

**FORM ADV PART 2A BROCHURE: Item 1 – Cover Page**



**NATIONAL ASSET MANAGEMENT, INC**

One Union Square  
Suite 2900  
600 University Street  
Seattle, WA 98101

Telephone: (206) 343-6238  
Fax: (206) 388-5067  
[www.namadvisorguide.com](http://www.namadvisorguide.com)

July 18, 2016

This Brochure provides information about the qualifications and business practices of National Asset Management, Inc. ("NAM"). If you have any questions about the contents of this Brochure, please contact us at 206-343-6238. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

NAM is an SEC-registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

Additional information about NAM also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD number for NAM is 115927.

Our Brochure may be requested, free of charge, by contacting NAM's Compliance Department at 206-343-6238. Our Brochure is also available on our web site, [www.namadvisorguide.com](http://www.namadvisorguide.com).

## **Item 2—Material Changes**

This Item describes only material changes since our last annual update December 22, 2014.

On October 26, 2015, National Asset Management, Inc. ("NAM") consented to an Order of the U.S. Securities and Exchange Commission ("SEC") in an administrative proceeding initiated under the Investment Advisers Act of 1940 (Advisers Act"). As described in the Summary section of the Order, a copy of which is attached, the proceeding concerns several disclosure and compliance-related violations and events during the years from 2008 through 2012. The Order found that NAM (1) failed to disclose to advisory clients in writing or obtain client consent to over 21,000 securities trades executed in a principal capacity, (2) failed to report in its SEC filings and timely disclose to clients the disciplinary histories of several of its associated persons, (3) failed to properly enforce its Code of Ethics when its then CEO, several directors, and many of its employees failed to submit hundreds of required reports on their personal securities trading to NAM, (4) failed to adopt and implement compliance policies and procedures reasonably designed to prevent violations of certain provisions of the Advisers Act and the rules thereunder, and (5) failed to conduct one required annual review of its compliance policies and procedures. NAM agreed to the imposition of a censure, a civil monetary penalty of \$200,000, and certain undertakings, including the appointment of an independent compliance consultant to review and make recommendations regarding certain parts of NAM's compliance policies and procedures. The Order did not find an intent to deceive. It did find that NAM refunded to its clients the inappropriately assessed markups and markdowns on the 21,000 trades, took prompt remedial action, and cooperated with the SEC's investigation.

The Brochure also contains technical amendments, updates of information and minor corrections.

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#### **Item 4 – Advisory Business**

National Asset Management, Inc. (“NAM”) is a subsidiary of National Holdings Corporation, the firm’s sole owner. NAM was formed in 1994, and provides investment advisory services to individuals, trusts, estates, charitable organizations, corporations or other business entities, private funds, and pension and profit sharing plans. NAM offers its clients various programs to provide flexibility in investment strategy based upon the investor’s financial goals, circumstances and risk tolerance. Accounts generally have minimum account size requirements, which may be negotiable, depending on the client household, relationship, type and size of the account. Fees are reflected on periodic statements issued by the custodian no less frequently than quarterly. Advisory fees, including minimum fees as well as minimum account size, may be negotiable depending upon a range of factors including, but not limited to, account size and overall range of services provided.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on our advisory services. As used in this Brochure, the words “we”, “our” and “us” refer to NAM and the words “you”, “your” and “client” refer to you as either a client or prospective client of our firm. Also, you may see the term Investment Advisory Representative (“IAR”) throughout this Brochure. NAM advisory services are made available to clients through individuals associated with NAM as IARs. For more information about the IAR who provides advisory services to the client, client should refer to the Brochure Supplement for the IAR. The Brochure Supplement is a separate document that is provided by the IAR along with this Brochure before or at the time a client engages the IAR. If a client did not receive a Brochure Supplement for the IAR, the client should contact the IAR or NAM’s Compliance Department.

As of September 30, 2015, we managed \$ 950,263,812 in client assets on a discretionary basis, and \$ 100,893,314 in client assets on a non-discretionary basis.

**TYPES OF ADVISORY SERVICES**

NAM, through its IARs, offers advisory services described below to clients in various programs. Additional programs offered through NAM are described in its wrap fee program brochure (a wrap program is an advisory program in which advisory fees and execution fees are bundled, and NAM receives a portion of the wrap fee). Wrap fee and other programs are managed in the same manner. Under such customized engagements, clients authorize NAM to purchase and sell securities on a discretionary or non-discretionary basis (depending on the Program) pursuant to investment objectives chosen by the client. The client's IAR obtains the necessary financial data from the client, and assists in determining the appropriate program. The IAR provides ongoing investment advice and management that is tailored to the individual needs of the client through a review of the client's risk tolerance questionnaire. Depending on the program selected and the client's risk tolerance and objectives, the types of securities that may be purchased or sold include mutual funds, ETFs, equities, options, fixed income securities, structured notes, and interests in partnerships such as real estate, and oil and gas. In addition, IARs may manage the subaccounts of variable annuities. Clients generally may impose reasonable restrictions on investing in certain securities or groups of securities. If the client's instructions are unreasonable or NAM believes the instructions are inappropriate for the client, we will notify the client that, unless the instructions are modified, we may terminate the client's advisory agreement. NAM cannot accept instructions that prohibit or restrict the investment advisor of an open-end or closed-end mutual fund or exchange-traded fund, with respect to the purchase or sale of specific securities or types of securities within the mutual fund. Execution services are provided by an affiliated or unaffiliated broker-dealer. See Item 12, "Brokerage Practices" for additional details regarding potential conflicts of interest created by arrangements with an affiliated broker-dealer.

NAM provides investment advisory services to private funds. The detailed terms, strategies, and risks applicable to investors in the private funds are described in the private fund's organizational documents and offering memorandum. NAM does not recommend fund interests for client advisory accounts.

Following is a description of the firm's programs, other than sponsored wrap programs (an advisory program in which advisory fees and execution fees are bundled), which are described in a separate brochure. Wrap programs and other accounts are managed in the same manner. NAM receives a portion of wrap fees for NAM's services.

NAM receives only advisory and administrative fees, although its affiliates may receive execution and other fees depending on the program. See Item 12, "Brokerage Practices". For private funds, NAM or its affiliates receive carried interest and may receive an annual

advisory fee. See Items 5, “Fees and Compensation” and 6, “Performance-Based Fees and Side-by-Side Management”. All fees paid to NAM for investment advisory services are separate and distinct from the fees and expenses charged by custodians, variable annuities, ETFs and mutual funds (described in each fund’s prospectus) to their shareholders. Further, transaction charges may apply when purchasing or selling securities.

## **CURRENTLY OFFERED PROGRAMS**

### ***Portfolio Advisor Program***

Under the Portfolio Advisor Program, NAM, through the client’s IAR, manages individual client accounts through various investments on a discretionary basis. NAM may allocate a portion of a client’s assets to sub-managers. In this program, NAM utilizes Envestnet for administrative services, and in some cases for trading at the applicable custodian through the Envestnet platform. The minimum initial investment for this program is \$25,000. The minimum account size requirements may be negotiable depending on the client household, relationship, type and size of the account.

In the Portfolio Advisor Program, clients will pay an assets under management (“AUM”) investment advisory fee, as well as, depending on the custodian and fee schedule selected, a separate annual account fee and transaction fees.

The AUM fee is negotiated between the IAR and the client using schedules listed below as a maximum. The fee schedule, including the administrative fee, is included in the NAM Investment Advisory Agreement.

<b>Total Account Value</b>	<b>Maximum Annual Fee<sup>1</sup></b>	<b>Maximum Annual Fee<sup>2</sup></b>
First \$250,000	2.75%	2.50%
Next \$750,000	2.50%	2.25%
Above \$1,000,000	2.00%	1.75%

<sup>1</sup> No transaction fees (transaction fees may be paid by IAR)

<sup>2</sup> Transaction fees paid by client

There is a minimum AUM annual per account fee of \$125. If a client has large asset inflows or outflows during the year that cross the minimum asset value threshold, it is possible for an account to be assessed a minimum fee for a particular quarter even if at the end of the year a look back over the account’s average balance for the entire year would have placed it above the minimum asset value threshold. In limited circumstances, administrative fees may be subject to negotiation with, or waived by, NAM.

In addition to the AUM fee, an annual \$75 account fee will be charged either to the client or to the IAR based on the administrative/transaction fee schedule selected by the client—see below Administrative/Transaction Fee Schedule. Transaction fees will be either included in the client’s investment advisory fee or billed separately to the client depending on the administrative/transaction fee schedule of the custodian selected by the client.

Clients may select from one of the fee schedules set forth in the Administrative/Transaction Fee Schedule. The selection of a fee schedule, custodian, and the custodian’s current fee schedule will impact the total cost of services provided. Certain custodians offer wrap arrangements in which an additional AUM fee may be paid in lieu of transaction fees. See Wrap Brochure. There can be additional administrative fees of \$12.50 per quarter for accounts with a minimum balance of less than \$50,000 during any quarter. There can also be additional administrative fees of up to \$100 per year for accounts that require manual updates or for which data aggregation is implemented via a third-party (other than an independent qualified custodian such as NFS, Fidelity, Schwab, TD Ameritrade, Pershing, etc.).

Transaction fees and administrative fees may be borne by the IAR. If the IAR pays for these charges, a higher AUM fee (but not beyond the above maximums) may be negotiated to cover the additional costs. If the IAR pays the transaction charges, an IAR may have an incentive to limit trading in the account because the IAR would be charged when executing trades. Asset-based clearing is available at certain custodians as noted in the Administrative/Transaction Fee Chart. An arrangement that charges AUM fees instead of transaction charges typically assumes a normal amount of trading activity, but under particular circumstances such as prolonged periods of inactivity or asset allocations with significant fixed income or cash weighting, this may result in higher compensation than if transaction fees were paid separately for each transaction. In negotiating AUM fees and transaction fees, IARs will discuss with their clients the impact of the size of their account and the anticipated level of activity in the account (with resulting transaction fees) based on the proposed strategy for their account.

If NFS/NSC are selected as the custodian/broker, NFS and NSC will retain the transaction fees. See Item 12, “Brokerage Practices”.

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ADMINISTRATIVE/TRANSACTION FEE SCHEDULE

<b>Custodian</b>	<b>Fee Schedule</b>	<b>Transaction Fees</b>	<b>Annual Account Fee</b>	<b>Notes</b>
NFS	Premier <sup>1</sup>	Stocks/ETF: \$8.95 Mutual Funds/UITs: \$20.00 Bonds: \$20.00	\$75 <sup>2</sup>	
NFS	Wrap & Wrap Plus <sup>3</sup>	Included in AUM Fee	Paid by IAR	The advisory fee/AUM charge may be higher than for programs with transaction fees
Fidelity	Premier <sup>1</sup>	Please refer to Fidelity's fee schedule	\$75 <sup>2</sup>	
Fidelity	Wrap & Wrap Plus <sup>3</sup>	Included in the advisory fee (AUM charge)	Paid by IAR	The advisory fee/AUM charge may be higher than for programs with transaction fees
TD Ameritrade	Premier: transaction-based pricing <sup>1</sup>	Please refer to TD Ameritrade's fee schedule	\$75 <sup>2</sup>	
TD Ameritrade	Premier: asset-based pricing <sup>4</sup>	Please refer to TD Ameritrade's fee schedule	Paid by IAR	The advisory fee/AUM charge may be higher than for programs with transaction fees
TD Ameritrade	Wrap <sup>3</sup>	Please refer to TD Ameritrade's fee schedule	Paid by IAR	The advisory fee/AUM charge may be higher than for programs with transaction fees
Schwab	Premier: transaction-based pricing <sup>1</sup>	Please refer to Schwab's fee schedule	\$75 <sup>2</sup>	
Schwab	Premier: asset-based pricing <sup>4</sup>	Please refer to Schwab's fee schedule	Paid by IAR	The advisory fee/AUM charge may be higher than for programs with transaction fees
Schwab	Wrap <sup>3</sup>	Please refer to Schwab's fee schedule	Paid by IAR	The advisory fee/AUM charge may be higher than for programs with transaction fees

<sup>1</sup> Transaction charges are not included in the AUM fee for this account. You will pay separate transaction charges for each purchase and/or sale of securities according to the selected brokerage firm's fee schedule.

<sup>2</sup> There is a \$75 annual account fee for this account. You will pay this fee in addition to the AUM fee.

<sup>3</sup> Transaction charges are included in the Client Fee for this account. You will not pay separate transaction charges for the purchase and/or sale of securities according to the selected brokerage firm's fee schedule. The AUM fee may be higher than in the Portfolio Advisor Premier schedule.

<sup>4</sup> Transaction charges are not included in the Client Fee for this account. You will pay separate asset-based charges for the purchase and/or sale of securities according to the selected brokerage firm's fee schedule.



The AUM and administrative fees are deducted automatically from the account quarterly in advance. The initial AUM Fee for the first calendar quarter or part thereof in which the client participates in the Program is calculated based on the assets in the account and prorated based on the number of calendar days remaining in the partial quarter from the date the account is accepted by NAM. Thereafter, the Program Fee is calculated at the beginning of each calendar quarter based on the value of Program Assets on the last business day of the prior calendar quarter. However, if an Account is opened in the last month of a calendar quarter, the Program Fee will be calculated and debited for the remaining period in the calendar quarter plus the next calendar quarter on or about the day after initial Program Assets are placed into the Program. If a client invests or withdraws \$10,000 or more in any Account after the inception of a calendar quarter, the Program Fee for that quarter will be recalculated and pro-rated as of the day of the additional investment or withdrawal. The Custodian will determine fair market value for Program Fee calculation purposes. If the Client Agreement is terminated and all Program Assets are withdrawn from the Program prior to the end of a quarter, the pro rata portion of the Program Fee will be reimbursed to the client. See below “Additional Fees” regarding additional fees that may apply.

The Program is operated as a directed brokerage subject to most favorable execution of client transactions. The client can select among the following custodians: NFS (with brokerage through National Securities Corporation, a NAM affiliate), Schwab, Fidelity, TD Ameritrade and Pershing. By directing brokerage, clients may not receive the benefit of the lowest trade price then available for any particular transaction or client account trade orders may not be able to be aggregated to reduce transactional costs.

### ***Portfolio Advisor Program with Performance Fees***

A Portfolio Advisor Program with Performance Fees is available to persons who may be deemed qualified clients, meeting certain net worth or other criteria. The Portfolio Advisor Program with Performance Fees is a discretionary service. Clients in this program are charged a quarterly in advance, negotiable percentage asset-based fee/transaction charges (see description under Portfolio Advisor Program), plus a performance fee, quarterly in arrears. The performance fee is an agreed percentage of quarterly appreciation in the account (as adjusted for contributions and withdrawals), limited by a “high water mark,” which is the highest prior quarterly value in the account from the time the performance fee program is elected.

***Morningstar Managed Portfolios Program***

The Morningstar Managed Portfolios Program is a program offered through Morningstar Investment Services, Inc. ("MIS"). MIS maintains a proprietary program consisting of multiple investment strategies with multiple portfolios intended for a range of clients based on such factors as age, financial situation, time horizon, risk tolerance and any reasonable restrictions that the client may place on the portfolio selected for its account. The Program includes various strategies consisting of mutual funds, exchange-traded funds, and equity securities; MIS or an affiliate of MIS provides discretionary management for the Program account. NAM, on a non-discretionary basis, assists clients considering the Program in filling out a questionnaire, in selecting an appropriate investment strategy from those available within the Program (mutual fund strategies, stock basket strategies and exchange-traded funds strategies), in determining whether any reasonable restriction on the investment of account assets should be imposed and selecting the appropriate portfolio from the portfolios offered under the program. The minimum initial investment for this program is \$25,000. The minimum account size requirements may be negotiable depending on the client household, relationship, type and size of the account.

Clients are charged an annual fee on a quarterly basis, in advance, based on the following schedules. NAM's advisory fees are negotiable; fees paid to MIS are not:

***Mutual Fund Strategies:***

	First \$500K	Next \$500K	Next \$1MM	Over \$2MM
MIS Net Fee	.40 %	.35 %	.30%	.20%
NAM Advisory Fee	1.10%	1.05%	1.00%	.90%
Total Fee	1.50%	1.40%	1.30%	1.10%

Annual minimum MIS advisory fee: \$200

***Select Stock Basket Strategy:***

	First \$1MM	Next \$4MM	Thereafter
MIS Advisory Fee	.55%	.50%	.45%
NAM Advisory Fee	1.10%	1.10%	1.10%
Total Fee	1.65%	1.60%	1.55%

Annual minimum MIS Advisory Fee (Custom Series): \$1375

Annual minimum MIS advisory Fee (Strategist Series): \$550

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*ETF Only Strategies:*

	First \$1MM	Next \$4MM	Thereafter
MIS Advisory Fee	.30%	.25%	.20%
NAM Advisory Fee	1.10%	1.10%	1.10%
Total Fee	1.40%	1.35%	1.30%
Annual minimum MIS Advisory Fee: \$150			

Clients select their custodian for this program. By directing brokerage, clients may not receive the benefit of the lowest trade price then available for any particular transaction or client account trade orders may not be able to be aggregated to reduce transactional costs. In addition to the MIS and NAM Advisory Fees, custodians may impose fees on an asset-based or per transaction basis. See “Additional Fees for Most Programs” below regarding additional fees that may apply.

***Investment Advisor Program***

NAM offers a Program for accounts held by a custodian other than NFS, Schwab, Fidelity, TD Ameritrade or Pershing, pursuant to which IARs provide advisory services with respect to variable annuity products, plans such as 401(k)s, 403(b)s, mutual funds, and retirement funds. The IAR provides investment advice regarding the investment and reallocation of assets among sub-accounts offered by the insurance company that issues a variable annuity, or investment options offered by 401(k)s, 403(b)s, mutual funds and other plans in accordance with a client risk tolerance questionnaire. These services are offered on a discretionary or non-discretionary basis. For discretionary accounts, the IAR will be primarily responsible for making investment decisions with respect to the variable annuity, mutual fund or plan, including allocations and reallocations among sub-accounts or investment options. The minimum initial investment for the Program is \$25,000. The minimum account size requirements may be negotiable depending on the client household, relationship, type and size of the account.

**Annuity and Retirement Products.** In this Program for annuity and retirement products, clients are assessed a quarterly AUM fee of up to 2.5% (in some instances a flat fee may be negotiated) and an administrative fee which generally is \$75 per year per account. There is an additional administrative fee of \$12.50 per quarter for accounts with a minimum balance during any quarter of less than \$50,000. The amount of the administrative fee may be negotiated with the IAR.

NAM may also impose an additional charge of \$25.00 per quarter administrative fee for those account relationships where assets are held away and not reportable through NAM's

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reporting systems. The assets are valued by the applicable insurance company, mutual fund or other plans or custodians. In unusual instances, an arrangement for a flat fee may be negotiated. All transaction costs and other fees charged by an insurance company that issues a variable annuity, mutual fund, plan accounts for plan transactions or custodians are in addition to the above monitoring fees. Some insurance companies and mutual funds may charge fees if investments are reallocated among sub-accounts and/or mutual fund family allocations more than a certain number of times during a specified period. The client's accounts would bear any such fees.

**Individually Managed Client Accounts.** For individual management of client accounts, the following fee schedules and transaction fees apply:

Fees include an assets under management ("AUM") fee and an administrative fee charged by NAM, as well as per transaction fees transaction fee charged by the custodian. If National Financial Services, LLC ("NFS") and National Securities Corporation ("NSC") are selected as the custodian/broker-dealer, transaction fees will be \$8.95 per equity and ETF transaction, \$20.00 for mutual funds and \$20.00 for bonds. If other custodians are selected, transaction fees will be paid according to the agreement between the client and the custodian. Transaction fees vary depending on the custodian; clients can request information about the specific charges from the custodian. Custodians other than NFS/NSC may offer lower transaction fees.

The AUM fee is negotiated between the IAR and the client using schedules listed below as a maximum. The fee schedule, including the administrative fee, is included in the NAM Investment Advisory Agreement.

<b>Total Account Value</b>	<b>Annual Fee<sup>1</sup></b>	<b>Annual Fee<sup>2</sup></b>
First \$250,000	2.75%	2.50%
Next \$750,000	2.50%	2.25%
Above \$1,000,000	2.00%	1.75%

<sup>1</sup> No transaction fees (transaction fees may be paid by IAR)

<sup>2</sup> Transaction fees paid by client

There is a minimum AUM annual per account fee of \$125.

The administrative fee, for billing and performance reporting services, is generally \$75 per year per account. There is an additional administrative fee of \$12.50 per quarter for accounts with a minimum balance during any quarter of less than \$50,000. If a client has large asset inflows or outflows during the year that cross the minimum asset value

threshold, it is possible for an account to be assessed a minimum fee for a particular quarter even if at the end of the year a look back over the account's average balance for the entire year would have placed it above the minimum asset value threshold. In limited circumstances, administrative fees may be negotiated or waived by NAM.

If the account agreement does not provide for transaction fees, the charges may be borne by the IAR. If the IAR pays the custodian for transaction fees, a higher AUM fee (but not beyond the above maximums) may be negotiated to cover the additional costs. If the IAR pays the transaction fees, an IAR may have an incentive to limit trading in the account because the IAR would be charged when executing trades. Asset-based clearing is available at certain custodians. An arrangement that charges AUM fees instead of transaction fees typically assumes a normal amount of trading activity, but under particular circumstances, such as prolonged periods of inactivity or asset allocations with significant fixed income or cash weighting, this may result in higher compensation than if transaction fees were paid separately for each transaction. In negotiating AUM fees and transaction fees, IARs will discuss with their clients the impact of the size of their account and the anticipated level of activity in the account (with resulting transaction fees) based on the proposed strategy for their account. If NFS/NSC are selected as the custodian/broker, NFS and NSC will retain the transaction fees. See Item 12, "Brokerage Practices".

In most cases, the AUM and administrative fees are deducted automatically from the account quarterly in advance although certain accounts may be billed monthly or quarterly in arrears as provided in the contract. The initial AUM Fee for the first calendar quarter or part thereof in which the client participates in the Program is calculated based on the day after initial Program Assets are placed in the Program and prorated based on the number of calendar days in the partial quarter. Thereafter, the Program Fee is calculated at the beginning of each calendar quarter based on the value of Program Assets on the last business day of the prior calendar quarter. However, if an Account is opened in the last month of a calendar quarter, the Program Fee will be calculated and debited for the remaining period in the calendar quarter plus the next calendar quarter on the day after initial Program Assets are placed into the Program. If a client invests or withdraws \$10,000 or more in any Account after the inception of a calendar quarter, the Program Fee for that quarter will be recalculated and pro-rated as of the day of the additional investment or withdrawal. The Custodian will determine fair market value for Program Fee calculation purposes. If the Client Agreement is terminated and all Program Assets are withdrawn from the Program prior to the end of a quarter, the pro rata portion of the Program Fee will be reimbursed to the client. See "Additional Fees for Most Programs", in this Item below regarding additional fees that may apply.

The Program is operated as a directed brokerage subject to most favorable execution of client transactions. The client can select among the following custodians: NFS (with brokerage through National Securities Corporation, a NAM affiliate), Schwab, Fidelity, TD Ameritrade and Pershing. By directing brokerage, clients may not receive the benefit of the lowest trade price then available for any particular transaction, or client account trade orders may not be able to be aggregated to reduce transactional costs.

***Financial Planning***

Certain IARs provide personal financial planning tailored to the individual needs of the client. Financial planning services are billed either on a flat fee basis or an hourly rate as negotiated between the IAR and the client. Pursuant to the client agreement, NAM develops a financial plan, which provides client with a financial analysis and recommendations or provides other financial planning services in addition to or in lieu of a financial plan. The services take into account information collected from the client such as financial status, investment objectives and tax status, among other data. NAM IARs do not provide legal or tax advice through NAM.

Neither NAM nor an IAR will have any discretionary investment authority when offering financial planning. If the client elects to engage the IAR, the planning services may include recommendations regarding the types of investment products or securities that may be appropriate for the client to consider, along with various financial strategies by which certain investment recommendations may be implemented. If a financial plan includes recommendations regarding investments, the client has a choice where to implement those recommendations and can use advisors or broker-dealers other than NAM or its affiliates.

***Private Fund NAM as Advisor***

NAM provides discretionary management services to private funds and may act as advisor to other private funds in the future.

Fees associated with the private funds may include an annual management fee and carried interest as described in the Funds' offering documents. See Items 5, "Fees and Compensation" and 6, "Performance-Based Fees and Side-By-Side Management. In addition, the private funds pay operating expenses and other costs of the funds, including fund formation costs. Details of the fees and costs associated with private funds are included in the documentation specific to each fund.

Private fund interests advised by NAM may not be held in NAM advisory accounts.

***Retirement Solutions***

NAM delivers retirement solutions to plan providers, plan sponsors, and participants through various products, services and custodial platforms, including FOLIO Institutional. Pursuant to the Program, NAM may recommend third-party administrators or clients can select their own.

**LEGACY PROGRAMS:** *The following programs are no longer available for new business, but existing clients who are currently in the programs can continue these programs at the present time.*

**Liberty Program.** The Liberty Program is a Program for individual management of accounts. Under the Program, NAM, through the client's IAR, acts as portfolio manager. Accounts utilizing the Liberty Program are custodied with NFS, with National Securities Corporation ("NSC"), an SEC-registered broker-dealer, member of FINRA and an affiliate of NAM, acting as broker-dealer. The Program is offered as a discretionary or non-discretionary service. In the Liberty Program, clients are assessed an AUM fee, plus a transaction fee of \$8.95 per equity and ETF transaction (\$20.00 for mutual funds and \$20.00 for bonds). There is also an administrative fee which generally is \$75 per year per account, which may be billed monthly or quarterly in arrears. Transaction fees and administrative fees may be negotiable. The AUM fee is negotiated between the IAR and the client using schedules listed below as a guideline. The fee schedule is included in the NAM Investment Advisory Agreement.

<b>Total Account Value</b>	<b>Annual Fee</b>
First \$500,000	2.75%
Next \$500,000 to \$1,500,000	2.25%
Next \$1,500,000 to \$2,500,000	1.75%
Over \$2,500,000	Less than 1.75%

The transaction fee is in addition to the AUM fee and is retained by NSC and NFS. Clients may be able to negotiate with their IAR to waive or reduce the transaction fees and may be able to negotiate the amount of the administrative fee. IARs are generally charged transaction fees and administrative fees if the client negotiates not to pay them. If the IAR pays transaction fees, the client should be aware that an IAR may have an incentive to limit trading activities in the account. Instead of being charged a transaction fee, IARs may be charged by NAM an additional 20-25 basis point fee to cover transactions executed annually in an account. If the IAR pays this charge or transaction fees or administrative fees, the IAR may take those charges into account when the IAR and the client negotiate the



AUM fee. An account in which there are no transaction fees may cost more or less than a client would pay if investment advice, brokerage and other services were purchased separately. An arrangement with AUM fees only typically assumes a normal amount of trading activity and under particular circumstances, prolonged periods of inactivity or asset allocations with significant fixed income or cash weighting may result in higher compensation to the IAR and cost to the client than if transaction fees were paid separately for each transaction. In negotiating AUM fees and transaction fees, IARs will discuss with their clients the impact of the size of their account and the anticipated level of activity in the account (with resulting transaction fees) based on the proposed strategy for their account. The AUM fee is calculated by NAM and deducted automatically from the account monthly in arrears. The amount of the monthly AUM fee is based upon the average value of the assets in the account during the prior month. Any transaction fee is deducted by the clearing company at the time of the transaction, with a portion paid to NSC. See “Additional Fees for Most Programs”, in this Item below regarding additional fees that may apply.

**Representative as Manager Program.** The Representative as Manager Program is a Program for individual management of accounts held with Fidelity Institutional, TD Ameritrade Institutional or Charles Schwab Institutional (Clearing Agents), with the Clearing Agent selected by the client. Under the Program, NAM, through the client’s IAR, acts as portfolio manager. The Program is offered as either a discretionary or a non-discretionary service.

In the Representative as Manager Program, the Custodian will charge the clients a fee for each transaction executed pursuant to separate agreement with the client.

There is also an administrative fee which generally is \$75 per year per account, which may be billed monthly or quarterly in arrears. Transaction fees and administrative fees may be negotiable.

The AUM fee is negotiated between the IAR and the client using schedules listed below as a guideline. The fee schedule is included in the NAM Investment Advisory Agreement.

<b>Total Account Value</b>	<b>Annual Fee</b>
First \$500,000	2.75%
Next \$500,000 to \$1,500,000	2.25%
Next \$1,500,000 to \$2,500,000	1.75%
Over \$2,500,000	Less than 1.75%



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Clients may be able to negotiate with their IAR for the IAR, instead of the client, to pay the Custodian for transaction charges and may be able to negotiate the amount of the administrative fee. If the IAR pays the transaction charges, the client should be aware that an IAR may have an incentive to limit trading in the account because the IAR would be charged for executed trades. An account in which there are no transaction fees may cost more or less than a client would pay if investment advice, brokerage and other services were purchased separately. An arrangement with AUM fee instead of transaction fees typically assumes a normal amount of trading activity and under particular circumstances, prolonged periods of inactivity or asset allocations with significant fixed income or cash weighting may result in higher compensation to the IAR and cost to the client than if transaction fees were made separately for each transaction. In negotiating AUM fees and transaction fees, IARs will discuss with their clients the impact of the size of their account and the anticipated level of activity in the account (with resulting transaction fees) based on the proposed strategy for their account.

The monthly AUM fee is calculated by NAM and deducted automatically from the account monthly or quarterly in arrears (as negotiated with the client). The amount of the monthly or quarterly fee is based upon the average value of the assets in the account during the prior month (or quarter). See “Additional Fees for Most Programs”, in this Item below regarding additional fees that may apply.

**AFP Program.** Accounts utilizing the AFP Program are custodied with NFS. National Securities Corporation (“NSC”), an SEC-registered broker-dealer, member of FINRA and an affiliate of NAM, acts as the broker-dealer. The Program is offered only as a discretionary service. In the AFP Program, clients are assessed an AUM fee, plus a transaction fee of \$8.95 per equity and ETF transaction (\$20.00 for bonds and UITs and \$15 for TF mutual fund buys and sells). Transaction fees and administrative fees may be negotiable.

The AUM fee is negotiated between the IAR and the client using schedules listed below as a maximum. The fee schedule is included in the NAM Investment Advisory Agreement.

<b>Total Account Value</b>	<b>Annual Fee</b>
First \$500,000	2.5%
Next \$500,000 to \$1,000,000	2.25%
Next \$1,000,000 to \$1,500,000	2.00%
Over \$1,500,000	1.75% or less

The transaction fee is in addition to the AUM fee and is retained by NSC. Clients may be able to negotiate with their IAR to waive or reduce the transaction fees. IARs are generally

charged transaction fees and administrative fees if the client negotiates not to pay them. If the IAR pays transaction fees, the client should be aware that an IAR may have an incentive to limit trading activities in the account. Instead of being charged a transaction fee, IARs may be charged by NAM an additional 50 basis point fee to cover transactions executed annually in an account. If the IAR pays this charge or transaction fees or administrative fees, the IAR may take those charges into account when the IAR and the client negotiate the AUM fee. An account in which there are no transaction fees may cost more or less than a client would pay if investment advice, brokerage and other services were purchased separately. An arrangement with AUM fees only typically assumes a normal amount of trading activity and under particular circumstances, prolonged periods of inactivity or asset allocations with significant fixed income or cash weighting may result in higher compensation to the IAR and cost to the client than if transaction fees were paid separately for each transaction. In negotiating AUM fees and transaction fees, IARs will discuss with their clients the impact of the size of their account and the anticipated level of activity in the account (with resulting transaction fees) based on the proposed strategy for their account.

The AUM fee is calculated by NAM and deducted automatically from the account monthly or quarterly (as negotiated) in advance. The amount of the monthly AUM fee is based upon the 30-day daily average for the 30 days preceding the end of the month or quarter, as the case may be. If the client agreement is terminated and all Program assets are withdrawn prior to the end of the billing period, the pro rata portion of the AUM Fee will be reimbursed to the client. Any transaction fee is deducted by the clearing company at the time of the transaction, with a portion paid to NSC. See “Additional Fees for Most Programs”, in this Item below regarding additional fees that may apply.

**Alliance Program.** The Alliance Program is a separate account portfolio management Program, in which a portfolio manager not affiliated with NAM is selected. The qualified custodian is National Financial Services, LLC, member NYSE/SIPC, a Fidelity® Investments company, with trades executed through National Securities Corporation. Under the Program, an IAR helps clients identify and match a portfolio manager to the personal and financial data and investment objectives provided by the client. The portfolio manager will invest the client’s account on a discretionary basis. The minimum initial investment is \$25,000, but may be higher depending on the manager selected, and may be negotiable depending on the client household, relationship, type and size of the account.

Alliance programs are assessed an AUM fee plus transaction fees and an administrative fee which generally is \$87 per year per account, paid quarterly in arrears. Transaction fees are generally \$8.95 per equity and ETF transaction (\$20.00 for mutual funds and \$20.00 for bonds), but are negotiable, and clients may be able to negotiate with their IAR to waive or

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reduce the transaction fees and may negotiate the amount of the administrative fee. The transaction fee is in addition to the AUM fee and is retained by NSC and NFS. Clients may be able to negotiate with their IAR to waive or reduce the transaction fees and may be able to negotiate the amount of the administrative fee. IARs are generally charged transaction fees and administrative fees if the client negotiates not to pay them. If the IAR pays transaction fees, the client should be aware that an IAR may have an incentive to limit trading activities in the account. Instead of being charged a transaction fee, IARs may be charged by NAM an additional 20-25 basis point fee to cover transactions executed annually in an account. If the IAR pays this charge or transaction fees or administrative fees, the IAR may take those charges into account when the IAR and the client negotiate the AUM fee. An account in which there are no transaction fees may cost more or less than a client would pay if investment advice, brokerage and other services were purchased separately.

An arrangement with AUM fees only typically assumes a normal amount of trading activity and under particular circumstances, prolonged periods of inactivity or asset allocations with significant fixed income or cash weighting may result in higher compensation to the IAR and cost to the client than if transaction fees were made separately for each transaction. In negotiating AUM fees and transaction fees, IARs will discuss with their clients the impact of the size of their account and the anticipated level of activity in the account (with resulting transaction fees) based on the proposed strategy for their account.

In some cases a separate AUM fee is charged by the manager pursuant to separate agreement between the client and the manager. The amount of the AUM fee is negotiated between the IAR and the client using the following schedule as a guideline. The fee schedule is included in the NAM Investment Advisory Agreement. The following are guidelines for the AUM fee:

<b>Total Account Value</b>	<b>Annual Fee</b>
First \$250,000	2.5%
Next \$250,000 to \$1,000,000	2.0%
Next \$1,000,000 to \$2,000,000	1.5%
Over \$2,000,000	Less than 1.5%

Under the terms of most Alliance contracts, clients authorize NAM to calculate and debit their account to pay NAM's Program fees monthly in arrears. The amount of NAM's monthly AUM fee is based upon the average value of the assets in the account during the prior month. If separate fees are paid to the portfolio manager pursuant to the client's separate agreement with the portfolio manager, those fees may be monthly or quarterly in

advance or in arrears, as stated in the separate agreement executed between the client and the Manager and are generally deducted from the client's account and paid by NAM to the portfolio manager, pursuant to client authorization. See "Additional Fees for Most Programs", in this Item below regarding additional fees that may apply.

If investments are made in mutual funds, clients will bear a proportionate share of the funds' expenses, including advisory fees paid to the mutual funds' investment advisors. A client may invest in a money market fund or mutual fund directly without incurring the fee charged for participation in the Program.

**Additional Fees for Most Programs.** Additional fees, which will be separately borne by clients, include (i) dealer markups, markdowns or spreads by non-affiliated broker-dealers charged on transactions in over-the-counter securities; (ii) costs relating to trading in certain foreign securities; (iii) the internal charges and fees that may be imposed by any collective investment vehicles ("Collective Investment Vehicles"), such as mutual funds and closed-end funds, unit investment trusts, exchange-traded funds or real estate investment trusts (such as fund operating expenses, management fees, redemption fees, 12b-1 fee and other fees and expenses) or other regulatory fees; further information regarding charges and fees assessed by Collective Investment Vehicles may be found in the appropriate prospectus or offering document; (iv) brokerage commissions or other charges imposed by broker-dealers or entities other than the custodian if and when trades are cleared by another broker-dealer; (v) the charge to carry tax lot information on transferred mutual funds or other investment vehicles, postage and handling charges, returned check charges, transfer taxes; stock exchange fees or other fees mandated by law; and (vi) any brokerage commissions or other charges, including contingent deferred sales charges ("CDSC") imposed upon the liquidation of "in-kind assets" that are transferred into the Program. In addition to the redemption fees described above, a client may incur redemption fees when the Advisor determines that it is in the client's overall interest, in conjunction with the stated goals of the investment strategy, to divest from certain Funds prior to the expiration of the minimum holding period of the funds. Some mutual funds also assess redemption fees to investors upon the short-term sale of its funds. Depending on the particular mutual fund, this may include sales for rebalancing purposes. Please see the prospectus for the specific mutual fund for detailed information regarding such fees.

The program fees do not cover certain custodial fees that may be charged to clients by the custodian. A custodian may charge a minimum account fee. Clients also may be charged for specific account services, such as ACAT transfers, electronic fund and wire transfer charges, and for other optional services elected by clients. Similarly, the program fees do not cover certain non-brokerage-related fees such as individual retirement account ("IRA"), trustee or custodian fees and tax-qualified retirement plan account fees and annual and

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termination fees for retirement accounts (such as IRAs). To the extent permitted by law, brokers may act on a principal basis. The broker would retain any mark-ups, mark-downs or “spreads” associated with any such transaction in which it acts as principal. In limited cases, with prior client consent, NAM affiliates may act as principal.

In any program, clients can elect an additional service to link non-managed accounts for reporting purposes for a fee of \$18.75 per quarter.

## **Item 5 - Fees and Compensation**

Fee ranges are listed for each Program in Item 4, “Advisory Business”. Fees may be subject to negotiation depending upon a range of factors including, but not limited to, client household/relationship type and size of account.

The specific manner in which fees are charged by NAM is established in a client’s written agreement with NAM. NAM generally directly deducts its fees quarterly in advance, although legacy programs may be monthly or quarterly in arrears. On termination of an account, NAM automatically refunds the pro rata portion of any prepaid fees for the portion of the quarter (or month, as the case may be) remaining after termination, except that administrative fees are not prorated or refunded. Accounts initiated or terminated during a calendar month or quarter will be charged a prorated fee.

Most NAM programs described in this brochure provide for an AUM fee, plus transaction fee, plus administrative fees. Clients may also incur certain charges imposed by custodians, brokers, third party investment managers and other third parties, such as registered investment product deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Variable annuities, mutual funds and exchange traded funds also charge internal management fees, which are disclosed in the product/fund’s prospectus. See “Additional Fees for Most Programs”, in this Item below “Additional Fees for Most Programs.” Such charges and fees are in addition to NAM’s fee, while a NAM-affiliated broker may receive a portion of these fees. Item 12 describes the factors that NAM considers in selecting or recommending custodians/broker dealers for client transactions and determining the reasonableness of their compensation and addressing conflicts of interest.

As part of its fiduciary duty to clients, NAM endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by NAM or its related persons in and of itself creates a conflict of interest and may indirectly influence NAM’s choice of Clearing Agent for custody and brokerage services.

**Private Funds**

Fees associated with private funds for which NAM acts as advisor may include an annual management fee or carried interest, as described above, and are governed by the investment management agreement between NAM and the Fund's manager. See Item 6 "Performance-Based Fees and Side-by-Side Management" with respect to carried interest. In addition, each private fund pays operating expenses and other costs of the fund. Details regarding the fees and costs associated with each private fund are detailed in the documentation specific to each fund.

**Compensation Received by IARs for Transactions Outside of NAM**

An IAR associated with NAM may also be registered with broker-dealer affiliates of NAM and may render securities brokerage services through those broker-dealers under a commission arrangement. Clients may elect to effect securities transactions through certain of NAM's IARs in their respective individual capacities as registered representatives of NSC, an SEC registered broker-dealer and member of FINRA affiliated with NAM. NSC may charge brokerage commissions to effect these securities transactions and thereafter, a portion of these commissions may be paid by NSC to the IAR in his/her capacity as a registered representative of the broker-dealer. A client who wishes to obtain such brokerage services would be required to enter into a brokerage account agreement with NSC. The brokerage commissions charged by NSC may be higher or lower than those charged by other broker-dealers.

Dually registered IARs may receive, through NSC, compensation from the sale of mutual funds, including ongoing 12b-1 fees (trails). Dual registration presents a conflict of interest and gives IARs an incentive to recommend investment products based on the compensation received, rather than on a client's needs. However, if a client establishes both an advisory account (advised by NAM) and a brokerage account (through NSC), the client and the IAR will establish the types of transactions that will be made in each account. Further, as a matter of procedure, NAM does not generally permit mutual funds with front-end or back-end commissions in the advisory program. Mutual fund share classes that traditionally charge either a front-end sales commission or a deferred sales commission may be purchased without any sales commission in NAM accounts, however. If previously purchased mutual funds are transferred into an advisory account and a commission was earned by an IAR associated with NAM or its affiliates, advisory fees will be suppressed for a minimum of three years from the date of the initial investment. Clients have the option to purchase investment products that IARs recommend through unaffiliated broker-dealers.



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

NAM may enter into performance fee arrangements with qualified clients (with respect to individuals, those having a net worth greater than \$2,000,000 (exclusive of primary residence, with certain adjustments for indebtedness secured by primary residence) or for whom NAM manages at least \$1,000,000). Performance-based fees are based on a share of capital gains or capital appreciation of a client's account.

Such fees are subject to individual negotiation with each client. NAM will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, NAM will include realized and unrealized capital gains and losses.

NAM IARs manage accounts that are charged performance-based fees while at the same time managing accounts (perhaps with similar objectives) that are not charged performance-based fees ("side-by-side management"). Performance-based fees and side-by-side management may create conflicts of interest, which are described more fully below. In order to address the potential conflicts of interest, a NAM supervisor will review client trades and accounts for suitability in accordance with clients' investment objectives and risk tolerance, and fair allocation of investment opportunities by the IAR.

NAM may receive compensation from the private funds in the form of carried interest. Carried interest arrangements are described in detail in each private fund's offering memorandum and operating agreement.

Performance-based fee and carried interest arrangements may create an incentive for NAM IARs to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts (or private funds) over other accounts in the allocation of investment opportunities. To address this conflict of interest, we have instituted policies and procedures that require our IARs to allocate investment opportunities to applicable clients, as financially able, and if they are suitable in an effort to avoid favoritism among our clients, regardless of whether the client is charged performance fees, or carried interest is received.



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

NAM provides investment advisory services to individuals, trusts, estates, charitable organizations, corporations or other business entities, private funds and qualified pension/profit sharing plans.

Advisory accounts generally have minimum account size requirements of \$25,000, which may be negotiable, depending on the client household, relationship, type and size of the account.

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

Each IAR has access to various research reports and model portfolios to which he or she may refer in determining investment advice provided to clients. Each IAR chooses his or her own research methods, investment style, and management philosophy. Accordingly, the investment advice provided to each client may vary from one IAR to another.

It is important to note that no methodology, investment style, or investment strategy is guaranteed to be successful or profitable or can guarantee a client against loss. The investment strategies and advice may vary depending upon each client's specific financial situation. As such, IARs determine investments and allocations based upon clients' predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Clients' restrictions and guidelines may affect the composition of client portfolios. NAM IARs use a variety of investment analysis techniques to analyze the securities they purchase or sell on behalf of clients, which may include:

- *Fundamental Research*, which is analysis of industries and companies based on factors such as sales, assets, earnings, products and services, markets and management. Fundamental analysis of economic trends includes interest rates, unemployment, inventories, consumer savings and gross national product(s). The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.
- *Charting*, which is the graphic tracking of price movements and other trends to determine typical movement. When a trend deviates from its norm, that can be an indicator of an impending upturn or downturn. The risk of market timing based on analysis of charts is that it may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in the market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

- *Technical Analysis*, which involves analysis of stock prices, also takes into account internal market factors that reflect investor psychology. This style of analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly managed or financially unsound company may underperform regardless of market movement.
- *Cyclical Analysis*, which reviews securities in industries that are particularly sensitive to swings in general economic conditions. Economic/business cycles may not be predictable and may have many fluctuations between long-term expansions and contractions. The lengths of economic cycles may be difficult to predict with accuracy and therefore the risk of cyclical analysis is the difficulty in predicting economic trends and consequently the changing value of securities that would be affected by these changing trends.
- *Asset Allocation*, an attempt to identify an appropriate ratio of securities and cash suitable to the client's investment goals and risk tolerance. A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

### **Investment Strategies**

In the implementation of its analysis, NAM IARs may use some or all of the following strategies at any given time:

- *Long Term Purchases* - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- *Short Term Purchases* - securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

Short-term gains in taxable accounts are subject to federal income tax at higher rates than long-term gains. This difference in tax treatment is a disadvantage of short-term trades for taxable clients.

- *Trading* - IARs may use short-term trades (in general, selling securities within 30 days of purchasing the same securities) when managing client account(s). An IAR

may sell a security soon after purchasing it on occasions when they determine that there is a reasonable basis for the sale and it is suitable given a client's stated investment objectives and tolerance for risk. Short-term gains in taxable accounts are subject to federal income tax at higher rates than long-term gains, while losses realized on securities held 30 days or less are generally not tax-deductible. These differences in tax treatment are disadvantages of short-term trades for taxable clients. There is also risk in that high velocity trading creates substantial transaction costs that in the aggregate could negatively impact account performance.

- *Short Sales* – a securities transaction in which an investor sells securities he or she borrowed in anticipation of a price decline. The investor is then required to return an equal number of shares at some point in the future. A short seller will profit if the stock goes down in price. The risk associated with a short sale is the potentially unlimited loss should the underlying value of the short position increase in value instead of the anticipated decline. Another risk is buy-in risk. Once borrowed, the shares are subject to buy-in at any time, which could force the client to cover the short position at a disadvantageous time or price. Short sales require the use of margin, which may increase cost and risk. Additional costs include interest on the value of borrowed securities. Risks include buy-in and additional margin calls in response to market fluctuation or at the discretion of the custodian.
- *Margin Transactions* – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan. This allows the client to purchase more stock than would be possible based on the client's available cash, and would allow the IAR to purchase stock without selling other holdings. This is a higher risk strategy. Securities purchased on margin are subject to liquidation, additional margin calls, and interest on the funds borrowed. Should the value of the securities decline, clients may be forced to deposit additional margin with limited notice, or to liquidate their securities at substantial losses.
- *Option Purchases and Option Writing* – Purchasing a long option gives the buyer the right, but not the obligation, to buy or sell a particular security at a specified price before the expiration date of the option. When an investor writes (or sells) an option, he or she is obligated to deliver to the buyer of the option a specified number of shares (or the calculated money difference) if the buyer exercises the option. The seller receives a premium in exchange for writing the option. Options are wasting assets and expire at pre-determined dates. Commission charges for option transactions may be higher than the charges assessed for other assets, such as individual equities.

**Risk of Loss**

NAM IARs may recommend many different types of securities, including mutual funds, ETFs, equities, options, fixed income securities, structured notes, and interests in partnerships, such as real estate, or oil and gas. Investing in securities and alternative investments involves a risk of loss that clients should be prepared to bear. NAM does not represent or guarantee that any methods of analysis employed by an IAR can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. NAM cannot offer any guarantees or promises that clients' financial goals and objectives will be met. Past performance is not an indication of future performance.

Described below are some particular risks associated with some types of investments available in the Programs. Risk is inseparable from return. Every investment involves some degree of risk, and both the degree of risk and the type of risk varies depending on the investment.

An understanding of risk in different forms can help clients understand the opportunities, trade-offs and costs involved with different investment approaches. The principal risk of any investment is that despite any comprehensive analysis, the security or instrument will not perform as expected. This can be due to, among other things:

- *Market risk:* the success of client portfolio activities will be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, commodity prices, economic uncertainty, changes in laws, trade barriers, currency fluctuations and controls, and national and international political circumstances.

These factors may affect the level of volatility of securities prices and the liquidity of investments in client portfolios. Such volatility or illiquidity could impair profitability or result in losses;

- *Equity risk:* investments in equity securities generally involve a high degree of risk. Prices are volatile and market movements are difficult to predict. These price movements may result from factors affecting individual companies or industries. Price changes may be temporary or last for extended periods. In addition to, or in spite of, the impact of movements in the overall stock market, the value of investments may decline if the particular investments within the portfolio do not perform well in the market. Prices of growth stocks may be more sensitive to changes in current or expected earnings than prices of other stocks. Prices of stocks may fall or fail to appreciate regardless of movements in securities markets.

A higher level of activity, or increased trading may result in higher transaction costs and higher taxes in taxable accounts and may also affect the strategies' overall performance;

- *Management risk*: the strategies utilized by NAM IARs may not work in some market conditions, management risk could also influence mutual fund and ETF portfolio management teams;
- *Fixed income risks*: investments in fixed income securities represent numerous risks such as credit, interest rate, reinvestment, and prepayment risk, all of which affect their price/value. These risks represent the potential for a large amount of price volatility. In general, securities with longer maturities are more sensitive to price changes. Additionally, the prices of high-yield, fixed income securities fluctuate more than high-quality debt issues. Prices for these securities are especially sensitive to developments affecting the company's business (in the case of corporate high-yields) and to changes in the ratings assigned by rating agencies. Prices are often closely linked with the company's stock prices. High-yield securities can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sales by major investors, default, or other factors. In the event of a default, the investment may suffer a partial or total loss;
- *Increased regulations*: events during the past several years and adverse financial results have focused attention upon the necessity to maintain adequate risk controls and compliance procedures. These events have led to increased governmental and self-regulatory authority scrutiny of the financial industry. Various national governments have also expressed concern regarding disruptive effects of speculative trading and the need to regulate the markets in general. Any regulations that restrict the ability to utilize broker-dealers and counterparties to extend credit or restrict trading activities could adversely impact profit potential;
- *Market liquidity risks*: the value of securities held in client accounts that are traded on exchanges and the risks associated with holding these positions vary in response to events that affect asset markets in general. Market disruptions such as those that occurred in 1987, 2001, 2008 and the "Flash Crash" in 2010 could lead to violent price swings in securities held within client portfolios and could result in substantial losses. Portfolios managed according to computer algorithms triggered by price fluctuation or other automated trading signals may be affected in a particularly negative way in the event of such market disruptions;

- *Small capitalization companies:* a portion of assets may be invested in smaller and less established companies. Both debt and equity securities of such issuers tend to be more volatile than larger, more established companies. Such volatility could adversely impact client portfolios;
- *Large company risk:* large cap stocks can perform differently from other segments of the equity market or from the equity market as a whole. Large capitalization companies may be less flexible in evolving markets or unable to implement change as quickly as smaller capitalization companies;
- *Short sales, leverage and derivatives:* short sales, leverage and derivatives all represent substantial risks given their inherent heightened risk of loss. Leverage and derivatives imply borrowing capital. When such borrowing is deployed, losses can escalate quickly should investment suffer even small losses. Short sales involve a finite opportunity for appreciation, but a theoretically unlimited risk of loss. Short positions can also be subject to a “short squeeze” that could lead to accelerating losses for those short that particular security;
- *Convertible arbitrage risk:* if interest rates on a convertible security rise, its value usually falls;
- *Options and futures risk:* the risk that the counter-party that wrote the option will be unable or unwilling to perform its obligations under the option contract, or the options may become illiquid and difficult to close. Options are a derivative of stocks. An option derives its value from the price of the underlying stock;
- *Tax risk:* an IAR may not manage client accounts with tax consequences in mind; some strategies, including transactions in options and futures contracts, can be subject to special tax rules, which may have adverse tax consequences for the account holder;
- *Extraordinary events:* global terrorist activity, Acts of God and United States involvement in armed conflict may negatively affect general economic fortunes, including sales, profits, and production, and may lead to depressed securities prices and problems with trading facilities and infrastructure;

- *Non-US investments:* Client funds may be invested in securities (e.g., debt, equity, currencies, derivatives, etc.) domiciled outside the United States. Such investments expose a portfolio to a number of risks that may not exist in the domestic market alone. Such risks include, among other things, trade balances and imbalances and related economic policies, currency exchange rate fluctuations, imposition of exchange control regulation, withholding taxes, limitations on the removal of funds or other assets, possible nationalization of assets or industries, political difficulties, and political instability in foreign nations;
- *Potential concentration:* Client portfolios may have highly concentrated positions in issuers engaged in one or a few industries. This increases the risk of loss relative to the market as a whole.



**Item 9 - Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of NAM or the integrity of NAM's management. The individual Form ADV Part 2B contains disclosures with respect to IARs.

On October 26, 2015, National Asset Management, Inc. ("NAM") consented to an Order of the U.S. Securities and Exchange Commission ("SEC") in an administrative proceeding initiated under the Investment Advisers Act of 1940 (Advisers Act"). As described in the Summary section of the Order, a copy of which is attached, the proceeding concerns several disclosure and compliance-related violations and events during the years from 2008 through 2012. The Order found that NAM (1) failed to disclose to advisory clients in writing or obtain client consent to over 21,000 securities trades executed in a principal capacity, (2) failed to report in its SEC filings and timely disclose to clients the disciplinary histories of several of its associated persons, (3) failed to properly enforce its Code of Ethics when its then CEO, several directors, and many of its employees failed to submit hundreds of required reports on their personal securities trading to NAM, (4) failed to adopt and implement compliance policies and procedures reasonably designed to prevent violations of certain provisions of the Advisers Act and the rules thereunder, and (5) failed to conduct one required annual review of its compliance policies and procedures. NAM agreed to the imposition of a censure, a civil monetary penalty of \$200,000, and certain undertakings, including the appointment of an independent compliance consultant to review and make recommendations regarding certain parts of NAM's compliance policies and procedures. The Order did not find an intent to deceive. It did find that NAM refunded to its clients the inappropriately assessed markups and markdowns on the 21,000 trades, took prompt remedial action, and cooperated with the SEC's investigation.

In November 2014 David Levine became an Executive Vice President of NAM. In 2011, Mr. Levine, without admitting or denying findings of the SEC, consented to the entry of an order finding that he willfully aided and abetted and caused a former broker-dealer with whom he was registered (which had ceased to do business) to violate provisions of Regulation S-P (a privacy regulation) under the Securities Exchange Act of 1934 and ordered him to cease and desist from committing or causing any violations and future violations of the regulation, censuring him and imposing a civil monetary penalty of \$20,000.

Alan Levin, the Secretary-Treasurer of NAM, serves as the Financial & Operations Principal for NAM's affiliated broker-dealer, National Securities Corporation. FINRA, an

independent regulator of securities firms, alleged that Mr. Levin allowed NSC and another affiliated broker-dealer to conduct a securities business while the firms' regulatory net capital positions were deficient and that he failed to file the requisite net capital and early-warning notifications. FINRA also alleged that Mr. Levin caused the firms to file inaccurate regulatory financial reports, to maintain inaccurate books and records, and in one case, to file an inaccurate annual audit. In September 2012, without admitting or denying the findings, Mr. Levin consented to FINRA's described sanctions and to the entry of findings. As a result, he was fined \$10,000 and suspended from association with any FINRA member in a principal capacity for 10 business days. The fine was paid in full on September 5, 2012. The suspension was in effect from September 17, 2012 through September 28, 2012.

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

### **Affiliated Broker-Dealers**

NAM is affiliated with National Securities Corporation (“NSC”). Some management persons are registered representatives of NSC. Under some of NAM’s programs, NSC effects transactions for advisory clients of NAM upon receipt of instructions from NAM. NSC executes orders received from NAM clients on an agency basis and receives revenue from transaction fees. NAM uses certain NSC facilities, administrative systems and technology, and does not currently fully reimburse NSC for the cost of those services. NSC receives revenue generated through trade execution, margin interest, etc. for accounts it holds. Service arrangements with our affiliated entities present a conflict of interest because we may have a financial incentive to recommend our affiliates’ services. See Item 12, “Brokerage Practices”. Clients are under no obligation to use our affiliates’ services and may obtain comparable services and/or lower fees through NAM’s other clearing agent firms.

NAM is also affiliated with vFinance Investments, Inc., a broker-dealer that conducts institutional and market making business.

### **Recommendation of Other Registered Investment Advisers**

NAM acts as a solicitor and may refer NAM clients to other Registered Investment Advisers and receive a portion of the fees charged by those Advisors, which varies depending on the solicitor arrangements with each Advisor. NAM’s IARs receive a portion of the asset management fees paid to NAM by these Advisors.

### **Other Potential Conflicts of Interest**

In addition to the various programs listed above, NAM may in the future participate in or sponsor other investment vehicles, and service additional advisory accounts or clients. We may also decide to engage in other businesses. The existence of such present and future multiple investment vehicles and accounts, or other businesses, may create material conflicts of interest.

David Levine, NAM’s Executive Vice President and other IARs may offer private label versions of eMoney, a service in which NAM clients (as well as others) can receive a

personal financial website, which enables them to aggregate their accounts held at various locations, and receive referrals, which may include referrals to NAM IARs or affiliates of NAM. This service is licensed by Mr. Levine, and not provided by, or supervised by, NAM. Mr. Levine and IARs may receive a portion of fees received as a result of referrals made through the service.

### **Other Investment Vehicles or Adviser Clients**

NAM has a number of affiliates. In addition, the firm provides investment advisory services to more than 4200 clients and serves as investment adviser to a number of private funds. The firm and our affiliates may participate in or sponsor other investment vehicles and service additional advisory clients in the future. National Securities Corporation, a broker-dealer affiliate of NAM, acts as placement agent for private funds advised by NAM and managed by NAM/NSC affiliates, and receives commissions for the sale of interests in the funds as described in the offering documents for the funds. The private fund(s) and our affiliates may also decide to engage in other businesses. The existence of such multiple entities or clients, or other businesses, necessarily creates a number of conflicts of interest. Investment opportunities available to the funds are not made available to other NAM clients.

**Item 11 – Code of Ethics; Participation or Interest in Client Transactions and Personal Trading**

NAM has adopted a Code of Ethics for all supervised persons of the firm to codify requirements to act at all times consistent with their fiduciary duty and to establish reporting requirements. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on trading on the basis of inside information, restrictions on the acceptance of significant gifts, and the initial, quarterly, and annual reporting of personal securities holdings and trading activity, among other things. All supervised persons at NAM must acknowledge the terms of the Code of Ethics annually, and when it is amended. NAM's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting NAM's Chief Compliance Officer.

NAM's IARs and other supervised persons are required to follow NAM's Code of Ethics. NAM's officers, directors, IARs, and employees of NAM and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for NAM's clients and at or about the same time as clients, subject to applicable laws. Trades by certain of these persons may present a conflict of interest. NAM addresses the conflicts through supervisory reviews that monitor whether an IAR's or other access persons' personal trading is consistent with recommendations made to clients, and pro rata allocations. See Item 12, Block Trades, for more information.

In limited cases, with prior client consent, NAM affiliates may act as principal or permit cross trades.

## Item 12 – Brokerage Practices

### **The Custodians and Brokers We Use**

NAM does not have any traditional soft-dollar arrangements. However, as discussed below and throughout this document, NAM may receive benefits from relationships with custodians, which it does not have to produce or pay for, and NAM may have an incentive to recommend a broker-dealer based on our interest in receiving the benefits, rather than on clients' interests in receiving most favorable execution. NAM's affiliated brokerage firms and its clearing firms may receive compensation or other consideration for routing orders to particular broker/dealers or market centers for execution. Those brokerage firms provide reports (Rule 606 reports) regarding order routing practices, which identify the significant venues, as defined in the rule, where orders were routed in listed equity securities and listed options, as well as order routing details. The quarterly routing reports are available on the brokerage firms' websites. Further information may be obtained by contacting the client's IAR or the applicable broker-dealer for the program.

NAM does not have discretion to select which broker-dealers are used to execute trades (except in the case of its exercise of discretionary authority in management of private funds). However, NAM works with a selected group of custodians/broker-dealers from which its clients can choose, and clients who select certain programs must use particular broker/dealers and custodians. If a client wishes to use a custodian not included in the list below, they can do so through the Investment Advisor Program. Based on the client's selection, all trades for their accounts are then placed through their selected custodian/broker-dealer. Relationships with the custodian/broker-dealers listed below may include benefits provided to our firm, including but not limited to market information and administrative services that help our firm manage client account(s). NAM will require that each client open an account with the applicable custodian/broker-dealer by entering into an account agreement directly with them.

We believe that the broker-dealers listed below provide quality execution services for our clients at competitive prices.

### **Block Trades**

We may combine multiple orders for shares of the same securities purchased for advisory accounts we manage (this practice is commonly referred to as "block trading").

We will then distribute a portion of the shares to participating accounts in a fair and equitable manner. We do this to obtain, to the extent possible, the optimal execution for clients. The distribution of the shares purchased is typically pro rata based on size of the orders placed for each account. It is not based on account performance or the amount or structure of management fees. When NAM IARs combine orders, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by IARs associated with our firm may participate in block trading with client accounts and will receive pro rata allocations.

### **How NAM Selects Brokers/Custodians for Programs**

NAM operates its Programs as a directed brokerage. NAM does not require a client to utilize any particular broker/custodian and currently has relationships with a number of brokers/custodians (listed below) that provide brokerage, clearing and custody services to clients in the Programs. The choice of which broker/custodian to utilize is determined by the client in consultation with their IAR, and a client enters into a separate contractual relationship with the selected broker/custodian. Not all advisers require clients to direct brokerage. Clients should understand that as different custodians have different transaction fee schedules for different types of clients and securities, NAM believes that there is no inherently superior custodial platform based on transactional fees alone. In addition, the price for transaction execution represents just one factor among many in selecting available custodians for its programs. An IAR has a fiduciary duty to clients and may not place a client in a program based on the IAR's interests or the interest of NAM or its affiliates. When selecting broker-dealers/custodians for its programs, NAM may consider the following:

- Execution factors, including explicit and implicit costs, price improvements and reactions to market movement;
- Quality of overall execution services provided by the broker-dealer;
- Creditworthiness, business reputation and reliability of the broker-dealer;
- Ability and willingness to correct trade errors;
- Promptness and accuracy of confirmation statements;
- Ability to access various market centers;
- The broker-dealer's facilities, including any software or hardware provided to the Firm and back office and clearing and settlement efficiency; and
- Transaction fees by the broker-dealer and other costs of providing services.

NAM, on an annual basis, evaluates broker-dealers currently utilized, using the above factors, and in that connection reviews best execution reports provided by the account custodians that demonstrate their own compliance with best execution requirements and order routing.

In evaluating the use of affiliated brokers, NAM assesses the above factors in the same manner as any other broker-dealer. Affiliated broker-dealers may not be favored over unaffiliated broker-dealers.

A discussion of certain factors and conflicts with respect to each custodian follows.

*National Securities Corporation and National Financial Services LLC*

The legacy programs Liberty, AFP and Alliance, are custodied with National Financial Services LLC ("NFS"), and trades are executed through NAM's affiliated broker-dealer, National Securities Corporation ("NSC"). Clients may elect to use NSC and NFS for the Portfolio Advisor or other programs. NSC maintains a clearing arrangement with NFS that permits NSC to execute transactions at negotiated clearing rates, and to use the trading and operations systems provided by NFS, including research, account look-up, and reporting and presentation software. NAM's affiliates may also receive certain discounts from NFS, which vary depending on the volume of trades NAM's affiliated broker-dealers originate. This could give NAM an incentive to generate more frequent trading in clients' accounts, and to direct trading through NSC. In addition, when interest rates are at high enough levels to make it feasible, NSC receives revenue from NFS on client cash balances in money market funds, free credit balances and margin debits. By receiving the benefits from NFS described above, NAM/NSC receive a benefit by virtue of transaction fees paid by clients to NSC/NFS. Accordingly, NAM may have an incentive to recommend NSC/NFS based on its interest in receiving those products, services or fees, rather than on clients' interests in receiving most favorable execution. Finally, NAM uses certain NSC facilities, administrative systems and technology, and does not currently fully reimburse NSC for the cost of those services.

In selecting NSC and NFS for some of its programs, however, NAM considered that NSC and NFS are subject to best execution requirements. NFS offers a "No Transaction Fee" program in which more than 4,000 no-load and load-waived mutual funds can be purchased without a transaction charge. Participating mutual fund sponsors pay a fee to NFS to participate in this program. A portion of this fee is shared with NSC. None of these fees are shared with IARs who place NAM client assets in these funds, and the payments to NFS and NSC do not increase the cost of any investment. The benefit of this program for clients and for NAM IARs is the availability of thousands of mutual funds without any transaction charge and with no additional fees. The IAR has a fiduciary duty to recommend the most appropriate custodian for the client and may not place a client in a program based on the IAR's interests or the interests of NAM or its affiliates.



*Charles Schwab & Co., Inc.*

Clients may establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab Institutional"), an unaffiliated registered broker-dealer, member FINRA/SIPC, among others, to maintain custody of the client's assets and to effect trades for their accounts. Clients are advised that Schwab generally does not charge separately for custodial services but is compensated by charging commissions or other fees on trades that it executes or settles in your Schwab account. In addition, Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade they execute by a different broker-dealer. These fees are in addition to the commission or other compensation you pay to the executing broker-dealer. Because of this, in order to minimize your trading costs, Schwab executes most trades for your account. Neither NAM nor any of its affiliates share in any portion of the brokerage fees/transaction charges imposed by Schwab Institutional. The commission/transaction fees charged by Schwab Institutional may be higher or lower than those charged by other broker-dealer/custodians. Schwab Institutional provides NAM with access to its institutional trading and operations services, which are typically not available to Schwab retail clients. Schwab Institutional services may include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional clients or would require significantly higher minimum initial investments. Here is a more detailed description of Schwab's support services:

**Services that Benefit You.** Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

**Services that May Not Directly Benefit You.** Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- o provide access to client account data (such as duplicate trade confirmations and account statements);

- o facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- o provide pricing and other market data;
- o facilitate payment of our fees from our clients' accounts; and
- o assist with back-office functions, recordkeeping and client reporting.

Services that Generally Benefit Only Us. Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- educational conferences and events, including cash assistance towards technology related expenses
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits such as occasional business entertainment of our personnel.

Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us as long as a total of at least \$10 million of NAM clients assets are held in accounts at Schwab. NAM's clients currently have accounts substantially in excess of \$10 million at Schwab. When NAM established its relationship with Schwab in 2008, Schwab provided NAM with assistance in the amount of \$45,000 toward technology and marketing related expenses on the expectation that client assets at Schwab would exceed \$60 million. NAM clients currently have accounts with balances substantially in excess of \$60 million.

Further, Schwab may provide various incentives to IARs, including marketing provided by vendors paid for by Schwab and waiver of transaction fees and availability of systems, which may be contingent on the quantity of business directed to Schwab. Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits such as occasional business entertainment of our personnel. For certain IARs, the availability of the foregoing products and services is not contingent upon NAM committing to Schwab Institutional any specific amount of business (assets in custody or trading).

However, certain IARs don't have to pay for Schwab's services or receive other benefits described above so long as they maintain client assets at a stated level. The availability of these services from Schwab benefits NAM's IARs because they do not have to produce or purchase them. Any commitment level may give the IAR an incentive to recommend that clients maintain their accounts with Schwab based on the IAR's interest in receiving Schwab's services that benefit their business rather than based on client interest in receiving the best value in custody services and the most favorable execution of client transactions. This is a potential conflict of interest. We believe, however, that NAM's selection of Schwab as an option for clients is in the best interests of our clients. This belief is based on the scope, quality and price of Schwab's services and not Schwab's services that benefit only NAM or IARs.

### *Fidelity Institutional*

Clients may establish brokerage accounts with Fidelity Institutional, member NYSE/SIPC, an unaffiliated registered broker-dealer among others, to maintain custody of the client's assets and to effect trades for their accounts. Clients are advised that there may be transaction charges involved when purchasing or selling securities. Additionally, the commission/transaction fees charged by Fidelity Institutional may be higher or lower than those charged by other broker-dealer/custodians. Fidelity Institutional provides NAM with access to its institutional trading and operations services, which are typically not available to Fidelity retail clients and access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts). Fidelity Institutional services may include research, brokerage, custody, access to mutual funds and other investments that are otherwise available only to institutional clients or would require significantly higher minimum initial investments or with no transaction fees. Fidelity Institutional also makes available to NAM other products and services that benefit NAM but may not benefit its clients' accounts. These include technology that provides access to client account data (such as trade confirmations and account statements for our affiliates NSC), facilitate trade execution, provide research, pricing information and other market data, facilitate payment of NAM's fees from its clients' accounts, and assist with back-office support, recordkeeping and client reporting.

The availability to NAM of the foregoing products and services is not contingent upon NAM committing to Fidelity Institutional any specific amount of business (assets in custody or trading). However, these incentives create conflicts of interest. Further, Fidelity Institutional may provide various incentives to IARs, including marketing provided by vendors paid for by Fidelity Institutional, and waiver of transaction fees (in other programs) and availability of systems, which for some IARs may be contingent on the

quantity of business directed to Fidelity. We believe, however, that NAM's selection of Fidelity as custodian and broker is in the best interests of our clients. This belief is based on the scope, quality and price of Fidelity Institutional's services and not Fidelity Institutional's services that benefit only NAM or IARs.

#### *TD Ameritrade Institutional*

Clients may establish brokerage accounts with TD Ameritrade Institutional, an unaffiliated registered broker-dealer, member FINRA/SIPC, for services which include custody of securities, trade execution, clearance and settlement of transactions. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade"). Clients are advised that there may be transaction charges involved when purchasing or selling securities. Additionally, the commission/transaction fees charged by TD Ameritrade Institutional may be higher or lower than those charged by other custodians. The services include the following products and services: receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; and access to mutual funds with no transaction fees. TD Ameritrade may also have paid for business consulting and professional services received by NAM's related persons. Some of the products and services made available by TD Ameritrade through the Program may benefit NAM but may not benefit its client accounts. The benefits received by NAM or its IAR through participation in the Program do not depend on the amount of brokerage transactions directed to TD Ameritrade. However, TD Ameritrade may provide various incentives to IARs, including marketing provided by vendors paid for by TD Ameritrade, and waiver of transaction fees and availability of systems, which for some IARs may be contingent on the quantity of business directed to TD Ameritrade. These benefits create a potential conflict of interest. We believe, however, that NAM's selection of TD Ameritrade as custodian and broker is in the best interests of our clients. This belief is based on the scope, quality and price of TD Ameritrade's services and not TD Ameritrade's services that benefit only NAM or IARs.

#### *Pershing LLC*

Clients may establish brokerage accounts with Pershing LLC, an unaffiliated registered broker-dealer, member FINRA/SIPC, for services which include custody of securities, trade execution, clearance and settlement of transactions. Clients are advised that there may be transaction charges involved when purchasing or selling securities. Additionally, the

commission/transaction fees charged by Pershing may be higher or lower than those charged by other custodians.

The services include the following products and services: receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; and access to mutual funds with no transaction fees. Pershing may also have paid for business consulting and professional services received by NAM's related persons. Some of the products and services made available by Pershing through the Program may benefit NAM but may not benefit its client accounts. The benefits received by NAM or its IAR through participation in the Program do not depend on the amount of brokerage transactions directed to Pershing. However, Pershing may provide various incentives to IARs, including marketing provided by vendors paid for by Pershing, and waiver of transaction fees and availability of systems, which for some IARs may be contingent on the quantity of business directed to Pershing. These benefits create a potential conflict of interest. We believe, however, that NAM's selection of Pershing as custodian and broker is in the best interests of our clients. This belief is based on the scope, quality and price of Pershing's services and not Pershing's services that benefit only NAM or IARs.

### **Item 13 – Review of Accounts**

NAM supervisors are charged with reviewing all new advisory account documents to confirm the client's risk tolerance questionnaire is complete, that the type of account and investment strategy and fee structure are suitable for the client. NAM's supervisors are required to review trades made in NAM accounts on a trade review system. NAM also use systems that provide for the ongoing monitoring of accounts. Those systems provide alerts, which are triggered by various factors intended to monitor for account activity, including suitability, asset allocation, concentration, sustained cash, and reverse churning for review by supervisors.

All clients receive statements of activity and account holdings directly from the asset custodian(s). Statements are sent monthly if there is activity in the account, otherwise quarterly. Clients may be provided with quarterly evaluation reports which will disclose an inventory of account holding and analyze the performance of the securities in the client's account.

**Item 14 – Client Referrals and Other Compensation****Compensation for Client Referrals**

NAM may from time to time pay compensation to affiliated or unaffiliated persons (solicitors) for referring clients to NAM, as permitted under Rule 206(4)-3 of the Investment Advisers Act of 1940. Such arrangements are disclosed in writing to the client at the time the referral is made. Appropriate disclosure would be provided to the client in accordance with SEC rules and the solicitor will be compensated by NAM according to the specific terms of the compensation arrangement contained in the NAM Solicitation Agreement.

NAM acts as a solicitor and may refer NAM clients to other Registered Investment Advisors, and receive a portion of the fees charged by those Advisors, which varies depending on the arrangement. NAM's IARs receive a portion of the asset management fees paid to NAM by these Advisors.

**Additional Compensation**

As described in Item 12, "Brokerage Practices" for some of NAM's legacy programs NAM offers, NAM requires the use of the services of NAM's affiliate, NSC. In other programs, clients may elect to use NSC for trade execution. NAM uses certain NSC facilities, administrative systems and technology, and does not currently fully reimburse NSC for the cost of those services. NSC receives a portion of revenue generated through trade execution (transaction fees), margin interest, etc. for accounts held through these respective firms. NAM also participates in the institutional programs of some unaffiliated broker-dealers, such as Charles Schwab Institutional, Fidelity Institutional, TD Ameritrade Institutional and Pershing LLC, collectively the "Clearing Agents." While there is no direct link between the investment advice given and participation in the programs, economic benefits are received.

These benefits include receipt of duplicate confirmations and bundled duplicate statements to our affiliate, NSC; access to a trading desk serving advisor participants exclusively; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate share to client accounts; access to an electronic communication network via the Clearing Agents' web portal for client order entry and account information; receipt of compliance publications; and access to mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional clients. The benefits received through participation in the

programs do not necessarily depend upon the proportion of transactions directed to the respective broker-dealer. See Item 12, "Brokerage Practices".



**Item 15 - Custody**

For NAM advisory accounts, client assets are maintained with a qualified custodian as referenced earlier in the Brochure for each respective Program. The client will complete account paperwork with the applicable custodian. Clients will receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains client's investment assets, which will be sent to the email or postal mailing address provided upon account opening. NAM urges clients to carefully review such statements and compare such official custodial records to any account statements that NAM may provide to clients as a service. Clients should notify NAM of any discrepancies as soon as possible. In no event should a statement provided by NAM be relied on by clients as a replacement for the statement provided by the qualified custodian.

We previously discussed in the "Fees and Compensation" section (Item 5, "Fees and Compensation") of this Brochure that our firm directly debits advisory fees from client accounts. As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period. Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to review carefully their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact NAM directly if they believe that there may be an error in their statement.

NAM is deemed to have custody in the case of private funds because of its relationship with managers of the funds. Funds and securities that are acquired in transactions not involving public offerings may be un-certificated with ownership recorded on the books of the issuer or its transfer agent in the name of the fund. Other securities of privately held companies will be held by a qualified custodian. Cash of private funds is held with Signature Bank or another qualified bank depository. Investors in such funds will receive annual audited financial statements by a qualified accountant within 120 days of the end of the fiscal year of the Fund and upon liquidation.

**Item 16 – Investment Discretion**

Whether NAM, its IARs or third-party managers have investment discretion depends on the Program selected by the client. Discretionary authority will be explicitly authorized through the completion of the NAM Investment Advisory Agreement and the Clearing Agent's trading authorization or limited power of attorney forms, if applicable. Client agreements permit clients to provide reasonable instructions in connection with exercise of this authority, which may include prohibitions with respect to allocation or purchase of particular securities or types of securities. In most NAM programs, the NAM Investment Advisory Agreement and the Clearing Agent's Account Application provide authorization to NAM's Clearing Agent partners to provide brokerage services related to the advisory services offered. NAM will receive discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, NAM observes the investment policies, limitations and restrictions of the clients it advises. Investment guidelines and restrictions must be provided to NAM in writing. NAM has discretion over private fund assets (which includes the authority to select a custodian and, if applicable, broker-dealers for the funds).

**Item 17 – Voting Client Securities; Investor Class Action Law Suits**

Except in the case of private funds, discussed below, all client securities are held at the respective custodians. These custodians are responsible for ensuring all proxy material is forwarded to the client. NAM does not serve as custodian for any client securities, and as such does not receive proxies for securities held in client accounts. NAM does not vote, nor give advice on how to vote, proxies for securities held on behalf of clients (except for private funds). Likewise, NAM does not take any action with respect to investor class action law suits. Under the investment advisory agreement between NAM and the client, the client retains exclusive voting authority over the securities in the client's portfolio and the firm does not have any role in proxy voting. Clients are responsible for voting all proxies. If client assets are invested in mutual funds, the managers of those mutual funds may vote the proxies for the securities in the funds. Clients are entitled to receive information from fund managers concerning their proxy voting policies and procedures. Those managers are required to provide information to clients about the manner in which the managers of the Funds have voted proxies in the past. Clients should review the information that is provided concerning the proxy voting policies of the managers of the funds in which assets are invested.

NAM will vote all securities held by private funds. NAM has adopted written policies regarding the voting of securities held in our private funds and will vote securities in accordance with those policies. A copy of NAM's Proxy Policy is available to the private funds upon request from NAM's Chief Compliance Officer.

### **Item 18 – Financial Information**

Under no circumstances does NAM require or solicit payment of fees in excess of \$1200 per client more than six months in advance of services rendered. Therefore, NAM is not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. NAM has no additional financial circumstances to report.

NAM has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

NAM is a wholly owned subsidiary of National Holdings Corporation, a publicly traded entity. Further information about National Holdings Corporation is available on the SEC's website at [sec.gov](http://sec.gov).