

# Edelman Managed Asset Program<sup>®</sup> (EMAP) Wrap Fee Brochure

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This wrap fee 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 to 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 by 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).

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## Item 2: Material Changes

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Significant changes to this updated wrap fee brochure are contained in this section. Future wrap fee brochures will contain similar summaries. This information is accurate as of July 19, 2016.

### **MATERIAL CHANGES IN THIS BROCHURE**

Ryan Parker assumed responsibility as Chief Executive Officer (“CEO”) of Edelman Financial Services, LLC (“EFS”), effective June 20, 2016. Mr. Parker leads the day-to-day management of EFS and works closely with Ric Edelman to establish the firm’s strategic direction. Mr. Edelman’s time will be devoted primarily to the firm’s financial education and advice.

Also, James Mendelsohn was named the firm’s Chief Marketing Officer and several changes were made to the Investment Committee membership, effective June 15, 2016.

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

You can request a free brochure by calling us at 888-PLAN-RIC (888-752-6742). 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 Advisor Representatives of our firm.

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## Item 4: Services, Fees and Compensation

### Services

The Edelman Managed Asset Program® (“EMAP”) is a wrap fee asset allocation program sponsored by Edelman Financial Services, LLC (sometimes referred to as “EFS”, “Firm” or “We”). The client retains EFS and an Investment Adviser Representative (“Advisor”) for the purpose of opening an investment advisory account (“Account”) and participating in EMAP. We will invest participating client assets in one or more diversified asset allocation models consisting of open-end registered investment companies (commonly referred to as mutual funds) and closed-end registered investment companies (commonly referred to as exchange-traded funds, or ETFs) and occasionally variable annuities and 529 College Savings Plans in exchange for an all-inclusive asset-based advisory fee (“Advisory Fee”).

We offer EMAP asset allocation models that consist of no-load mutual funds and ETFs in a broad range of asset classes and market sectors, including domestic stocks, international stocks, global bonds and alternative investments. Neither EFS nor any of its affiliates sponsor, are affiliated with, or serve as investment adviser to any of the investment company products included in portfolio assets. EMAP portfolios range from conservative to aggressive. A client’s Advisor assists the client in selecting the asset allocation model that best meets the client’s needs. Alternatively, a client may choose to use Edelman Online, which is an Internet platform that guides the client through the process and helps him or her select an appropriate EMAP asset allocation model. The client’s financial situation, goals and investment objectives, risk tolerance, time horizon, liquidity needs, and other relevant factors, as described by the client, are considered in selecting the client’s asset allocation model. EFS does not provide tax or legal advice. A client is instructed to seek advice from a tax or legal adviser before making an investment decision. A client should inform EFS if changes occur in investment objectives or financial situation.

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 in arrears. If the relationship ends before the quarter does, the client will not be billed for the remainder of the quarter.

### Trading Authorization and Reallocation

Once an asset allocation model portfolio has been selected, a client grants EFS limited discretionary authority to:

- Invest the assets in the EMAP Account in a diversified asset mix;
- Reallocate assets in the Account; and
- Rebalance the assets when needed.

When reallocating, EFS may change the target percentages of some or all of the asset classes or types relative to the total Account. An Account is monitored on an ongoing basis, and assets are 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 and the

Investment Committee, 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. We may replace a particular security, 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. Reallocations occur with less frequency than does rebalancing, and when we reallocate Accounts, it generally is 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 effected.

## Rebalancing

Each Account is invested in accordance with the client's investment objectives, risk tolerance and goals. At the inception of an Account, EMAP assets are invested in specific asset types, including mutual funds and/or ETFs and annuities. Amounts invested in each fund are determined in accordance with set target percentages of total assets in the Account. Thereafter, 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. However, we do not rebalance Accounts constantly, and asset allocations may drift away from their original target percentages before EFS, within its 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 when the asset type becomes profitable, the Account is positioned to take advantage of the upturn.

A client may impose reasonable restrictions on the Account(s) that are not fundamentally inconsistent with the client's investment objective or the nature or operation of EMAP. We notify each client quarterly, as a reminder, to contact us regarding any changes in the client's financial situation or investment objectives. In addition, the Advisor will contact each client at least annually to determine whether any such changes have occurred and to verify the ongoing suitability of EMAP.

## Institutional Advisory Services

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

- **Investment Policy Statement Assistance** – 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** – As a fiduciary, EFS provides ongoing, continuous management of assets, including strategic rebalancing and daily Account review; and
- **Recordkeeping** – EFS provides statements and online functions designed to ease the administrative needs and burden associated with recordkeeping and reporting.

## Fees and Compensation

### Advisory Fee

The Advisory Fee includes limited discretionary management and periodic review of all investments in an EMAP Account. The fee also covers administrative services, transaction costs, clearance and custody of assets, and a subscription to *Ric Edelman's Inside Personal Finance* newsletter. In addition, the Advisory Fee covers ongoing financial planning advice with an Advisor, who receives compensation as a result of the client's participation in EMAP.

The Advisory Fee is based on the average daily balance of the assets, including money market funds, interest and reinvested dividends in the Account, calculated following the last day of each calendar quarter. The Advisory Fee is payable quarterly, in arrears. The first payment is prorated for assets that are placed in the Account during a calendar quarter. Fees are payable to EFS no later than the fifteenth (15th) day after the end of each quarter, in arrears.

### **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 |

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 discussed in Item 5. Clients should be aware that lower fees for comparable services may be available from other sources.

| <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 |

The above Advisory Fee Schedules are based on the amount of money the client invests in the program and are not dependent on the amount of trading in the Account or the advice given in any particular time period. The client should be aware that lower fees for comparable services may be available from other sources.

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, no-commission variable annuities and 529 College Savings Plans. Thus, neither our Firm nor the Advisors earn any additional revenue from EMAP Accounts beyond the wrap fee.

A portion of the Advisory Fee is paid to the Advisor. The Advisory Fee earned may be more or less than what EFS or its Advisors might earn from other programs available in the financial services industry or if the services were purchased separately. Therefore, EFS and its 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 either more or fewer trades through clearing broker-dealers for EMAP Accounts.

EFS has entered into an agreement with unaffiliated investment advisory firms to offer EMAP to its clients. EFS and the other investment advisory firms will share in the Advisory Fee. Therefore, unaffiliated Advisors have a financial incentive to recommend EMAP. The client will not pay additional fees as a result of this arrangement.

### **Payment Method**

Clients authorize the custodian, 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.

### **Changes to Fees**

EFS may change the fee schedule at any time by giving 30 days prior written notice to the client. Following the 30-day notice period, the new fee schedule will become effective unless the client terminates the Client Services Agreement. The client's continued acceptance of the services will constitute consent to changes in the Advisory Fee, including an increase in the amount charged.

### **Other Fees and Expenses**

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 TD Ameritrade, Fidelity and Pershing Advisor Solutions ("PAS") for clearing and execution services. Transaction costs imposed by these 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, non-standard asset fees, insufficient fund fees, returned check fees, transaction charges for fund level asset allocation model trades, 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. EFS may from time to time, at its sole discretion reimburse clients for certain fees or charges which are not due to the client's error.

As noted above, we anticipate that transactions placed in your Account will be executed through either TD Ameritrade, Fidelity or PAS, however, in the limited circumstances described below, EFS may choose to execute trades with another broker-dealer if we reasonably believe that another broker-dealer can obtain a more favorable execution under the circumstances. Specifically, occasionally, (typically less than 5% of the time), EFS will utilize broker-dealers other than TD Ameritrade, Fidelity or PAS 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. We will typically execute such trades with a broker-dealer other than TD Ameritrade, Fidelity or PAS if a different broker-dealer has the capability to handle such large transactions and to reduce or eliminate the potential negative price fluctuation. In these instances, the wrap fee does not include the compensation that is paid to the broker-dealer. This compensation is embedded into the price of the security which is paid by the client. These additional costs are in addition to the wrap fee paid by the client.

## Item 5: Account Requirements and Types of Clients

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### Account Requirements

The minimum Account size for non-institutional Accounts is \$5,000, and the minimum annual fee is \$100. The minimum Account size for institutional Accounts is \$500,000. Employee and Advisor minimum Account size is \$3,000. We may waive the minimum Account size and minimum annual fee at our sole discretion.

A client may make additions to or withdrawals from the Account at any time. EMAP is designed as a long-term investment vehicle, and asset withdrawals may impair the ability to achieve the client's investment objectives. Withdrawals that cause material reductions in the value of the Account could cause EFS to terminate the Account.

We have entered into an agreement with the following unaffiliated, SEC registered broker-dealers and FINRA members ("Custodian[s]") to provide clearing and custody services to EMAP clients. The client must agree to the opening of an Account with one of the following Custodians as a condition to participate in EMAP:

- 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)

Each unaffiliated Custodian provides the following services to EMAP clients:

1. Maintain custody of Account assets;
2. Execute and perform clearance of all purchase and sale orders as directed by EFS;
3. Perform all custodial functions customarily performed with respect to the Account, including but not limited to the crediting of interest and dividends on Account assets;
4. Forward to client and to EFS purchase and sale confirmations and Account statements;
5. Act as general administrator of the EMAP Account(s);
6. Charge and collect advisory fees on EFS's behalf; and
7. Accept deposits to and withdrawals from the Account pursuant to our instructions.

Custodians receive compensation for their services either through a fixed percentage fee based on all EMAP account assets that are maintained in the custody of their firm or on a transactional basis. We will not enter into any principal transactions in EMAP Accounts. Except for the TD Ameritrade AdvisorDirect Program (discussed in Item 9), the Custodian does not assist the client in selecting EFS or any investment or in determining the suitability of investments.

The Custodian will send a statement at least quarterly to the client detailing all Account activity, including deduction of the Advisory Fee. Statements are sent monthly when there is activity in the Account; otherwise statements are sent quarterly. The client may elect to receive custodial Account statements and confirmations electronically in lieu of paper confirmations and statements.

## **Types of Clients**

EMAP asset allocation models are offered to individuals, trusts, estates, charitable organizations, foundations, individual retirement accounts, pension plans, retirement plans, profit sharing plans, high net worth individuals, institutions and small businesses, including corporations.

## **Item 6: Portfolio Manager Selection and Evaluation**

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We do not select or utilize the services of any third-party portfolio manager in EMAP. The Investment Committee is responsible for investment management of EMAP assets and establishing the EMAP Investment Selection Policy. The EMAP Portfolio Manager is responsible for implementing and monitoring that policy.

### **Performance Calculation**

EFS, as a matter of policy, prepares information relating to investment performance of the EMAP asset allocation models. The Firm's policies and procedures and methods used in calculating and presenting EMAP performance figures are designed to ensure the Firm is in compliance with the Global Investment Performance Standards ("GIPS"). Firm compliance with GIPS is verified by Ashland Partners & Company LLP, an independent third-party GIPS verification company. Ashland Partners also serves as an ongoing consultant to EFS to ensure the Firm stays in compliance with GIPS standards. Their verification includes, but is not limited to reviewing methods of performance calculation, composite construction and the presentation of performance information.

Investment performance figures are determined by utilizing internal portfolio accounting software, which calculates investment performance according to globally accepted industry standards. Performance calculations are based on actual EMAP Accounts under management, including those Accounts that have been closed. Investment performance is presented net of actual management fees and expenses.

### **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. Modern Portfolio Theory says 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. Modern Portfolio Theory quantifies the benefits of diversification, also known as "not putting all of

your eggs in one basket”. The Fama-French Three-Factor Model is based on research showing 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; and
- 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.

### **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, fixed income or cash instruments. Amounts invested in each fund are determined in accordance with set target percentages of total funds in the Account. Thereafter, as markets fluctuate and values change, amounts originally allocated to an asset type 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. However, we do not rebalance Accounts constantly, and asset allocations may drift away from their original target percentages before EFS, within its 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 can take advantage of the upturn.

### **Reallocations**

EFS has the limited discretionary authority to reallocate assets in client Accounts. In a reallocation, we may 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 are 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. We 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, and when we reallocate Accounts, we generally do 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 effected.

### **Trade Aggregation Policy**

Whenever appropriate 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 aggregated together to achieve an average execution price. 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 ETF interests or shares, and there is generally no difficulty finding a sufficient supply in the market. However, occasionally, additional units have to be created. Please refer to Item 4 for additional information. Variable annuities and 529 College Saving Plans are purchased directly from the issuer, and no aggregation of these transactions occurs.

### **Trade Allocation Policy**

In an effort to seek best execution for clients and treat all clients fairly and equitably over time, EFS utilizes a rotation procedure for executing trades. All client, employee and Advisor Accounts are included in the rotation. All EMAP equity trades are executed at their respective Custodian on a block basis. The order of the Custodians' trades will be rotated on a daily basis and in sequential fashion. For example, if there are three Custodians and Custodian 1 goes first on a particular day, Custodian 2 will go first the following day and Custodian 3 will go first on the third day.

The rotation procedure can be modified if any Custodian has a large block order in a particular security, which is generally considered to be 30,000 shares or more. To avoid having a large order unfavorably impact the execution price received, it may be executed over the course of the remaining open market hours. If EFS elects to execute any orders in this manner, then that Custodian will usually be last in the rotation schedule for that day. The normal rotational schedule will continue the following day.

In the limited circumstances when sufficient quantities of a particular security are not obtainable, a *pro rata* allocation may be used when a batch order in the security cannot be fully executed in a single day. The partial order fill is generally allocated among the participating client Accounts based on the size of each Account's original order, subject to rounding in order to achieve "round lots." Unexecuted orders will continue until the block order is completed or until all component orders have been cancelled. New orders for the same security will be aggregated with any remaining unexecuted orders and will continue in the same manner. As previously mentioned, orders for all EMAP wrap fee clients, including employees and Advisors, generally will be aggregated to ensure equal pricing for all clients.

**Trade Errors**

As a fiduciary, EFS has the responsibility to effect trade orders correctly, promptly and in the best interests of its clients. In the event an error occurs in the handling of any client transaction due to EFS' actions or inactions, EFS' policy is to identify and correct the error as promptly as possible and make the client whole.

If the error is the responsibility of EFS, any client transaction will be corrected and EFS will be responsible for client losses resulting from an inaccurate or erroneous order. Resulting gains after the client is made whole will be netted against losses in the EFS error account. If the EFS error account reflects a net gain when the custodian reconciles the account, the gains will be donated to a charity designated by EFS.

Occasionally, an error is caused by the client. In those situations where EFS can correct it, the error will be corrected promptly in the client's best interest and reviewed on a case-by-case basis to determine the party responsible for potential losses.

**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), 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 Accounts 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 and 529 College Savings Plans, all of which are subject to some or all of the risk factors noted below. The Investment Committee provides ongoing monitoring of these risks and takes action to mitigate them, as appropriate.

- **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 & Currency Risk** – Investments in international and emerging market securities include exposure to risks including 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 of 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.
- **Concentration Risk** – Holdings may be subject to any number of concentrations, e.g. in a mutual fund or ETF, industry sector or geographical region. Concentration risk may be further compounded by factors such as asset correlation or 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 expense, 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 fund shares, losses from trading in the secondary markets, and disruption in the creation and redemption process of the ETF. Any of these factors may lead to liquidity risk and/or the fund's shares trading at a premium or 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.

### **Performance-Based Fees and Side-by-Side Management**

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 also do not engage in side-by-side management.

### **Voting Client Securities**

EFS has no obligation or authority to take action or render advice with respect to the voting of proxies solicited by or with respect to issuers of securities held in EMAP Accounts. The client expressly retains the authority and the responsibility for the voting of proxies.

## **Item 7: Client Information Provided to Portfolio Manager**

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Information regarding each client's financial situation, investment objectives, risk tolerance, time horizon and other relevant factors as described by the client, is gathered prior to opening an Account and assists the Advisor when recommending the most appropriate asset allocation model(s) for the client. The client may impose any reasonable restrictions on the management of the Account. Each client is contacted at least annually to determine if any changes have occurred that may affect the ongoing suitability of the portfolio selected and to determine if any new restrictions should be imposed on the Account.



## Item 8: Client Contact with Portfolio Managers

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Clients are generally free to contact EFS and their Advisor or an assigned Advisor at any time during normal business hours via telephone, facsimile, mail or email. In-person meetings should be scheduled in advance to ensure that the Advisor is available. Generally, clearing/custodian broker-dealers and the issuers or sponsors of investments used by the program are not available to answer questions or discuss specific investment issues. However, if a client has a specific need, we will make a reasonable attempt to arrange the discussion.

## Item 9: Additional Information

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### Disciplinary Information

Registered investment advisers are required to disclose all legal or disciplinary events that are material in a client's evaluation of the adviser or the integrity of the adviser's management. The following is the disciplinary item we had 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 for no registration was five. EFS also agreed to pay the state \$1,500 for the cost of its investigation.

### Other Financial Industry Activities and Affiliations

### Related Persons

#### Affiliated Broker-Dealer and Investment Adviser

EF Legacy Securities, LLC ("EFLS") has replaced Sanders Morris Harris LLC ("SMH") as the registered broker-dealer which accommodates the brokerage business of EFS's advisory clients. The Edelman Financial Center, LLC is the sole member of EFLS and therefore EFLS shares the same ownership structure as EFS. Almost all EFS Advisors who held their securities licenses with SMH have moved to EFLS. A small number of EFS employees will maintain their securities registrations at SMH for an additional period of time to handle residual business, which would also include variable or fixed insurance products booked with HWG Insurance Agency, LLC ("HWG").

The President of EFS also serves as a manager of EFLS. EFS Advisors, acting solely in their capacity as registered representatives of EFLS and not as Advisors of EFS, accept orders for EFLS accounts from brokerage clients who may or may not be clients of EFS. When acting as registered representatives for clients, EFS Advisors execute transactions for clients through EFLS and receive upfront and/or annual brokerage commissions from EFLS on any products sold in this capacity or held in the EFLS account. Thus, a conflict of interest exists between the interests of EFS Advisors, EFLS and its

brokerage clients due to the fact that commissions are earned. EFS clients are advised that they are under no obligation to effect securities transactions with EFLS or through their Advisor and that similar services may be less expensive elsewhere.

### **Other Affiliated Investment Advisers and Broker-Dealer**

Although, EFS is under common indirect ownership and control with other investment advisers and broker-dealers (this excludes EFLS), there is no material relationship between EFS and any one of these other investment advisor or broker-dealer entities.

### **Insurance Agencies**

EFS is a licensed insurance agency and is licensed in most states. EFS Advisors generally refer clients who wish to buy insurance products, such as life, long-term disability, and long-term care insurance to Crump Life Insurance Services, an unaffiliated insurance agency that specializes in insurance brokerage and provides insurance to clients. EFS and its Advisors who are licensed insurance agents are compensated with a percentage of the revenues generated on the sale of such insurance products. As such, EFS and its Advisors who are licensed 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 presented with quotes from two or more insurance carriers, and advised that they are under no obligation to purchase any insurance products through EFS or Crump Life Insurance Services and that those products may be less expensive elsewhere.

EFLS is also a licensed insurance agency and EFS Advisors may be licensed insurance agents of EFLS. They are therefore able to sell variable and fixed insurance products and receive insurance commissions from client transactions through EFLS. As such, EFS Advisors 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 EFLS and that those products may be less expensive elsewhere. A small number of EFS employees who are licensed insurance agents will continue to maintain their insurance licenses at HWG for an additional period of time to handle residual business.

### **Other - Equity Investors**

H&F Corporate Investors VII, Ltd. is the ultimate controlling party for a series of limited partnerships that indirectly own approximately 75% of The Edelman Financial Center, LLC, the direct parent of EFS. Other investors, including The Edelman Financial Center, Inc., whose sole shareholder is Ric Edelman, Executive Chairman of EFS, also have indirect ownership interests in EFS.

### **Other - Affiliate**

The Retirement InCome for Everyone Trust® (RIC-E Trust®) is an individual grantor trust enabling the grantor to set aside assets for another's retirement. It is a brokerage product offered by EFS Advisors, acting in their capacity as registered representatives of EFLS. Assets in the trust are invested in a variable annuity and grow tax-deferred. The trustee is named by the grantor. The issuer of the underlying annuity is American General Life Insurance Company, a subsidiary of American International Group, Inc. ("AIG"). Edelman Business Services, LLC ("EBS"), a wholly owned subsidiary

of The Edelman Financial Center, LLC receives an administrative fee of \$200 for each RIC-E Trust® established, to offset in part the administrative costs of establishing the trust. This administrative fee is waived for EFS clients with an EMAP account and may be waived or modified in other cases at the sole discretion of EFLS. This fee is not associated with investment advisory services offered by EFS. Commissions from the underlying variable annuity are received by EFLS. RIC-E Trust® is also marketed by unaffiliated broker-dealers and EFLS receives a share of the commissions received by them on the variable annuity.

## **Code of Ethics**

EFS has an established process to manage potential or actual conflicts of interest. As such, 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:

- 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; and
- 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 EFLS and EFS Restricted or Watch List;
- Trading that appears to be based on insider information;
- Short-term or day trading; and
- Trading during designated EFLS blackout periods.

Any officer or employee of EFS 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.

## **Related Persons May Invest in the Same Securities**

EFS Advisors may invest their personal funds and establish an EMAP Account for themselves. They may also participate in the EFS Employee 401(k) Plan that includes 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 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 EFS brokerage customers. Cross transactions do not apply to mutual funds and to variable annuities and 529 College Savings Plans since shares of mutual funds and variable annuities and 529 College Savings Plans are purchased from their issuers and are not exchange-traded. Although ETFs are exchange-traded, EFS does not, acting as investment adviser, recommend that such shares be crossed from one advisory client account to another and does not act as a broker-dealer with respect to any such potential cross transaction.

## **IRA Rollover Considerations**

As part of our investment advisory services, EFS Advisors may make recommendations regarding the rollover of participant retirement plan assets. In the case where an EFS Advisor recommends a retirement plan rollover into EMAP, we will charge an advisory fee as described in Item 5. This presents a conflict of interest because EFS Advisors have an economic incentive to recommend a client rollover retirement plan assets into an EMAP account. Plan participants are under no obligation to rollover their retirement assets to an IRA with EFS and should carefully consider all relevant factors, such as penalty-free withdrawals starting as early as age 55, whether loans are permitted, legal protections, required minimum distributions (RMDs), account-related fees and expenses, service levels, available investment options, rebalancing, employer stock considerations and state taxes. Military and government employees should pay particular attention to fees and expenses, because their retirement plan expenses are relatively low.

## **Review of Accounts**

EFS client Accounts are reviewed by our Advisors. EMAP Accounts are monitored on an ongoing basis and are subject to rebalancing or asset reallocation based on market or other conditions as warranted. Securities for Accounts are bought or sold by EFS subject to its 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 significant 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.

Our Advisors meet periodically to review economic, tax, financial, political, social, and other relevant issues to determine if any changes in strategy are warranted and if so, to implement such changes. Based on the decisions made, the client's situation and circumstances are reviewed on a periodic basis and recommendations are made as needed.

On at least an annual basis, the client is contacted to update personal and financial information including financial, 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 for the client. The client may request a review at any time as well.

## **Nature and Frequency of Client Reports**

Clients participating in EMAP receive Account statements at least quarterly and confirmations from the clearing broker-dealer and generally have unlimited and continuous access to their Account information through websites offered and maintained by the Account Custodian and EFS.

## **Client Referrals and Other Compensation**

### **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 Investment Advisor Representatives ("IARs") and the selection of the EMAP asset allocation model recommendations made to its clients. The RIA initiates the relationship with its clients and is the ongoing client relationship manager. The RIA, through its IARs, compiles personal and financial information about its client, maintains the appropriate books and records, makes an asset allocation model recommendation that will meet its client's goals and objectives, maintains the ongoing client relationship, and meets with its client on a periodic basis to discuss suitability and any reasonable restrictions that the client would like to impose on its Account. The EMAP fee is shared between EFS and the RIA on a negotiated basis. The RIA's 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, as may be applicable. In such cases, wrap fees will be shared between the two entities. EMAP fees are based on a percentage of client assets invested in the wrap fee program. Any such referral fee shall be paid

solely from the investment advisory fee. The client does not pay an increased fee as a result of these arrangements.

Compensation to other investment advisory firms ("Solicitor") that refer clients to EFS 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.

### **Relationship with TD Ameritrade and Others**

Most EMAP Accounts are established with TD Ameritrade, which provides custody of securities, trade execution, clearance and settlement of transactions. EFS has a number of other business relationships with TD Ameritrade and receives indirect benefit from TD Ameritrade.

### **TDA Operations Panel**

EFS employees will 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.

### **TDA AdvisorDirect Program**

EFS participates in the TD Ameritrade Institutional program known as AdvisorDirect. TD Ameritrade Institutional is a division of TD Ameritrade, member FINRA/SIPC. TD Ameritrade is an independent and unaffiliated SEC registered broker-dealer and FINRA member. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. 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 benefits 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.

## **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, technology and/or other services
- 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 may 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.

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

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

### **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 duty 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 of 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 at its own expense. As part of our fiduciary duty 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, the Portfolio Manager presents the results any pertinent analysis 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.

### **Dimensional Fund Advisors Sponsorship of EFS Corporate Events**

Dimensional Fund Advisors LP ("Dimensional") is an 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 provide direct or indirect economic benefits to EFS and create 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, the Portfolio Manager presents the results of any pertinent analysis 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.

### **Financial Information**

A registered investment adviser is required to provide clients with financial information or disclosures about its 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.