



## **FORM ADV PART 2A FIRM BROCHURE**

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This brochure provides information about the qualifications and business practices of First Allied Asset Management, Inc. If you have any questions about the contents of this brochure, please contact First Allied Asset Management's Compliance department at (800)223-0989. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

First Allied Asset Management, Inc. is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

Additional information about First Allied Asset Management, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Item 2- Material Changes

The following items explain material changes that you should be aware of as a current or prospective client of First Allied Asset Management, Inc. advisory programs or services. Each year you will receive either a summary of material changes that were made to this brochure over the previous year or an updated brochure. You can always request a full copy of any of our current disclosure brochures by calling 800-223-0989.

The changes that have been made to this document since our annual amendment in March 2014 are summarized below:

- ***Ownership Change***

On June 30, 2014, First Allied Holdings Inc., the parent company of First Allied Advisory Services, was acquired by RCS Capital Holdings, LLC. from RCAP Holdings, LLC. In addition, RCS Capital Holdings, LLC. is wholly owned by RCS Capital Corporation, a public reporting company. First Allied Holdings is also the parent company of First Allied Securities, Inc., First Allied Advisory Services, Inc., FASI Insurance Services, Inc., First Allied Retirement Services, Inc., Legend Advisory Corporation, Legend Equities Corporation, and other affiliated entities.

- ***Management Change***

In May of 2014, Kevin Keefe replaced Adam Antoniadis as President and Chief Executive Officer of First Allied Securities, Inc. Effective January 1, 2015, Mr. Keefe also assumed the role of Chief Executive Officer of First Allied Advisory Services, Inc., replacing Matthew McGinness. Changes to management personnel also included Robert Moses, General Counsel, Mark Quinn, Chief Risk Officer, and Tiy O'Neal, Chief Operating Officer for First Allied Securities, Inc., all of whom no longer serve in their respective former capacities. In March of 2015, Joel Marks, Chairman of First Allied Securities, Inc. and Gregg Glaser, Chief Financial Officer for First Allied Holdings Inc. also resigned from their respective positions.

- ***Termination as sub-adviser to Multi-Strategy Growth and Income Fund***

As of February 28, 2015, First Allied Asset Management resigned from its capacity as a sub-adviser to the Multi-Strategy Growth and Income Fund.



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## Item 4- Advisory Business

### *Background*

First Allied Asset Management, Inc. ("FAAM") is an investment adviser registered with the Securities and Exchange Commission ("SEC"). Being registered does not mean that FAAM is endorsed by any regulatory authority; it simply means that FAAM is required to follow the rules established by the SEC. Representatives of FAAM are registered in every state where the representatives may discuss portfolio management with clients of investment advisers who hire FAAM. Throughout the remainder of this text, "we," "us," and "our" refers to FAAM.

FAAM was founded in 2006. On September 25, 2013, a majority interest in FAAM's parent company, First Allied Holdings Inc. ("Holdings"), was purchased by RCAP Holdings, LLC, a member of the American Realty Capital group of companies, from several private equity funds controlled by Lovell Minnick Partners, LLC. Holdings is also the parent company of First Allied Securities, Inc., First Allied Advisory Services, Inc., FASI Insurance Services, Inc., First Allied Retirement Services, Inc., Legend Advisory Corporation, Legend Equities Corporation, and other affiliated entities that offer financial products and services (see Item 10- Other Financial Industry Activities and Affiliations on page 11 for more information).

Our portfolio management and trading activities are based in Scottsdale, AZ, although some of these responsibilities and other firm operations may be conducted by employees located in San Diego, CA, Chesterfield, MO, or Castle Rock, CO.

### *Our Principal Officers*

Craig Columbus serves as President and Chief Market Strategist of FAAM, setting the firm's strategic direction and management priorities. Mr. Columbus formerly served as the Chief Market Strategist for Thomson Financial. During this time, he became one of Wall Street's most recognizable figures, appearing each Monday on CNBC's *Power Lunch* program for seven years.

Jeff Mindlin is FAAM's Sr. Managing Director and Chief Investment Officer. In this capacity, Mr. Mindlin is responsible for the portfolio management team and its efforts, including portfolio selection, proprietary money management and product development. Prior to joining FAAM, Mr. Mindlin was the Director of Research and Co-Portfolio Manager of Greenbook Investment Management, Inc.

Lon Gerber is FAAM's Chief Operating Officer, managing day-to-day operations. In this capacity, Mr. Gerber is mainly responsible for the trading operations for all FAAM-managed strategies. Prior to joining FAAM, Mr. Gerber spent over 10 years at Thomson Financial, a leading provider of information and technology solutions to the worldwide financial community.

Luanne Borowski has been the Chief Compliance Officer of First Allied Asset Management and First Allied Securities, Inc. since February 2007. Since July 2010, Ms. Borowski has also been the Chief Compliance Officer of First Allied Advisory Services. Ms. Borowski previously served as Chief Compliance Officer of Asset Planning Solutions, a broker-dealer, and Ken Stern & Associates, a registered investment adviser. Ms. Borowski holds the Investment Adviser Certified Compliance Professional® (IACCP®) designation, and holds the FINRA Series 7, 24, 65 and 53 securities registrations.

Janice Doza became the Chief Financial Officer of FAAM in March 2011. Ms. Doza also currently serves as the Chief Financial Officer of First Allied Advisory Services and First Allied Securities. Ms. Doza previously served as Chief Financial Officer and Controller for FFP Securities, Inc. until 2008. From April 2003 through March 2006 Ms. Doza served as Controller for First Financial Planners, Inc.

### *Our Portfolio Management Team*

Craig Columbus serves as President of FAAM. Mr. Columbus formerly served as the Chief Market Strategist for FAAM and for Thomson Financial. He is currently a regular guest on a variety of CNBC shows, including *Kudlow & Company* and *Power Lunch*, among others.

Jeffrey Mindlin, CFA serves as FAAM's Sr. Managing Director and Chief Investment Officer. In this capacity, Mr. Mindlin is responsible for the portfolio management team and its efforts, including portfolio selection, trading, execution, proprietary money management and product development. Prior to joining FAAM, Mr. Mindlin was the Director of Research and Co-Portfolio Manager of Greenbook Investment Management, Inc., where he was instrumental in the design of sophisticated, proprietary investment strategies. Before that, he worked as the Assistant Portfolio Manager and Senior Financial Engineer for Pinnacle Investment Advisors, LLC, which operated a hedge fund and a series of managed accounts for institutional and high-net-worth clients, and sub-advised a publicly traded mutual fund. Previously, Mr. Mindlin was the Manager of Financial Engineering at Camelback Research, leading the development of several successful institutional grade quantitative products, including the popular MSN Money StockScouter system.

Thomas Samuelson, CFA, CMT, serves as the Managing Director of Investment Strategies and Senior Portfolio Manager for FAAM. Prior to joining FAAM, Mr. Samuelson served as the Portfolio Manager at Geronimo Partners where he oversaw a family of three hedge funds. He was also the Portfolio Manager at Invesco Funds Group for a diversified long/short fund and a sector energy fund, where he improved the energy fund's Lipper peer group ranking from bottom-quartile to upper-quartile while its assets grew to over \$330 million. Previously, he also served as the President and Portfolio Manager for Denver Energy Advisors, where he managed separate accounts for large institutional clients such as the Notre Dame endowment. Mr. Samuelson received his derivatives



experience from Swiss Bank Corp (previously O'Connor & Associates), where he managed proprietary funds for the Bank. He began his career as a high yield bond analyst for Duff & Phelps in Chicago and later became a partner of the firm.

Lon Gerber serves as Chief Operating Officer for First Allied Asset Management. Prior to joining FAAM, Mr. Gerber spent over 10 years at Thomson Financial, a leading provider of information and technology solutions to the worldwide financial community. In this capacity, he was responsible for directing analytic product development for the Wealth Management division. During his time at Thomson, Mr. Gerber was highly regarded for his expertise in the area of insider trading analysis and regularly appeared in the financial media, including *The Wall Street Journal*, *Barrons* and *Forbes*, amongst many others. Mr. Gerber began his career in the banking industry as a financial analyst for Citibank, responsible for revenue forecasting for its U.S. consumer and commercial lending products.

Brian Wright, CFA serves as the Senior Portfolio Manager for First Allied Asset Management. Mr. Wright has over a decade of industry experience. Previously, he served as Trader with Pinnacle Investment Advisors, where he helped oversee a family of hedge funds, institutional separate accounts, and a publicly traded mutual fund. Mr. Wright was also an Analyst with a boutique research firm, where he focused on forensic accounting and earnings quality-related research.

Barton Liro became the Investment Director for First Allied Asset Management in February 2015 and is responsible for promoting the firm's investment strategies to financial advisors who are affiliated with the Cetera Financial Group's network of investment advisers. Mr. Liro also serves as the Director of Advisory Services at Investors Capital Corporation, an affiliated investment adviser and registered broker-dealer, where he is responsible for overseeing distribution and business development of advisory products. Mr. Liro also acts as the lead Portfolio Strategist for Investors Capital Corporation's F-MAP advisory program. Mr. Liro has worked for Investors Capital Corporation since 2006.

Collin Martin, CFA serves as Investment Consultant for First Allied Asset Management. Prior to joining First Allied Asset Management, Mr. Martin worked at First Allied Securities where he was a Quality Assurance Specialist providing operational analysis and developing profitability models. Mr. Martin graduated cum laude from the Max M. Fisher College of Business at The Ohio State University.

For more information about our portfolio management team, please refer to the Form ADV Part 2B Brochure Supplements at the end of this brochure.

#### *Our Advisory Activities*

We are primarily engaged in the business of providing portfolio management services. We are generally hired to manage accounts in programs created by other investment advisers, including affiliated investment advisers.

We do not maintain custody of your accounts. The firms that hire us to provide portfolio management services on their behalf enter into relationships with qualified custodians. The majority of the accounts that select our strategies result from our relationships with our affiliates, First Allied Advisory Services, Inc. ("FAAS") and Legend Advisory Corporation ("Legend"). Both FAAS and Legend are registered investment advisers. The majority of FAAS' advisory accounts are introduced to custodians through First Allied Securities, Inc., a registered investment adviser and broker-dealer ("First Allied"). The majority of Legend's advisory accounts are introduced to custodians through Legend Equities Corporation, a broker-dealer. Pershing, LLC ("Pershing") and J.P. Morgan Clearing Corp ("JP Morgan") are generally chosen as custodians by the firms that hire us.

We communicate with you primarily through your investment adviser representative ("IAR") that is registered with the investment adviser sponsoring the program. We rely on that IAR to analyze your goals and needs when recommending a strategy that we manage. The IAR will collect suitability information and ensure that the investment strategy chosen is appropriate for the client.

We use stocks, bonds, mutual funds, options, exchange-traded funds ("ETFs"), closed-end funds ("CEFs"), and American Depositary Receipts ("ADRs") in the accounts we are hired to manage. Sometimes we are hired to manage variable insurance products.

If you wish to maintain a previously owned security, or not invest in a certain security, we may be able to work with your IAR to place this restriction on your account. The majority of our management is through pre-defined strategies, but certain programs can be customized to meet unique requests. More information about our pre-defined strategies can be found in Item 8- Methods of Investment Analysis, Investment Strategies and Risk of Loss, starting on page 7.

In addition to portfolio management services, we also provide advice on model creation, recommend asset allocations, and provide educational support for our clients. These services generally part of the overall client relationship and we do not generally charge separately for them. Occasionally we may be hired to consult for another firm. Consultations are limited to providing advice on portfolio analysis and recommendations.

We calculate the amount of assets that we manage every year. As of December 31, 2014, we managed:

- \$1,010,472,602 in discretionary assets
- \$50,166,231 in non-discretionary assets

Discretionary assets are the assets with which we have the authority to determine whether to buy or sell securities. This authority is called a trading authorization and is described in more detail in Item 16- Investment Discretion on page 13. Non-discretionary assets



are assets in accounts that we provide recommendations on, as to the purchase or sale of specific securities, but another investment adviser makes the final investment decisions.

## Item 5- Fees and Compensation

### *Overview*

For the majority of our services, we are compensated for our management services with a portion of the advisory fee you pay to the firm that you entered into a management agreement with, otherwise known as the “sponsor.” The amount of the fee paid to us depends on several different factors.

The advisory fee you are charged is outlined in your advisory agreement. This fee is calculated and deducted from your account by the sponsor of the program. A portion of the fee, the ‘management fee,’ is paid to your IAR. Another portion of the fee, the ‘program fee’ is paid to the sponsor of the program. We are paid from the program fee, based on the amount of assets invested in the strategies we offer. Our portion of the program fee is designated in the agreement between us and the program sponsor.

Just as you enter into an agreement with your IAR and/or the program sponsor, we enter into an agreement to manage accounts for the sponsor. This agreement is called a “sub-advisory agreement.” The sub-advisory agreement outlines the responsibilities of the various parties to the contract and details the breakdown of the fees paid to each party. The fees we charge for our management services vary. It is possible that your IAR’s firm will pay more or less than the other firms to which we provide management services. This may result in you paying a higher fee to us than other clients for the same services.

### *Other Fees*

Unless otherwise stated, transactions are effected net of, meaning without, commissions. However, either you or your IAR may designate certain holdings as not eligible to be included in the calculation of the advisory fee. For example, assets that you recently paid a commission on may be exempt from the advisory fee.

Depending on the account custodian, you may be charged for the purchase or sale of a security. In addition, each custodian may charge additional transaction fees depending on the type of security purchased or sold. Electronic funds and wire transfer fees, transfer taxes, account maintenance fees, margin fees, transaction charges, exchange fees, and odd lot differentials are examples of fees that may be charged by the custodian. These fees are charged by the custodian and are not included in the advisory fee that you pay. We do not determine these charges nor receive any portion of them, although our affiliated broker-dealers, First Allied and Legend Equities Corp., may receive a portion of these charges for accounts that use First Allied as the broker-dealer of record. Mutual funds often charge investors additional advisory or management fees. A portion of these may be passed on to the broker-dealer of your account as mutual fund trailers or for marketing purposes. We do not directly receive any portion of these fees. An account service schedule detailing all these fees will be provided to you upon account opening.

Based on the activity in your account, you may pay more or less for a managed account than if you had a brokerage account or an account with a mutual fund company. Your IAR should be able to discuss with you the characteristics of opening a managed account.

### *Verification of Fees*

You are always responsible for verifying that the fee you are charged is accurate. The custodian will not determine whether the fee is properly calculated. Should you find an error, please contact your IAR immediately.

### *Conflicts of Interest*

We offer our services to several firms; some are affiliated with us while others are owned by registered representatives of First Allied. Some of the firms that hire us may offer similar services under different program names. Our relationships with the various firms that we provide management services to may allow us to enter into agreements with fund companies or product sponsors, such as mutual fund companies, to receive discounted fees. These savings will not affect your total advisory fee, but may provide us with an incentive to work with fund companies or product sponsors that provide such discounts to us or an affiliate.

We may contribute financial support for client events to representatives of affiliates who offer the programs to which we provide investment management services. Providing this support presents a conflict of interest for these representatives, as they may have a financial incentive to induce clients to utilize our services.

In certain cases, unaffiliated investment advisers receive a portion of the advisory fees that we earn on certain of our investment models that are available through FAAS advisory programs. These portions, though negligible in size, represent a conflict of interest. This conflict is mitigated by the fact that these payments are made from our portion of the advisory fees and do not impact the amount of advisory fees paid by clients.

It’s important to remember that we are receiving a portion of your advisory fee for our services. This may impact the total advisory fee you pay. Some sponsor firms may offer the strategies we manage for different fees than other firms. It is up to the sponsor firm to determine the charge to clients. You may be able to receive services similar to those that we offer for different rates.

Certain of our IARs and employees have an ownership interest in Holdings, which presents a conflict of interest with respect to the services they provide to certain strategies in that certain actions may be more profitable to Holdings and its subsidiaries than other



actions. As owners of Holdings, these individuals have an interest in its highest profitability. We help mitigate this conflict by requiring that all IARs and employees abide by our Code of Ethics, which is described in Item 11- Code of Ethics, starting on page 12.

## Item 6- Performance-Based Fees

Performance-based fees are fees where the firm shares in a percentage of an account's capital gains and appreciation. We do not charge or receive any portion of performance-based fees.

## Item 7- Types of Clients

FAAM provides services to other investment advisers. We do not contract directly with individual investors. Instead, we are hired by other firms to provide management services to their clients. Our strategies are mostly used as a foundation for another investment adviser's advisory programs. We mainly provide services to FAAS, an affiliated registered investment adviser. More information about FAAS is provided in Item 10- Other Financial Industry Activities and Affiliations on page 11.

We also provide services to investment advisers owned by individuals affiliated with First Allied's broker-dealer and investment advisers owned by unaffiliated entities. Minimum investment amounts are established by the firm that has contracted with us to provide services.

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

### *Types of Risk*

Various types of risk are involved when investing in securities. Economic risk, market risk, currency risk, inflation risk, interest-rate risk, liquidity risk, and credit risk are examples of the types of risks your account may be subject to. If you are invested in one of our strategies, there is also the risk that your account value will decrease because of the investment decisions that we make. It is possible that our investment decisions will cause our strategies to underperform other investment strategies or the markets as a whole.

### *Assessing Risk*

While some types of risk can be mitigated by investment strategies, many of these risks cannot be eliminated completely. Your IAR will work with you to make sure that you are comfortable with the risks associated with the type of investments that are in your account. It is important to make sure that you understand these risks.

For accounts investing in structured products or options, you will be provided additional disclosures by your IAR that explain the unique risks of these complex products.

### *Risk of Loss*

You should know that all types of securities investing involve risk. Your account value can both increase and decrease over time. You should not invest in any product if you are not prepared to bear a potential loss. Past performance does not guarantee future results.

### *Management Style*

Our management style is based on our attitude toward risk management. We aim for low risk. We seek to protect our client's investment and help it grow more effectively. Our goal is to lose less in a 'down' market but this typically means we will not gain as much in an 'up' market. We believe that markets change over time. We actively research market movement and adjust our strategies accordingly. Active management is not about being invested or not. It is about playing offense and defense by selectively overweighting or underweighting certain asset classes. Our diverse strategies give you access to invest in a variety of asset classes. This approach allows us to change our weightings across industries as we see fit.

Our research process starts broadly. We use a combination of mathematical analysis and in-depth research to identify investment ideas. We have sophisticated tools that help us measure how our models compare with our outlook for the market.

### *Frequency of Trading*

Several of our strategies utilize mutual funds to gain exposure to different asset classes. Because of the unique structure of a mutual fund, frequent trading and short-term holding pose the risk of increasing administrative costs, interfering with the management of the fund, and even potentially diluting the returns earned by other shareholders. As a result, we have adopted the following guidelines to help mitigate these adverse consequences of mutual fund trading.

Mutual funds selected for a model are generally intended to be held for at least 60 days. In addition, mutual funds should not be sold and re-purchased within a 90 day window. These guidelines relate at the model level. Individual accounts may have non-model initiated trading based on contributions, withdrawals, or other requests from the client. We track initiation and sale dates of model portfolio mutual fund holdings. If a proposed transaction would occur within the 60 or 90 day windows discussed above, we will discuss any extenuating circumstances (e.g., the market backdrop, changes in fund management, etc.) and determine whether the benefit to clients offsets the risks of frequent trading discussed above.

Certain mutual funds permit short-term trading of their shares. These mutual funds are exempted from this policy. In addition, ETFs are not included in this policy.



### *Methods of Analysis*

Our method of analysis stems from our philosophies of risk management and an active approach that is guided by the multi-disciplinarian portfolio management team. Our portfolio managers have diverse backgrounds with highly specialized expertise in quantitative modeling, global macro analysis, politics, technical analysis, derivatives, and forensic accounting. Our method of analysis thus draws from these tools, but may vary based on the specific strategy and objective. For broader asset allocation strategies, we primarily take a top-down view of the world to determine areas to invest and areas to avoid. This analysis includes:

- Technical assessment of price, seasonality, and relative relationships
  - One risk inherent in technical analysis is that it relies on historical data to make predictions of future price movements which may not always follow historical patterns
- Fundamental and valuation analysis of historic and relative value and growth
  - Risks inherent in using this type of analysis include overlooking what is happening to the larger domestic or global economic environment when analyzing a particular security or industry
- Economic factors that might contribute to movement of the asset class
  - Risks inherent in using this type of analysis include unforeseen price fluctuations of individual securities or industries that are not related to the overall domestic or global economic environment

For stock selection strategies, we typically start with a forensic accounting filter used to identify potential accounting red flags. We then analyze the financial statements and other publicly available information to evaluate the firm relative to its peers. Technical analysis may be used to determine entry triggers, or good times to purchase the security. Our macro analysis can lead to sector or style over-investment (in relation to our strategy's optimal allocation) as well as relative risk targets.

For all of our strategies, we rely on our internal analysis as well as investment research that is provided by unrelated parties.

### *Investment Strategies*

We have developed the following strategies for the firms that hire us as a manager:

#### **Private Client Services ("PCS")**

We created the PCS strategy to provide high-net-worth clients the opportunity to have some, or all, of their assets managed in one place. PCS is open to clients that will have at least \$500,000 invested in the strategy. Your IAR will work with you and us to determine the most efficient allocations of your current accounts. The PCS strategy establishes a portfolio that will invest in an array of stocks, bonds, ETFs, CEFs, mutual funds, and/or other securities directly or through strategies managed by third-party managers. In addition, certain option and/or structured product strategies may also be utilized, which have unique risk profiles.

This strategy has exposure to interest-rate risk, as changes in interest rates will affect the price of bond positions held by the strategy. CEFs may have investment objectives other than matching a particular market index, may have a tendency to trade below net asset value, and are subject to liquidity risk. CEFs are subject to risks similar to those of stocks. Options involve risk and are not suitable for all investors. Option trading can be speculative in nature and carry substantial risk of loss. In addition to the risk of the underlying security going up or down, options are very time sensitive investments. Typically, options are used to attempt to provide some downside buffer and reduce equity correlation. This usually results in some protection against loss in exchange for limited participation in gains. Prior to buying or selling an option (or investing in this strategy), a person must receive a copy of the Characteristics and Risks of Standardized Options (ODD). This information is provided solely for general education and information purposes and therefore should not be considered complete.

Structured products are securities whose cash flow and/or value are based on a single or basket of stocks, indices, commodities, and/or foreign currencies. Structured products are constructed as a debt security issued by investment banks or their affiliates, but rather than paying a straight fixed or floating coupon, these instruments' interest payments are tailored to a myriad of possible indices or rates. They have a fixed maturity, and generally are made up of two components: a note and an option. Rates of return vary and are generally paid at maturity, along with the face amount of the investment, subject to the credit risk of the issuer.

Purchasing structured products involves a number of risks, and is not suitable for all investors. It is suggested that investors carefully consider, with input from their financial, accounting and tax advisors, whether they wish to restrict our ability to purchase structured products in their PCS portfolio. Structured products can include many of the same risks inherent with options trading. Risks associated with structured products will be unique to each specific issue, but may include credit and default risks, limited FDIC protection, liquidity risks, market and opportunity risks, derivative risks, commodity price risks, currency and exchange risks, tax risks.

#### **Mutual Fund Select (formerly known as "Fund Allocator")**

Mutual Fund Select ("MF Select") is a managed mutual fund strategy that utilizes custom market models from us to produce asset allocations to facilitate construction and management of your portfolio. MF Select relies on dynamic management to combat market volatility, and utilizes mutual funds within each asset class screened and ranked by us. MF Select is designed to provide you with long-term, risk-adjusted returns. The mutual funds in MF Select represent 13 different asset classes and you have the option of choosing between 10 different asset allocation models (including 5 tax-sensitive models). Occasionally, we will utilize other securities, such as ETFs, in the MF Select program in order to provide exposure to an investment theme more efficiently, among other reasons. This strategy has exposure to interest-rate risk, as changes in interest rates will affect the price of bond positions held by the

strategy. Bonds will decrease in value as interest rates rise and are subject to both interest rate and credit/default risk.

## **One Account Select (“OAS”)**

OAS is a unified managed account strategy that utilizes custom market models from us to produce an asset allocation that facilitates the construction and management of your portfolio. A unified managed account strategy is a highly sophisticated strategy that combines multiple investment vehicles into a single portfolio and account, maximizing efforts to enhance diversification. A unified managed account generally allows multiple portfolio managers to manage a portion of your total account. Envestnet Asset Management, Inc. (“Envestnet”), an unrelated investment adviser, acts as the overlay manager for the OAS strategy. An overlay manager is responsible for coordinating trading activities in your account among all of the portfolio managers.

The OAS strategy is comprised of ETFs, mutual funds, and separate accounts managed by third-party managers. These securities represent 14 different asset classes and you have the option of choosing between 8 different asset allocation models (including 4 tax-sensitive models). The program and management fees for OAS differ depending on the specific model selected. This strategy has exposure to interest-rate risk, as changes in interest rates will affect the price of bond positions held by the strategy.

## **ETF Select**

ETF Select is designed as a comprehensive asset allocation strategy giving clients exposure to an actively managed blend of stocks, bonds, and alternative assets. ETFs are used to obtain asset class exposures. ETFs offer many advantages over mutual funds including precision, tax efficiency, liquidity, and lower expenses. In the ETF Select strategy, assets are strategically allocated across a wide range of asset classes, utilizing primarily ETFs, through a comprehensive investment process. There are five models available for ETF Select, ranging from the Conservative portfolio, which has an allocation of 20% equities and 80% fixed income, to the Aggressive Growth portfolio that is allocated to almost 100% equities. This strategy has exposure to interest-rate risk, as changes in interest rates will affect the price of bond positions held by the strategy.

## **Yield Select**

The Yield Select strategy invests in highly liquid U.S.-listed securities, including equities, American Depositary Receipts (“ADRs”), and CEFs. Its primary objective is to offer a balance between current income and future growth, with a bias toward risk management. The portfolio will be comprised of two parts: the first invests in CEFs representing both equity and fixed income asset classes and the second invests in individual stocks that have a high current dividend yield plus the potential for dividend growth. Between the two pieces, the goal is to establish a portfolio of approximately 40 positions that is diversified by asset class, sector and size that will generate current income through dividends, interest income and royalty payments plus offer the potential for long-term appreciation. This strategy has exposure to interest-rate risk, as changes in interest rates will affect the price of bond positions held by the strategy. CEFs may have investment objectives other than matching a particular market index, may have a tendency to trade below net asset value, and are subject to liquidity risk. CEFs are subject to risks similar to those of stocks.

## **U.S. Large Cap Select (“USLCS”)**

USLCS is a separately managed account strategy investing in highly liquid U.S.-listed equities. We manage this strategy for investors seeking a risk-managed approach that strives to build and maintain wealth. USLCS seeks to outperform the S&P 500 index with a bias toward downside risk management. The strategy is designed to accommodate growing concern about market risk while still providing the participation in growth that is available through equity investing. In USLCS accounts, we employ a disciplined methodology to identify opportunities to purchase stocks in large U.S. companies that the portfolio management team believes are poised for enhanced performance with a favorable risk/reward tradeoff.

## **Liquid Alts Select**

The objective of Liquid Alts Select is to provide investors with exposure to various alternative asset classes through liquid vehicles such as ETFs and mutual funds. The strategy is constructed as a source of alternative exposure to complement a broader diversified portfolio. Liquid Alts Select is built on the premise that alternatives are an important asset class that can reduce the volatility through low correlation to traditional stock and bond investments. The portfolio has exposure to many alternative approaches such as managed futures, long/short, master limited partnerships, and merger arbitrage. We conduct due diligence on the specific funds to utilize within Liquid Alts Select to represent the various alternative asset classes. In addition, certain funds in the portfolio are may be used to hedge equity risk when markets are too complacent and when risks are rising.

This strategy has exposure to interest-rate risk, as changes in interest rates could affect the price of bond positions held by certain underlying funds held in the strategy. In addition, many funds in this strategy employ a shorting strategy which may cause the fund to lose money even as asset prices increase.

## **401(k) Select**

The 401k Select strategy is divided into two distinct types of services: Single Asset Class Fund (“SACF”) selection and portfolio management of a company-sponsored 401(k) plan account (Professionally Managed Portfolio (“PMP”)). The retirement plan’s trustee works with us to establish the SACF selection for his company’s retirement plan. By working with us to establish a list of mutual funds available to his plan’s participants, the trustee is allowing plan participants to create their own portfolios.

Plan participants also have the option of choosing the PMP option. By choosing the PMP option, participants are opting to have their



company-sponsored retirement plan account managed by us. The PMP option allows plan participants to choose from five different asset allocation models (portfolios): Conservative, Conservative Growth, Moderate Growth, Growth, and Aggressive Growth. Each of these models is actively managed by us. Our management style for each asset allocation model provides broad diversification across most major asset classes through the purchase of a basket of selected mutual funds. The portfolios include a consistent allocation to stocks, bonds, and alternative assets. A description of each of the asset allocation models can be found in the 401(k) Select disclosure brochure.

### **Covered Call**

The Covered Call strategy includes 12 to 17 individual covered call positions, each of which includes the simultaneous purchase of an underlying stock and the sale of a call option. The strategy provides limited downside protection in exchange for capped upside participation. The strategy uses call options to attempt to provide some downside buffer and reduce equity correlation. Positions are diversified by sector, strike price, and expiration. Stocks are systematically selected through rigorous fundamental and technical screens and must provide attractive covered call return opportunities. The strategy was developed to offer additional sources of income as well as provide an added cushion in the event of a market downturn. As such, the strategy may achieve these objectives while not necessarily outperforming a particular benchmark. MFGI utilizes the Covered Call strategy.

Options involve risk and are not suitable for all investors. Prior to buying or selling an option (or investing in this strategy), a person must receive a copy of the Characteristics and Risks of Standardized Options (ODD). This strategy has exposure to interest-rate risk, as the valuation of options held by the strategy may be affected by changes in interest rates.

### **Dynamic Income Series**

The Dynamic Income Series strategy is a set of actively managed portfolios designed to provide a targeted yield by sourcing income from a diversified set of asset classes. Yield is generated from a basket of mutual funds representing fixed income (including government, agency, corporate, and high yield foreign and domestic bonds), equity (e.g. dividend-paying domestic and foreign equities), and alternative (e.g. currencies, REITs, and emerging market debt) asset classes. On an ongoing basis, we assess the portfolio's funds based on their market, interest rate, and credit risks and adjust the allocations based on our outlook. The portfolios are appropriate for investors who require current income and are willing to accept low capital appreciation.

Four models of the Dynamic Income Series are available: the Conservative portfolio, which targets approximately a 4% 12-month yield and generally will be tilted to include more high-quality bonds, the Moderate portfolio, which targets approximately a 5% 12-month yield, the Moderate Plus portfolio, which also targets a 5% 12-month yield but may utilize individual stocks in addition to mutual funds, and the High portfolio, which targets approximately a 6% 12-month yield and tends to be tilted to include more lower quality (higher yielding) bonds.

This strategy has exposure to interest-rate risk, as changes in interest rates will affect the price of bond positions held by the strategy.

### **Dynamic Allocation Series**

The Dynamic Allocation Series strategy is a managed mutual fund strategy featuring an actively managed, diversified portfolio of approximately 15 or more mutual funds, representing U.S. and foreign stocks, bonds, and alternative asset classes. The portfolio consists of both a core and an active-tactical component. The precise allocations are intended to adjust with our strategic outlook. The static core ensures the portfolio maintains a diverse framework consisting of a multitude of asset classes including an allocation to stocks (e.g., large cap, small cap, value, and international), bonds (e.g., government, corporate, and international), and alternative assets (e.g., managed futures, absolute return, real estate, and commodities). The active-tactical allocation is used to rebalance accounts as our market outlook changes.

There are 10 different asset allocation models available (including 5 tax-sensitive models): Conservative Balanced, Balanced, Growth, Equity Growth, and Equity Growth Plus. The relative sizes of the active and static components are determined by the client's tax sensitivity. Qualified accounts are managed to maximize the tax-deferred nature of the account; taxable accounts are managed to be as tax efficient as possible. The Equity Growth Plus models may own individual stocks in addition to mutual funds.

This strategy has exposure to interest-rate risk, as changes in interest rates will affect the price of bond positions held by the strategy.

### **Dynamic Macro Select**

Dynamic Macro Select is a tactically unconstrained strategy that attempts to opportunistically exploit price momentum trends and fundamental mispricing among global asset classes including stocks, bonds, and hard assets. It reflects the favorite thematic ideas of our six-member investment team. A more fluid market environment requires an active approach that allows for flexibility to adjust to changing conditions, so Dynamic Macro Select was designed to represent the tactical portion of the portfolio geared to adapt to macro environment. The strategy is designed to move in and out of the market as well as to capitalize on investment opportunities.

The strategy will rotate amongst our best ideas across 15 equity, fixed income, and hard asset categories. Finally, our research is applied against an extensive universe of global ETFs and mutual funds (including size, style, sector, country, low-volatility, momentum and fundamental sub-categories) to select targeted investments.



### Customized Investment Strategies

From time to time, we will also customize investment strategies for certain clients. In many cases, these customized strategies will be constructed from a collection of our other strategies listed above. In other cases, the customized strategies may include a combination of our other investment strategies and an allocation of other securities designed to complement those strategies. Clients who are invested in these customized investment strategies will receive information about the strategies and will acknowledge their acceptance of the strategies employed in their accounts.

### All Strategies

In each of the strategies listed above, we may utilize leveraged and/or inverse securities, which potentially carry increased risk. These securities gain the target exposure through the use of derivatives and/or by shorting a segment of the market. In addition, leveraged securities potentially carry increased risk because the security will increase or decrease in value based on a factor, or multiplier. For example, if the investment model invests \$100 in a 2x leveraged security, the security will increase or decrease as if the investment model had invested \$200. Since these securities offer a multiple of the daily return, they are not meant to be held as long-term investments as the performance will deviate from the target in periods over one day. This daily compounding issue is magnified during periods of high volatility and is further exacerbated by leverage. Inverse securities are designed to increase in value as the underlying security decreases in value, and vice versa. Leveraged/inverse securities have the risks associated with both leveraged and inverse securities.

Certain of the strategies that we manage are offered under different names through different firms, but the underlying strategies are the same. Not all firms that hire us as portfolio manager offer all of the strategies listed above. Some firms may require that IARs engage in additional training prior to offering access to certain strategies.

## Item 9- Disciplinary Information

FAAM has not been the subject of any disciplinary actions by any regulator or other authority. However, some of our affiliated investment advisers have been the subject of various regulatory and disciplinary findings by various states and regulatory bodies. Please see our affiliates' disclosure document(s) for information relating to these events.

## Item 10- Other Financial Industry Activities and Affiliations

### Related Financial Industry Entities

We are also affiliated with other registered investment advisers. Our parent company, Holdings, owns three other investment advisers:

- First Allied Advisory Services ("FAAS")
- First Allied Securities, Inc. ("First Allied")
- Legend Advisory Corporation ("Legend")

First Allied is a dual registrant. This means that First Allied is both an investment adviser and a broker-dealer. We are the sub-adviser for several programs sponsored by FAAS and Legend.

In addition to the firms listed above, Holdings also owns First Allied Retirement Services, Inc. ("FARS"), FASI Insurance Services, Inc. ("FAIS"), Legend Equities Corporation, LEC Insurance Agency, Inc., and Advisory Services Corporation. FARS is a pension administration firm that provides pension services to pension plan sponsors. Neither FAAM nor our IARs receive any compensation for referring clients to FARS. FARS owns Associates in Excellence, which is another pension administration firm that provides pension services to pension plan sponsors.

FAIS is an insurance general agency that offers insurance products through licensed agents. Many agents offering insurance through FAIS are also First Allied registered representatives. Legend Equities Corporation is a broker-dealer registered with FINRA. LEC Insurance Agency, Inc. is an insurance general agency. Advisory Services Corporation is an administrative agent for a trust company. Neither we, nor FAAS, nor First Allied offer any Legend Advisory Corporation, Legend Equities Corporation, and/or Advisory Services Corporation products or services.

You should be aware that Holdings is currently owned by RCS Capital Holdings, LLC., which is wholly owned by RCS Capital Corporation, a public reporting company (NYSE: RCAP). Holdings and all of its subsidiaries are part of Cetera Financial Group. Cetera Financial Group is the retail advice platform of RCS Capital Corporation that delivers the benefits of scale to its family of independent broker-dealer firms and registered investment advisers. Cetera Financial Group includes the following companies: Cetera Advisors LLC., Cetera Advisor Networks LLC., Cetera Financial Specialists LLC., Cetera Investment Advisers LLC., Cetera Investment Management LLC., Cetera Investment Services LLC., Investors Capital Corporation, Summit Brokerage Services, Inc., Summit Financial Group Inc., J.P. Turner & Company, LLC., Girard Securities, Inc., VSR Financial Services, Inc., Legend Equities Corporation, Legend Advisory Corp., First Allied Securities, Inc., First Allied Advisory Services, Inc., and First Allied Asset Management, Inc.

Our principals, employees and representatives may have responsibilities to any of these listed affiliates. Certain administrative and payroll expenses for employees of any affiliate may be allocated among all of the affiliates. Allocation of these expenses is not



determined by assets referred to any affiliate. Certain affiliates and their personnel may buy and sell securities for their own accounts. In some cases, these affiliates and their personnel may buy and sell the same securities which may be purchased or sold as part of one or more of our investment strategies. Our Code of Ethics governs our personnel's trading activity and is explained more fully in the next Item. We do not buy or sell any securities for our own firm account.

#### *Other Financial Industry Activities*

In addition to the related entities noted above, we also conduct business with other RIAs that are owned or operated by registered representatives of our affiliated broker-dealer, First Allied and other, non-related parties.

## Item 11- Code of Ethics

### *Overview*

Pursuant to SEC rule 204A-1, we have adopted a Code of Ethics ("COE") to establish rules of conduct for all supervised persons. Supervised persons are individuals that are associated with our firm who are involved with offering or providing advisory services, including managing portfolios. The COE recognizes our portfolio managers' fiduciary responsibility to clients. The COE instructs our portfolio managers to conduct their affairs in such a manner as to avoid:

- Serving their own interests ahead of clients' interests
- Taking inappropriate advantage of their position
- Engaging in unacceptable actual or potential conflicts of interest

A copy of our COE is available upon request by calling our Compliance department at 800-223-0989.

Our portfolio managers are required to get preclearance for their personal trading activities. This means that a portfolio manager must receive approval from a member of our management team prior to buying or selling certain types of securities for his personal account. The fact that our portfolio managers can trade in their own accounts presents a conflict of interest. In certain cases, we do allow portfolio managers to buy and sell the same securities that are included in one or more of our investment strategies. This conflict is mitigated by the procedures detailed in our COE and Compliance Manual. We also conduct a post-trade review of all portfolio managers' and employees' account statements to ensure that our procedures are being followed.

## Item 12- Brokerage Practices

### *Soft Dollar Benefits*

Some firms in the industry receive benefits in exchange for delivering business to a broker-dealer or other third-party. These benefits are known as "soft dollars." Soft dollar benefits are generally defined as benefits (besides normal fees) received from a firm in exchange for doing business with the firm. These benefits may include access to software, hardware, research, and/or office space. We do not currently receive any soft dollar benefits for choosing the broker-dealer through which we effect trades.

### *Directed Brokerage*

We do not permit clients to direct us to execute transactions through a specified broker-dealer other than First Allied or Legend Equities Corporation. We rely on the relationship established by our affiliated entities to determine where we execute our transaction. We believe that First Allied allows us to achieve best execution because of their business relationships with Pershing, and JP Morgan, our access to First Allied's trading department, our ability to rely on First Allied's financial stability, and First Allied's overall service. Best execution factors include timeliness of execution, trader expertise, better pricing, and responsiveness.

### *Aggregation of Client Trades*

When we trade for the accounts for which we are hired as a sub-adviser, we aggregate trades when appropriate. Aggregating trades is generally defined as "bunching" or combining trade orders for the same securities. Aggregating trades will not affect the transaction charges you are charged (or not charged) on such transactions in our investment strategies. When an aggregated trade order cannot be filled completely, we will generally attempt to provide each account involved in the aggregation a proportional number of shares, based upon the original order size.

In certain circumstances proportionately allocating an order that has not been filled entirely may not be in the best interest of each client. In these instances we will allocate the shares among the clients in a manner we believe to be fair to each client. We are under no obligation to aggregate trade orders or to average-price transactions.

For certain of the strategies, we delegate the execution of trading to Envestnet or other third-parties. In these situations, trading and rebalancing are executed according to the policies and procedures of Envestnet or the third-party leveraging our investment direction.



## Item 13- Review of Accounts

Our investment philosophy rests in the idea of an active management style. This means that we want to adjust our strategies to be in alignment with changing market conditions. We review our investment strategies throughout each business day, to make sure they are in line with our outlook.

The investment adviser sponsoring the programs that utilize our strategies may deliver performance reports to you. These performance reports will generally compare the performance of your account versus the performance of one or more benchmarks, including one or more blended benchmarks. A blended benchmark is a combination of market indexes in varying percentages. For each of our models, we recommend the selection of a benchmark that we feel is appropriate to be used as a standard against which relative performance can be measured. Most of our blended benchmarks consist of the S&P 500 Index, MSCI World Index, Barclay's U.S. Aggregate Index, and the 3-Month U.S. Treasury Bill rates in varying percentages. We also utilize the Russell 3000 Value Index and the Merrill Lynch High Yield Master Index in our blended benchmarks for certain strategies. The performance reports that your investment adviser delivers to you will identify which indexes are used in the blended benchmark that is listed on the report (if applicable).

## Item 14- Client Referrals and Other Compensation

All of our clients are firms, not individuals. These firms contract with the IARs that service your account. We, and our affiliates, may receive payments from product sponsors, including mutual fund companies. If an affiliate receives payments from product sponsors for securities we manage, we may receive software, training, and conference support, based on the volume of securities we invest with the product sponsor. For more information about which product sponsors share revenue with either us or our affiliates, please reference <http://www.firstallied.com/policies-disclosures/conflicts-of-interest> or the disclosure documents of firms who hire us.

## Item 15- Custody

As mentioned previously, we do not custody account assets. Account assets are custodied by an approved custodian selected by the program sponsor, usually Pershing or JP Morgan. The custodian of your account will send your account statements. These statements will be sent to you either quarterly or more frequently. You should review the account statements carefully and compare these account statements with the reports that may be sent to you by the program sponsor. Should you note any discrepancies, please contact your IAR.

To facilitate client transactions, First Allied and Legend accept custody of client securities and deposits and forwards them to the approved custodian. This service gives First Allied and Legend custody. Because of an affiliate having custody, we hire an accounting firm to conduct an annual audit of our procedures.

## Item 16- Investment Discretion

We do not have discretion over your assets. However, when you invest in an account for which we serve as the portfolio manager, you are granting a full trading authorization either to us or to another investment adviser. Full trading authorization gives us (or the other investment adviser) the authority to place trades in your account based on our (or its) judgment. We will not remove funds or securities from your account.

## Item 17- Voting Client Securities

The account agreement that you sign will determine which party is responsible for the proxy voting process in your account. For certain accounts that utilize our strategies, we are responsible for voting the proxies; for others, another party is responsible for voting the proxies. This authority is detailed in the account agreement you sign. In certain cases, for accounts in which we are designated as being responsible for voting proxies, we utilize a third-party service provider to vote the proxies on our behalf. In these cases, the third party's proxy voting policies and procedures will be followed. In the cases where we are responsible for voting the proxies, our proxy voting policies and procedures will be followed.

We vote proxies in a manner that we believe is in your best interest. Though their proxy voting policies may differ from ours in some respects, the third-party service provider's proxy voting policies have been reviewed and approved by us. We believe that these third-party service provider's votes would also be in your best interest.

In the event that a proxy proposal that we are voting creates a conflict of interest between our interests and yours, we will obtain your consent to vote the proxy in a specific manner. When seeking your consent, we will provide you with sufficient information about the matter and the conflict to help you make an informed decision. Should you not respond to such a request, we will not vote the shares held by your account for the proposal in question. If you deny our request to vote the proxy a certain way, we will vote according to any instructions you provide to us.

We may refrain from voting proxies, if this is in your best interest. Please contact us for a list of any proxies we have voted on your



behalf, which details how we voted, or for a copy of the proxy voting policy that is utilized for your account.

## Item 18- Financial Information

### *Prepayment of Fees*

We do not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Generally, advisory fees for account management are paid to the program sponsor quarterly in advance.

### *FAAM's Financial Condition*

We are required to inform you of any financial conditions that are reasonably likely to impair our ability to meet contractual commitments to you. Currently, there are no financial conditions that would impair our ability to meet our contractual commitments to you. Should any arise, we will notify you according to SEC guidelines.