon request by contacting us using the information on the cover page of this brochure.

### Related Person May Invest in the Same Securities

EFS investment advisory personnel may invest their personal funds and establish an EMAP account for themselves. Our advisory personnel may also participate in the EFS Employee 401(k) Plan that may use EMAP asset allocation models. In that regard, employees buy and sell for themselves the same underlying securities as clients and will have interests in securities owned by or recommended



to our clients, including mutual funds, ETFs or insurance products. Although all employees get the benefit of a fee reduction on EMAP accounts, those accounts are not given preferential trading treatment. Employee accounts are monitored and rebalanced on the same basis as all other unrestricted client accounts invested in accordance with the same EMAP asset allocation model strategy. We have adopted procedures relating to personal securities transactions, insider trading and internal trading that are designed to prevent client harm resulting from this conflict of interest.

### **Agency Cross Procedures**

In order to comply with the agency cross provisions of the Investment Advisers Act, EFS relies on SMH policies and procedures. SMH has policies and procedures in place to ensure that transactions introduced on behalf of EMAP clients are not crossed with transactions introduced to the clearing firm on behalf of SMH brokerage customers. Cross transactions do not apply to mutual funds and to variable annuities since shares of mutual funds and variable annuities are purchased from their issuers and are not exchange-traded. Although ETFs are exchange-traded, EFS would not, acting as investment adviser, generally recommend that such shares be crossed from one advisory client account to another and would not act as a broker with respect to any such potential cross transaction.

## **Item 12: Brokerage Practices**

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### **Brokerage Selection**

Clients who establish a wrap fee account with EFS must consent to a clearing/custodying broker-dealer with whom we have a clearing arrangement. We have selected the following unaffiliated registered broker-dealers, which are members of FINRA and SIPC, to execute and clear transactions and to provide custody services for EMAP wrap fee clients:

- TD Ameritrade Institutional (as cleared through TD Ameritrade Clearing, Inc.), a division of TD Ameritrade, Inc. ("TD Ameritrade")
- Fidelity Institutional Wealth Services ("Fidelity") (as cleared through National Financial Services LLC)
- Pershing Advisor Solutions ("PAS") (as cleared through Pershing LLC)

EFS places all transactions associated with wrap fee accounts for execution through these executing and custodying broker-dealers. Most client accounts are established with TD Ameritrade, although each clearing broker-dealer offers services that include custody of securities, trade execution and clearance and settlement of transactions. Each also provides services that are typically made available to institutional investment managers and generally are not offered to retail clients. These services include duplicate client statements and confirmations, 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 and access to mutual funds with no transaction fees. All clearing firms receive a fixed percentage as compensation for their services. That percentage is based on all EMAP account assets that are maintained in the custody of their firm.

In selecting clearing firms, we evaluate the services offered, the quality of those services and the cost indirectly borne by clients to determine if the clearing firm provides overall quality of services for the price. While we have attempted to negotiate favorable commission rates for transactions and believe that each clearing firm offers competitive commission rates, we do not otherwise seek to obtain the best combination of price and execution with respect to wrap fee account asset allocation model transactions. We will periodically compare clearing firm services and prices against other broker-dealers qualified to provide comparable services. While another broker-dealer may offer these services at a lower overall cost, EFS is not required to move all accounts to that broker-dealer.

Non-EMAP clients may establish accounts to place brokerage transactions. Client brokerage transactions are introduced through SMH, an affiliated broker-dealer, and cleared through Pershing LLC. SMH is an introducing broker/dealer and clears and settles transactions made in SMH brokerage accounts through Pershing, which performs the clearance, settlement, execution of transactions and custody functions on a fully-disclosed basis.

## **ERP**

Plan sponsors select the clearing and custodian broker-dealer of their choice. Neither EFS nor any of our affiliates provide brokerage services in connection with the investment advisory services provided by us to Plan sponsors through ERP.

## **Soft Dollars**

Custodian firms offer services to EFS including custody of client securities; trade execution; clearance and settlement of transactions; access to platform systems; duplicate client statements; research-related products and tools; access to a trading desk; 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; and discounts on compliance, marketing, research, technology, and practice management products or services. See further discussion in Item 14.

## **Client Referrals**

EFS participates in the TD Ameritrade Institutional program known as AdvisorDirect. TD Ameritrade Institutional is a division of TD Ameritrade, member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC registered broker-dealer and FINRA member. There is no employee or agency relationship between TD Ameritrade and EFS.

The AdvisorDirect program allows TD Ameritrade to refer its brokerage customers and other investors seeking fee-based personal investment management or financial planning services to other

advisors such as EFS. TD Ameritrade has established the referral program as a means of retaining brokerage customers. TD Ameritrade does not supervise EFS and has no responsibility for our management of client asset allocation models or other advice or services. EFS was chosen by TD Ameritrade to participate in this program based on the number of client accounts maintained with TD Ameritrade, the amount of the assets, the profitability and volume of trades placed, and other relevant factors.

We receive client referrals from TD Ameritrade through participation in the AdvisorDirect program that result in economic benefit to EFS. We pay TD Ameritrade an ongoing referral fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the annual advisory fee that the client pays us. We will also pay TD Ameritrade the referral fee on any advisory fees we receive from any of a referred client's family members, including a spouse, child, or any other immediate family member who resides with the referred client and also becomes an EFS client. Clients who are referred through this program do not pay higher fees or costs than other EFS clients. For more information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgment Form.

EFS participation in the AdvisorDirect program poses conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to EFS to encourage clients to custody their assets at TD Ameritrade and maintain client accounts that are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, we have an incentive both to recommend to clients that assets under management be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. We have agreed not to solicit clients referred through AdvisorDirect to transfer their accounts from TD Ameritrade nor to establish brokerage or custody accounts at other custodians, except when our fiduciary duties require doing so. EFS participation in AdvisorDirect does not diminish our duty to seek best execution of trades for client accounts.

## **Trade Aggregation Policy**

Whenever appropriate and when the price or execution of a security can be impacted favorably by aggregating orders among Accounts, EFS aggregates transactions on behalf of all EMAP Accounts, including Accounts of Advisors and employees. It is the policy of EFS that such transactions will be allocated to all participating client Accounts in a fair and equitable manner. There is no preferential treatment given to any Account. Transactions may be traded together to ensure best execution and to avoid price differentials. There is seldom, if ever, a problem finding sufficient mutual fund shares to purchase for EMAP Accounts. These shares are purchased from the issuer and sold at the net asset value next determined after an order is received. Shares of mutual funds are sold back to the issuer, and since we buy open-end funds, each issuing mutual fund must stand ready to buy the shares back at the share's net asset value, as determined after the redemption order is received. Similarly, we buy and sell liquid ETF interests or shares, and there is seldom any difficulty finding a sufficient supply of ETFs in the market. Variable annuities and 529 College Saving Plans are purchased directly from the issuer, and no aggregation of these transactions occurs.

## Item 13: Review of Accounts

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EFS client accounts are reviewed by advisory personnel of EFS. EMAP accounts are monitored on an ongoing basis. Accounts are rebalanced or assets reallocated based on market or other conditions as warranted. Securities we buy or sell for accounts are subject to our limited discretionary authority. Changes in the asset allocation models, which include adding, removing or replacing securities at the recommendation of the EFS Investment Committee, are made infrequently. Those changes are based on a variety of factors, which include but are not limited to changes in the economic, financial or political climate; changes in the tax code; and the management of the securities used by the asset allocation model. Changes may also be made based on the client's personal circumstances, including health, employment and family status, time horizon or restrictions that the client may place on the investments in the account.

EFS Advisors generally meet periodically to review economic, tax, financial, political, social and other relevant issues and to determine whether any changes in strategy are warranted. Based on these meetings, client situations and circumstances are reviewed on a periodic basis and recommendations are made as needed.

On at least an annual basis, EMAP clients are contacted to update their personal and financial information, including health, employment, marital and family status, time horizon, goals and objectives, and risk tolerance. The information is used to determine if there are any changes that could impact the ongoing suitability of the account. Clients may request a review at any time as well.

ERP Plan assets are monitored on an ongoing basis. Plan assets are rebalanced or reallocated based on market or other conditions as warranted. Changes in the asset allocation models, which include adding, removing or replacing securities at the recommendation of the EFS Investment Committee, are made infrequently based on a variety of factors, which include but are not limited to changes in the economic, financial or political climate; and the management of the securities used by the Investment Option. Changes may be made based on the Plan sponsor's circumstances or restrictions that they may place on the investments in the account.

## Item 14: Client Referrals and Other Compensation

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### Other Advisers Offering EMAP

EFS sponsors EMAP as discussed above and makes the asset allocation models available to clients of other unaffiliated registered investment advisers (RIAs). We provide systems, services and back-office support to those RIAs. The RIA is responsible for the supervision of its advisors and the selection of the EMAP asset allocation model recommendations made to clients. The RIA initiates the relationship with the client and is the ongoing client relationship manager. The RIA, through its advisors, compiles personal and financial information about the client, maintains the appropriate books and records, makes an asset allocation model recommendation that will meet the client's

goals and objectives, maintains the ongoing client relationship, and meets with the client on a periodic basis to discuss suitability and any reasonable restrictions the client would like to impose on his/her account. EFS reviews and approves the recommendation. The EMAP fee is shared between the two entities on a negotiated basis. The client does not pay an increased fee as a result of this arrangement.

## **Client Referrals**

From time to time, EFS will enter into agreements to pay other investment advisers for client referrals in accordance with the requirements of the Cash Solicitation Rule of the Investment Advisers Act, the respective federal and state laws governing the same, and ERISA, if applicable. In such cases, wrap fees will be shared between the two entities. EMAP or ERP fees are based on a percentage of client assets invested in the wrap fee program. Any such referral fee will be paid solely from the investment advisory fee. The client does not pay an increased fee as a result of these arrangements.

Compensation to another investment advisory firm that refers clients to EFS (a "Solicitor") is on a negotiated basis. The client is provided with a copy of the EFS ADV and a copy of the EFS written disclosure document, which describes the arrangement between EFS and the Solicitor, including the terms, conditions and compensation.

## **TD Ameritrade Institutional Program**

EFS participates in the TD Ameritrade Institutional Program. We receive services that include custody of client securities, trade execution and clearance and settlement of transactions. The Institutional Program provides additional economic benefits to EFS that are not typically available to TD Ameritrade retail investors. There is no direct link between EFS's participation in the program and the investment advice it gives to its clients.

The economic benefits include the following products and services, which are 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 EFS
- 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 and technology
- Practice management products or services provided to EFS by third-party vendors
- Business consulting and professional services received by EFS-related persons (may be paid for by TD Ameritrade)

Some of the products and services made available by TD Ameritrade through the Institutional Program may benefit EFS but may not benefit client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help EFS manage and further develop our business enterprise. The benefits received by EFS or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As disclosed above, EFS participates in TD Ameritrade's institutional program and EFS will recommend TD Ameritrade to clients for custody and brokerage services. Therefore, receiving these economic benefits creates a conflict of interest and could directly or indirectly influence EFS to recommend TD Ameritrade to clients for custody and brokerage services.

## Compensation for Other Products and Services

EFS Advisors receive commissions on insurance and/or securities products purchased by financial planning clients who choose to implement their financial plan through us. Advisory personnel may also receive 12b-1 fees as a result of placing clients with retail mutual funds. EMAP clients do not incur sales charges, commissions, or 12b-1 fees when purchasing or owning variable annuities or mutual funds in their EMAP account.

As a financial planning firm, EFS makes the following statements:

- (1) Our Advisors are licensed to sell insurance products from several insurance companies and receive sales or referral compensation from any such transactions.
- (2) Clients are under no obligation to have us or our advisory personnel implement any suggestions made in the financial plan.
- (3) If asked to implement the suggestions of the financial plan, we intend to implement such financial planning, in whole or in part, through products selected by us and to clear securities transactions through Pershing, TD Ameritrade or Fidelity, as described in Item 12.
- (4) To the extent EFS or our Advisors implement recommendations through SMH,
  - a. we are acting as agents for SMH;
  - b. we will use only products offered by SMH; and
  - c. we will earn commissions.

Clients have total freedom to execute securities and/or insurance transactions with any company of their choice other than with respect to participation in EMAP or the receipt of ongoing, annual financial planning recommendations.

## TD Ameritrade Operations Panel

EFS employees may serve on a TD Ameritrade Institutional Operations Panel from time to time. The panel is sponsored by TD Ameritrade and consists of independent advisors who advise TD Ameritrade on issues relevant to its service, technology and products provided. In-person meetings are held three to four times a year. Panel members are not compensated for their participation; however, TD Ameritrade pays or reimburses EFS for the travel, lodging and meal expenses incurred when EFS employees attend panel meetings. The benefits received by EFS and its employees by serving on the panel do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefit by EFS and its employees in and of itself creates a conflict of interest and could indirectly influence EFS's recommendation of TD Ameritrade for custody of assets and brokerage services.

Panel members are selected by TD Ameritrade and appointed to serve for a three-year term. Longer service is permitted at the discretion of TD Ameritrade Institutional sales, service and senior management. At times, panel members are provided with confidential information about TD Ameritrade initiatives. Therefore, panel members are required to sign a confidentiality agreement.

## Sponsorship of The Truth About Money Television Program

Ric Edelman is the host of a syndicated television program, *The Truth About Money with Ric Edelman*, airing on public television stations. The program covers many aspects of financial education. A portion of the television show is filmed before a studio audience where participants can ask questions. An audience participant may discuss a specific mutual fund, ETF, or insurance product that may be held in the accounts of certain EMAP clients or under consideration at the time of the question. Mr. Edelman does not give specific legal, tax or investment advice, and he may give advice that is the same as or different from the advice EFS has given or may give to its clients.

In the past, TD Ameritrade sponsored the television show. The decision of TD Ameritrade to act as a sponsor of the television program was made at its sole discretion and expense. As part of our fiduciary duties to clients, we endeavor at all times to put the interests of our clients first. Participation by EFS employees in the TD Ameritrade Institutional Operations Panel, EFS participation in the AdvisorDirect program, and TD Ameritrade's agreement to sponsor the television program create conflicts of interest and could influence our choice of TD Ameritrade for client account custody and brokerage services. In selecting custodial and brokerage firms, we evaluate all the services offered, the quality of those services and the cost indirectly borne by clients to determine if a clearing firm provides overall quality of services for the price.

In the past, iShares, the exchange-traded fund business of BlackRock, Inc., and one of the industry's leading exchange-traded funds platforms, also acted as a sponsor of the aforementioned television show. The decision of BlackRock to act as a sponsor of the television program is made at its sole discretion and its own expense. As part of our fiduciary duties to clients, we endeavor at all times to put the interests of our clients first. BlackRock's agreement to sponsor the television program creates a conflict of interest and could influence our decision to use BlackRock or iShares to provide

exchange-traded funds (ETFs) in the EMAP portfolios. In selecting new ETFs for our portfolios or evaluating those currently used, we start with a quantitative scoring model that considers internal ETF costs and expense ratios, how well or efficiently an ETF tracks to an established index or composite of indexes, the track record of the fund managers and fund diversification amongst other factors. The Portfolio Manager presents the results to the Investment Committee and a decision is reached after consideration of the quantitative results as well as other, more qualitative factors. The EFS Chief Compliance Officer periodically attends Investment Committee meetings and provides Conflicts of Interest training to the Investment Committee.

### **TDA Sponsorship of EFS Corporate Events**

From time to time, TD Ameritrade will sponsor EFS corporate events. The decision to act as a sponsor of EFS corporate events is at their sole discretion and expense. The sponsorship of EFS corporate events by TD Ameritrade provides indirect economic benefits to EFS and creates a potential conflict of interest that could indirectly influence EFS to recommend TD Ameritrade to clients for custody of assets and brokerage services.

### **Dimensional Funds Sponsorship of EFS Corporate Events**

Dimensional Fund Advisors LP ("Dimensional") is a SEC registered investment adviser that manages securities and other assets (which are used in EMAP accounts) for mutual funds, institutional investors and clients of independent financial advisers. From time to time Dimensional will sponsor or host EFS conferences, or events at such conferences, and may include direct payments to vendors or reimbursement of expenses incurred by EFS in connection with hosting educational, training or other events for EFS clients or employees. Such hosting or sponsorship by Dimensional provides direct or indirect economic benefits to EFS and creates a conflict of interest that could influence EFS to include Dimensional managed mutual funds in the EMAP portfolios or recommend other Dimensional products or services.

As part of our fiduciary duty to clients, we endeavor at all times to put the interests of our clients first. In selecting new mutual funds for our portfolios and evaluating those currently used, we start with a quantitative scoring model that considers internal fund costs and expense ratios, how well or efficiently a mutual fund tracks to an established index or composite of indexes, the track record of the fund managers and fund diversification, amongst other factors. The Portfolio Manager presents the results to the Investment Committee and a decision is reached after consideration of the quantitative results as well as other, more qualitative factors. The EFS Chief Compliance Officer periodically attends Investment Committee meetings and provides Conflicts of Interest training to the Investment Committee.

## **Item 15: Custody**

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EFS does not maintain custody of client funds or securities. We establish relationships with various non-affiliated third-party clearing/custodying broker-dealers who are responsible for taking custody



of and maintaining all client funds and securities, as discussed in Item 12. The custodian sends confirmations and account statements directly to clients. Account statements are sent directly to the client by the custodian on at least a quarterly basis. These confirmations and account statements should be reviewed carefully by the client.

## **Item 16: Investment Discretion**

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### **EMAP**

Based on a written, signed agreement, EMAP clients give EFS limited discretionary authority to execute client-approved investment strategies in their accounts. We are granted limited discretionary authority that allows us to place orders through one of several custodial firms mentioned in Item 12. Clients give us the ability to make the following determinations in accordance with the client's specified investment objectives, without client consultation or consent before a transaction is effected:

- Invest client assets into a diversified mix of asset classes and investment securities, primarily in the form of shares of open-end registered investment companies, exchange-traded funds and variable annuities.
- Modify or change the mix of asset classes and investment securities within the account.
- Rebalance the account periodically.

Clients are permitted to impose reasonable restrictions on the management of their accounts. When imposing restrictions, clients may request that particular securities or types of securities not be purchased, or that such securities (if held in the account) be sold. Clients, however, cannot request that particular securities be purchased for their accounts. Additionally, EFS has no influence or control over the mix of securities held by any mutual fund, variable annuity or ETF in which client accounts may be invested. We reserve the right, at our sole discretion, to reject any account for which unreasonable or overly restrictive conditions are requested.

### **Risks**

EFS does not assume market risk on behalf of the client. EFS does not guarantee the performance of the client's account or any specific level of performance. Market values of the securities within the account will fluctuate with market conditions. When the account is liquidated, it may be worth more or less than the original amount invested.

### **Trading Authorization**

Once an asset allocation model has been selected, EFS has limited discretionary authority to invest the assets in the account. EMAP clients must establish brokerage accounts with one of the custodians mentioned in Item 12 so that we may place securities transactions and maintain assets with a qualified custodian. Transaction costs imposed by any of the clearing/custodial firms are covered by the EMAP fee, except as noted in Item 5 and in the client agreement. We have

negotiated fixed fees with the clearing/custodying firms that are based on a percentage of the value of EMAP assets maintained in client accounts. The clearing/custodying firms perform all the necessary brokerage services for accounts maintained with them and provide custody services of client assets. In choosing which brokerage firm to use for EMAP, we generally select TD Ameritrade, which in turn provides certain economic benefits to EFS, as discussed in Items 12 and 14.

### **Reallocations**

EFS has the limited discretionary authority to reallocate assets in client accounts. In a reallocation, we change the target percentages of some or all of the asset classes or types of assets relative to the total account. Accounts are monitored on an ongoing basis and assets reallocated based on market or other conditions as warranted. Changes in the asset allocation model, which include adding, removing or replacing securities at the discretion of EFS, are made based on a variety of factors, including but not limited to changes in the economic, financial or political climate; changes in the tax code; the management of the securities used by the asset allocation model; and/or the client's personal circumstances, including health, employment and family status. EFS may replace a particular security (or securities), if it significantly diverges from its relevant index in terms of risk or return, with a security that is more in line with the risk/return profile of the relevant index or if there is a different security that, in our opinion, would be better suited. Reallocations occur with less frequency than rebalancing. When EFS reallocates accounts, it generally does so in anticipation of the impact that expected long-term market volatility could have on specific asset classes or types. Clients are notified of reallocations after the transactions are executed.

### **Rebalancing**

Each account is invested in accordance with the client's asset allocation strategy. At the inception of an account, EMAP assets are invested in specific asset types, including mutual funds (including funds that are used as funding vehicles for variable annuity contracts) or ETFs that invest in a variety of equity securities or fixed income or cash instruments. Amounts invested in each fund are determined in accordance with set target percentages of total assets in the account. Afterwards, as markets fluctuate and values change, amounts originally allocated to a fund will either exceed or fall below the original target allocations. We periodically adjust account holdings back to the original asset targets, or "rebalance" the account. We do not rebalance accounts constantly, and asset allocations may drift away from their original target percentages before EFS, within our authority and judgment, brings those allocations back in line with the original percentages. The investment philosophy of an asset allocation strategy is to be positioned in various asset types so that if the asset type becomes profitable, the account is positioned to take advantage of the upturn.

### **Liquidations**

EFS will accept and follow all liquidation instructions given by clients and will seek to execute client orders in a timely manner on a best-efforts basis. Occasionally, due to market conditions and time constraints imposed by custodying firms, trades may be executed the following business day. In handling liquidations and purchases, we will execute transactions without regard to pending dividend or capital gains distributions, stock splits, mergers, or other corporate or financial events.

**Contributions**

Contributed cash or money market fund shares in client accounts may remain uninvested in securities for a period of time. EFS invests liquid assets in an orderly manner and believes it is to each client's benefit to invest in an aggregated fashion rather than piecemeal. For this reason, a period of time may elapse between the deposit of cash or liquid assets to the account and the account reaching a fully invested position. Although clients may deposit freely tradable securities in their accounts to meet the EMAP minimum account size, we will liquidate those securities positions and invest the proceeds in securities matching the client's selected investment strategy. Tax consequences associated with this liquidation and reinvestment process will likely occur, and clients should consult with their tax professionals before depositing securities in their EMAP accounts.

EFS does not provide legal or tax advice to clients. Clients are advised to discuss the possible legal or tax consequences of their investment decisions with their legal or tax advisors prior to effecting any transaction.

**ERP****Reallocations**

Under the ERP Investment Management Agreement, EFS has the limited discretionary authority to change the asset allocation model for each Investment Option and its Underlying Investments. Investment Options are monitored on an ongoing basis and reallocations are made based on market or other conditions as warranted and/or the Plan sponsor's circumstances. We will notify the Plan sponsor when replacing an Underlying Fund from the Plan's investment menu, if it significantly diverges from its relevant index in terms of risk or return, with another Underlying Fund that is more in line with the risk/return profile of the relevant index. Reallocations occur with less frequency than rebalancing. When we make reallocations, we generally do it in anticipation of the impact that expected long-term market volatility could have on specific asset classes or types. Generally, Plan sponsors are notified of reallocations after the transactions are made.

**Rebalancing**

Each Investment Option is invested in a mix of Underlying Funds in accordance with the corresponding asset allocation model approved by the Plan sponsor and the target allocation percentages determined by that model. As markets fluctuate and values change, the actual percentage allocations of some or all of the Underlying Funds for the Investment Option will either exceed or fall below the original target percentage allocations. At EFS's discretion, we may periodically rebalance an Investment Option's holdings in Underlying Funds to return the Investment Option to its original target percentage allocations. However, we do not rebalance Investment Options constantly. Actual percentage allocations may drift away from their original target percentage allocations before EFS, within our authority and judgment based on market or other conditions as warranted, brings those allocations back in line with the original target percentage allocations.

## **Item 17: Proxy Voting Client Securities**

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EFS does not accept proxy voting responsibility for client accounts. Therefore, we have no obligation or authority to take action or render any advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in client accounts. We expect clients to expressly retain the authority and responsibility for proxy voting. With respect to ERISA accounts, we generally expect the Plan sponsor to expressly retain the authority and responsibility for proxy voting and to specify, in writing, who has voting authority. All clients will receive proxies directly from the custodian firm. Clients may direct any questions to their Advisor should the need arise.

## **Item 18: Financial Information**

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Registered investment advisers are required to provide clients with financial information or disclosures about their financial condition under certain circumstances. We are not aware of any financial condition that would impair our ability to meet contractual or fiduciary commitments to clients. We have not been the subject of any bankruptcy proceeding.