



**Firm Brochure**  
(Part 2A of Form ADV)

**STEARNS FINANCIAL GROUP**

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This brochure provides information about the qualifications and business practices of Stearns Financial Group. If you have any questions about the contents of this brochure, please contact us at the telephone number or e-mail address noted above. 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.

In cases where this brochure uses the term “registered” or “registered investment advisor,” registration does not imply a certain level of skill or training.

Additional information about Stearns Financial Group is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 2    Material Changes**

### **Annual Update**

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The Material Changes section of this brochure will be updated annually and when material changes occur since the previous release of the Stearns Financial Group (“SFG”) Brochure.

### **Material Changes Since the Last Update**

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This Section includes information on any material changes to SFG’s brochure since the last annual update of SFG’s brochure dated March 31, 2017.

Phillip E. Williams, Jr. has transitioned from his roles as a Portfolio Manager, Research Analyst, and Investment Committee Member and a full-time employee at SFG and currently serves as a Consulting Advisor and Investment Committee Associate Member at SFG.

### **Full Brochure Available**

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Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 800-881-7374 or by email at: [stearnsfinancial@stearnsfinancial.com](mailto:stearnsfinancial@stearnsfinancial.com).

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## Item 4 Advisory Business

### **Our History**

Stearns Financial Group, (“SFG”) is a registered investment advisor offering personalized financial planning, investment management, wealth management, and investment consultancy services. We were organized in 1991.

### **Our Principles**

We believe:

1. Clients should be our first priority.
2. Portfolios should be custom-designed to each client in order to meet their unique goals.
3. We are a research-intensive firm. SFG has developed extensive networks and research tools to help us form better “what if?” scenarios in a rapidly changing world.
4. Assets should be pro-actively and rigorously managed by disciplined, un-biased, and objective investment professionals.
5. Our focus should be on solving client problems, not selling.

### **Our People**

Our firm works as a team with your goals as its main objective. Our executives are experienced professionals active in local and national organizations.

Biographies for our advisors and senior personnel will be provided separately as part of the Brochure Supplement (Part 2B of Form ADV).

### **Our Services**

SFG provides personalized financial planning and investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and businesses. SFG’s advisory services are tailored to the individual needs of our clients. This is accomplished by gathering information about each client’s current financial situation, goals and objectives and any constraints or special considerations. The client will generally receive a financial plan and/or investment policy statement depending on the service provided.

Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

SFG is strictly a fee-only financial planning and investment management firm. SFG takes a

fiduciary role with its clients and commits to place their interests first in all business relationships with its clients. The firm does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. The firm is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. No finder’s fees are accepted.

Our services can be primarily divided into six categories:

1. Wealth Management
2. Investment Management
3. Financial Planning
4. Business Planning
5. Qualified Retirement Plan Management
6. Investment Supervision (Consulting)

#### Wealth Management

This is a comprehensive service that offers a complete wealth management solution to our clients. It combines our services in investment management, risk management, financial planning, and estate planning.

#### Investment Management

We work with you to develop a customized investment strategy that reflects your overall investment goals and is consistent with your individual risk tolerance. You provide us with limited discretionary authority so we can regularly manage and adjust your portfolio with the goal of capitalizing on existing market conditions.

#### Financial Planning

SFG advises clients regarding cash flow, college planning, retirement planning, tax planning and estate planning, insurance/risk planning, and charitable planning. Often this results in projections of possible financial outcomes under a number of possible client and economic scenarios. Such projections may be updated periodically to reflect changes in the client’s circumstances.

You may engage other professionals (e.g., lawyers, accountants, insurance agents, etc.) as needed to implement aspects of the financial plan. Conflicts of interest will be disclosed to the client in the unlikely event they should occur.

The initial meeting, which may be by telephone, is free of charge and is considered an exploratory interview to determine the extent to which financial

planning and investment management may be beneficial to you.

*Financial Focus for Women* is a segment of SFG created specifically to better assist women in making confident financial decisions. *Women in Transition* is a specific initiative designed to help guide women through challenging transitions, such as a change in jobs, divorce, the death of a spouse, and an inheritance that can often bring new responsibilities and questions. While *Financial Focus for Women* generally involves financial planning, this segment can potentially embody any of SFG's six service categories.

#### Business Planning

We provide specific advice to business owners regarding business planning, succession planning, business continuity, and asset protection. SFG has developed processes to help business owners evaluate future scenarios and track progress towards business goals. We have an extensive network of business professionals that we can utilize to help our clients attain their business and personal goals.

#### Qualified Retirement Plan Management

We develop customized investment strategies and provide on-going investment management for a limited number of corporate 401(k) plans. SFG also provides one-time consulting services for qualified plans to help plan trustees evaluate strategic and tactical strategies and provide general investment advice.

#### Investment Supervision (Consulting)

SFG will provide one-time or on-going consulting services. We evaluate your existing investments in terms of their economic and tax characteristics, as well as their suitability in meeting your investment objectives. Under our consulting services, you decide whether or not you will implement our recommendations.

#### Our Ownership Structure

Dennis G. Stearns is the principal stockholder of the Firm. Four other officers of the Firm own equity interests in the Firm.

#### Our Assets Under Management

As of 12/31/2016, SFG managed approximately \$936,100,000 of client assets on a discretionary basis and \$13,200,000 on a non-discretionary basis, which includes SFG employee-related and proprietary accounts.

Discretionary authority gives us the ability to determine quantity and type of securities to be

bought or sold. You give us such authority in our Investment Management Agreement. Limited Power of Attorney on custodian contracts also gives us discretionary authority.

SFG's reported assets under management do not include certain "non-managed" accounts. SFG has determined that, because it provides advice with respect to such accounts on only an intermittent or periodic basis, SFG does not provide continuous and regular supervisory or management services to such accounts and as a result, such accounts should not be included in the amount of SFG's assets under management.

In your customized Investment Policy Statement (IPS), you may impose restrictions on investing in certain securities or types of securities.

## **Item 5 Fees and Compensation**

### **How We Are Paid**

SFG bases its fees on a percentage of assets under management, hourly charges, or fixed fees depending on the service you select.

Investment management and wealth management fees are computed and assessed quarterly in advance. We apply the percentage agreed upon in your agreement to the valuation of assets under management as of the last trading day of the prior quarter. SFG receives daily security prices directly from the custodians and reconciles these prices daily with our internal portfolio accounting database. A limited amount of client assets are invested in private investments (e.g. real estate, mezzanine debt and equity capital, etc.), managed by third party managers. These assets are valued at cost or the most recent valuation estimate provided by the manager adjusted for return of capital.

With your written authorization, we will deduct fees directly from your account at the custodian. In certain circumstances, we may send you an invoice for payment by check.

Financial planning and business planning are priced as an hourly fee or a fixed fee according to the degree of complexity associated with the client's situation.

Initial financial planning fees are generally paid in two installments: half up front and the balance at delivery. Some clients choose more intensive wealth management services that also include quarterly fee retainers. Clients may engage us on an ongoing retainer for business planning services, billed either monthly or quarterly.



In limited circumstances, fees are negotiable and will be mutually decided before the agreement is executed.

### **Our Fee Schedules**

The fee schedule for each service is detailed below. Some clients' fee schedules may be based on prior contractual arrangements and/or historical fee schedules that differ from the schedules below.

#### Wealth Management

Accounts under \$1,000,000...Service not available

On the first \$3,000,000.....1.20% annually

On the next \$2,000,000.....0.85% annually

On the balance over \$5,000,000...0.50% annually

The *minimum* annual fee is \$12,000.00. All fees are billed quarterly in advance.

#### Investment Management

There is an initial **Design Fee** where additional work is required for investment allocation, design, special asset research or historical cost basis analysis. The Design Fee is a one-time fee and is based on a percentage of the initial assets to be managed under the Investment Management Agreement.

On the first \$1,000,000.....0.25%

On the next \$2,000,000.....0.15%

On the next \$2,000,000.....0.10%

On the balance over \$5,000,000....0.05%

The Design Fee may be reduced or waived for investment management clients also engaged in financial planning or when initial design and research work is more limited.

The fees for continuous and regular **investment management** are based on the following schedule:

On the first \$1,000,000.....1.00% annually

On the next \$2,000,000.....0.75% annually

On the next \$2,000,000.....0.50% annually

On the balance over \$5,000,000....0.35% annually

The minimum annual fee is \$7,000.00. These fees are billed quarterly in advance.

#### Financial Planning

##### **New Clients:**

- **Financial Independence Roadmap™ (Advanced Financial Plan)** based upon cash flow / retirement planning and including Scenario Analysis – \$1,500-\$10,000. Pricing is dependent on client situation/plan complexity and additional planning components selected (outside

investment account analysis; insurance planning; estate, gift, and wealth transfer planning; elder planning; charitable planning; education planning; tax planning; risk management).

- **Investment Review (Financial Planning-only clients)** – minimum of \$500 for an initial analysis of existing holdings and asset allocation.
- **Single Area Financial Review** – \$750-\$2,500 and up (analysis and advice on specific areas of concern for clients, such as college planning and retirement projections).
- **Divorce Planning** may involve a combination of flat fee and hourly fee billings based on complexity – \$100-\$400 per hour, based on advisor and specialist rates.

##### **Existing Clients:**

- Flat Fee and Hourly Fee Billing – \$100-\$400 per hour, based on advisor and specialist rates.
- Existing clients generally receive a 25-50% discount (depending on complexity).
- No additional charges for Wealth Management clients unless substantial planning changes are required.

#### Business Planning

Business Transition and Exit Planning – \$10,000-\$25,000 and up (varies depending on complexity) of the overall engagement as a retainer.

Business planning fees are generally billed at 50% of the overall engagement retainer. Balance will be due as work is performed. Where outside consultants are engaged, SFG will provide information in advance on the anticipated fees for their services.

#### Qualified Retirement Plan Management

The fees for continuous and regular investment management are:

On the first \$500,000.....0.75% annually

On the next \$500,000.....0.65% annually

On the next \$2,000,000.....0.50% annually

On the balance over \$3,000,000...0.35% annually

These fees are billed quarterly in advance.

#### Investment Supervision (Consulting)

SFG provides one-time and annual investment consulting services for fixed fees that range from \$2,500-\$10,000 and up. SFG may also provide ongoing investment consulting for a fee based on a

percentage of assets. SFG will occasionally provide hourly consulting for retirement plans and their trustees.

These fees are generally billed as work is performed.

### **Past Due Accounts and Termination of Agreement**

SFG reserves the right to stop work on any account that is more than sixty (60) days overdue. In addition, SFG reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in our judgment, to providing proper financial advice.

You may terminate your agreement with us at any time by providing written notice to us. SFG requires thirty (30) days written notice prior to the effective date of cancellation. Any unused portion of fees collected in advance will be refunded.

### **Other Fees You Should Understand**

Custodians may charge transaction fees on purchases or sales of stocks, bonds, certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security.

The custodian may also charge other brokerage and custodial fees. See the section entitled “Brokerage Practices” for a discussion of how we make brokerage decisions that affect client accounts.

Mutual Funds and Exchange-Traded Funds (ETFs) generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 basis points means that the mutual fund company charges an annual 0.5% of assets for their services. These fees are in addition to the fees you pay us. SFG utilizes lower cost, high minimum (generally \$1-5 million) institutional mutual funds when possible.

Performance figures quoted by mutual fund and ETF companies in various publications are after their fees have been deducted.

Clients may also pay an investment management fee to any third party managers recommended by SFG and approved by the Client. The fees shall be separate from, and in addition to, any fees charged by SFG.

Clients qualifying as accredited investors under SEC guidelines, may have the opportunity to participate as limited partners in certain Private Funds (i.e. private placements). Detailed

information regarding the fees charged to the Private Funds is provided in each Fund’s offering documents and other governing documents.

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

### **Our Policy**

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

SFG does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the advisor to recommend an investment that may carry a higher degree of risk to the client.

## **Item 7 Types of Clients**

### **Our Clients**

SFG generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

Client relationships vary in scope and length of service.

### **Minimum Account Size**

The minimum account size for new **investment management** and **wealth management** clients is \$1,000,000 of assets under management. We may reduce these thresholds for extended family members, financial planning and wealth management clients that are early in their savings accumulation and referrals from existing clients.

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

### **Our Investment Philosophy**

SFG takes a long-term investment approach, emphasizing asset allocation strategies and diversification as a means of reducing risk.

As investors, we believe thorough research and a disciplined investment process are critical to success. Research allows us to base decisions on knowledge rather than speculation or passing trends. We believe our discipline reduces the likelihood of us making emotional or irrational decisions that often lead to investing mistakes.



We view asset allocation as the key to investment success. Asset allocation is the process of selecting the asset classes that comprise an investment portfolio. Blending the right mix of these asset classes determines not only the investment return you are likely to achieve over a full market cycle (typically four to six years) but also the level of risk you are taking to achieve that return.

All asset classes fluctuate through periods of under/over valuation and this creates opportunities to add value through disciplined asset allocation strategies and prudent security and investment manager selection.

We also acknowledge that there is the risk that we may misinterpret these opportunities and that our asset allocation decisions may hurt performance or possibly lead to an investment loss.

### **Methods of Analysis**

SFG utilizes both fundamental and technical analysis to analyze securities. We believe that over time, an investment's fundamentals (earnings, cash flows, revenues, financial strength, etc.) will drive performance but that technical analysis (studying past market data to try to determine future price trends) can potentially enhance performance and reduce risk from an investment entry or timing standpoint. We subscribe to various third-party research providers to assist us with this analysis as well as to provide macro-economic analysis.

### **Our Objectivity**

Since SFG is an independent investment advisor with no affiliations to other investment firms, we are able to be objective when reviewing potential investments. Therefore we are not limited to a certain company's investment choices, but can instead search the entire investment universe for what we believe are the most attractive investment solutions. We also do not receive any compensation or benefit from selecting an investment and evaluate each investment based on its own merits.

Periodically, persons associated with SFG will attend due diligence conferences and other events sponsored by investment companies. The sponsor of the conference may pay the airfare, hotel, event fee and meals. The benefits we receive from our attendance do not impact the judgment of our Investment Committee and benefits of the research we obtain inure to all of our clients.

SFG employees may periodically invest alongside clients in connection with certain outside investments such as a limited partnership. In these situations, SFG does not serve as the manager or

general partner of such investments. Certain SFG employees may serve as members of advisory boards of privately held outside investments (see Item 10). SFG acknowledges that clients could view an SFG employee's participation as an endorsement of the investment.

### **Our Investment Strategies**

SFG has developed four basic objective and risk categories that are tailored to each client's individual needs. These four basic categories are:

- 1) **Conservative Growth and Income (CGI)**
  - Risk: Conservative
  - Objective: Growth and Income
  - Benchmark: 40% stocks/60% bonds
- 2) **Moderate Growth and Income (MGI)**
  - Risk: Moderate
  - Objective: Growth and Income
  - Benchmark: 60% stocks/40% bonds
- 3) **Moderate Growth (MG)**
  - Risk: Moderate
  - Objective: Growth
  - Benchmark: 75% stocks/25% bonds
- 4) **Aggressive Growth (AG)**
  - Risk: Aggressive
  - Objective: Growth
  - Benchmark: 90% stocks/10% bonds

Within each category, SFG may use approximately ten (10) to twenty (20) different asset/sub-asset classes. The allocation and selection of these asset and sub-asset classes is dependent on economic conditions at the time and tailored to each client.

We use these four benchmarks and ten to twenty asset/sub-asset classes to tailor a portfolio especially for you. We consider the following circumstances when designing an investment strategy:

- Family goals
- Investment objectives
- Risk comfort level
- Net Worth and income outlook
- Time horizon
- Liquidity needs
- Tax and legal considerations
- Personal preference and special needs

- Estate planning and generational issues.

These investment strategies are rigorously monitored and adjusted on a strategic (long-term) and tactical (short-term) basis based on our intensive research and scenario planning.

We either use or offer advice on the following types of investments:

- Certificates of Deposit
- Commercial Paper
- Debt securities (“Bonds”) – corporate debt securities, U.S. government securities, municipal securities and securities of foreign issuers
- Equity securities (“stocks”) – exchange-listed securities, over-the-counter securities and securities of foreign issuers
- Exchange-Traded Funds (“ETFs”)
- Exchange-Traded Notes (“ETNs”)
- Mutual Funds (use no-load or load-waived funds only)
- Options Contracts on securities and commodities
- Partnership interests in private funds
- Separately Account Managers have been used in limited circumstances
- Variable life insurance and annuities
- Warrants

### **Risk of Loss**

All investment programs have certain risks that are borne by the investor. Clients should be prepared to bear the risk of loss. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-Rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security’s particular underlying circumstances. For example, political, economic and social conditions as well as shifting investor sentiment may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar tomorrow will not buy as much

as a dollar today, because purchasing power is eroding at the rate of inflation. Investments in traditional stocks and bonds may lose value when inflation is on the rise.

- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment’s originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash without experiencing a loss. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business’ operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Political or Country Risk:** The price of a security, bond or mutual fund may drop as a result of political changes or instability in a specific country.
- **Short Selling Risk:** Short selling is a speculative strategy that carries significant risks. Generally it is not an appropriate strategy except for the most knowledgeable investors. Short selling involves selling a borrowed security with the hopes of buying the same security back later at a lower price, returning the security to the lender and profiting on the price differential. However if the security rises in price after the short sell, the short seller could be forced to buy back the security at

a significantly higher price and incur a potentially unlimited loss.

- **Option Risks:** Options are complex securities that are based on the value of an underlying investment and can be used for hedging risk, generating additional income and speculating. Option buyers generally only risk the premium or dollar amount paid to enter an option contract and are not obligated to exercise the contract. Option writers collect the premium income but could incur more significant losses since they are obligated to fulfill the contract if the option buyer exercises. Uncovered option writing is a speculative strategy that carries significant risks. This strategy is generally not appropriate for most investors. Since uncovered option writers do not own the underlying security, their loss potential is magnified based on the underlying security's price fluctuations.
- **Investment Manager Risk:** The risk associated with managers, such as those actively managing mutual funds, seeking to outperform a market index or benchmark return. The manager's investment decisions may not pan out and could cause the manager to underperform the index or benchmark target for a given time period.
- **Private Placement Risk:** Securities issued privately have additional risks compared with publicly traded securities. Private markets are typically less liquid (higher liquidity risk) and provide less information than public markets.
- **Call Risk:** Fixed income securities may have a call provision that allows the issuer to repay the debt prior to maturity. This provision is often exercised when interest rates decline. Thus investors in callable securities may not experience the full price increase that other fixed income securities typically experience when interest rates decline. In addition, the proceeds received from the payoff of these securities may have to be reinvested at lower current interest rates (Reinvestment Risk).

## Item 9 Disciplinary Information

### Legal and Disciplinary

SFG has no information applicable to this Item. Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of SFG or the integrity of SFG's management.

## Item 10 Other Financial Industry Activities and Affiliations

### Our Financial Industry Activities

SFG is not registered as a securities broker-dealer, or a futures commission merchant, commodity pool operator or commodity trading advisor.

Certain SFG employees may serve as members of advisory boards of privately held outside entities. SFG employees are not compensated for their service in these roles and are not responsible for investment decisions made by these privately held entities. From time to time, there are opportunities for an investment by SFG clients in these entities. If SFG believes that any such investment meets a particular client's objectives and such client is eligible to participate, SFG may recommend such investment to such client. Certain SFG employees may occasionally have ownership interests in these entities. SFG does not believe that this causes a conflict of interest between SFG and its clients, as the interests of our employees are aligned with our clients in this respect.

### Our Affiliations

SFG has no affiliations that are material to our advisory activities to our clients.

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

### Our Code of Ethics

SFG acknowledges its status as a fiduciary to clients of the firm. This fiduciary duty is based upon the fundamental precept that the interests of a client must at all times be placed above those of the person or persons providing investment advice. This fiduciary duty also includes the duty to disclose material facts that might influence an investor's decision to (1) accept any recommendations made by SFG (e.g. to purchase or refrain from purchasing a security recommended by SFG) or (2) to engage SFG to provide any advisory services (e.g. to manage the client's investments). SFG recognizes that its duty to disclose material facts is particularly important whenever the advice given involves a conflict or potential conflict of interest between employees of SFG and/or its clients.

The employees of SFG have committed to a *Code of Ethics* that embodies this fiduciary duty and is based on the principle that the interests of clients must always be paramount. The *Code of Ethics* is available

for review by clients and prospective clients upon request.

### **Participation or Interest in Client Transactions**

SFG and its employees may buy or sell securities that are also held by clients. We impose restrictions on ourselves and any person associated with us in connection with the purchase or sale, directly or indirectly, for their own accounts or accounts controlled by them, of securities recommended to or purchased for clients. The *Code of Ethics* requires pre-clearance of individual equity transactions so that employees may not trade their own securities ahead of client trades. Employees are required to comply with the provisions of our *Code of Ethics* and *Compliance Manual*.

At times, SFG owners, officers, or directors may serve as directors of companies in which you invest. In most instances, the officer or director will be compensated by the companies for his/her service on their boards and does not plan to remit such compensation. In the event that the officer or director (i) obtains material non-public information with respect to any company on whose board of directors he/she serves or (ii) is subject to trading restrictions pursuant to the internal trading policy of such a company, SFG may be prohibited for a period of time from engaging in transactions in the securities of such company. You will be informed of this potential conflict when it exists.

### **Personal Trading**

The Chief Compliance Officer of SFG is Dennis G. Stearns. He, or his designee, reviews all employee trades each quarter. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that clients of the firm receive preferential treatment. Since most employee trades are small mutual fund trades or exchange-traded fund trades, the trades are not likely to affect the securities markets.

### **Insider Trading**

As part of its *Code of Ethics*, SFG has adopted policies and procedures to detect and prevent the misuse of “insider” information (material, non-public information).

## **Item 12 Brokerage Practices**

### **Selecting Brokerage Firms**

Unless we receive specific instructions from a client regarding the placement of brokerage business, SFG will select the brokers and dealers to effect client transactions. SFG evaluates brokerage firms

in terms of their best execution capabilities. Best execution considers more than just whether the broker will provide the best execution of the desired transaction. In addition to the best execution price, best execution considers the overall reasonableness of brokerage commissions paid and other factors such as the level of service provided to us and our clients, the receipt of research products and services, investment product availability, technology solutions and access to analysis of economic and market data. If you have directed us to use a specific broker or dealer, we cannot guarantee best execution.

SFG recommends Charles Schwab & Co, Inc. (“Schwab”) or TD Ameritrade (“Ameritrade”) as qualified custodians for your discretionary investment management account and for trading in that account. We do not receive fees or commissions from these arrangements.

### **Agency Cross Transactions**

SFG is not a broker-dealer and does not engage in agency cross transactions.

Agency cross transactions involve opposite orders for the same security for two different clients where an advisor matches the trade between the buyer and the seller. Such transactions could present a conflict of interest in terms of seeking best price and execution for both sides of a transaction.

### **Best Execution**

SFG’s Investment Committee evaluates custodians in terms of best execution annually. The policy is documented in the SFG *Compliance Manual* and the annual evaluation is reviewed as part of SFG’s annual compliance review meeting. Trading fees charged by the custodians are also reviewed on an annual basis. SFG does not receive any portion of the trading fees.

### **Principal Trading**

SFG is not a broker-dealer and does not engage in principal trading.

Principal transactions are transactions where a broker-dealer, acting as principal for its own account, buys from or sells securities to advisory clients. Such transactions could present a conflict of interest in terms of seeking best price and execution for advisory clients.

### **Soft Dollars**

SFG does not participate in any soft dollar agreements. However, SFG does receive research products and other services from our recommended brokerage firms. These products and services are generally made available to independent investment



advisors, such as SFG, on an unsolicited basis. These products and services include:

- Service and support staffs
- Proprietary and Third-Party research products and market analysis
- Client account information (statements, confirmations, tax reports, etc.)
- Web-based electronic trading
- Advisory fee debiting
- Technology solutions, such as tools for account management and administration
- Practice management and compliance webcasts

Charles Schwab has also periodically provided SFG with a discounted registration rate to industry conferences.

SFG's recommended brokerage firms, Charles Schwab and TD Ameritrade, have comparable commission structures that are very competitive industry-wide. Nonetheless, SFG's receipt of the previously referenced products and services creates a potential conflict of interest based on SFG's recommendation of Charles Schwab and TD Ameritrade. SFG's objectivity in evaluating brokerage firms could potentially be compromised.

Another consideration is that the benefits of these research products and services could potentially also accrue to clients using non-recommended brokerage firms.

### **Order Aggregation**

Where possible for larger transactions in the same security, SFG strives to batch all transactions for all clients into a single transaction or "block order" with the objective of obtaining one average price for all participating clients. Then, we follow our trade allocation policy among clients that are transacting in the same security. If an order is partially filled, the shares will be allocated to clients included in the batched order on a prorated basis based on the size of each participating client's order.

For large block orders of a given security involving clients of multiple brokerage firms, SFG will place separate block orders per brokerage firm. Due to any timing difference in order entry and execution, clients of one brokerage firm may receive a different average price versus clients with another brokerage firm. Each month, SFG rotates the order of the respective brokerage firm trades to try to ensure that clients of a particular brokerage firm are not favored over other clients.

At times, employee trades may be included in a batch order with clients. In these cases, employees will never receive preferential treatment over clients. In the event of a partially-filled order, they will be included in the prorated allocation.

## **Item 13 Review of Accounts**

### **Periodic Reviews**

We review our investment management and wealth management accounts at least quarterly. The reviews are conducted by Dennis G. Stearns – President and Chief Compliance Officer, J. Glenn Joyce, Jr. – Vice President, Research and Operations and Assistant Compliance Officer, John M. Thomas – Vice President, or Andrew R. Clark – Financial Advisor. Account reviewers are generally members of the firm's Investment Committee. Other investment support personnel may assist with developing recommended trades. They are instructed to consider the client's current security positions and the likelihood that the performance of each security will contribute to the investment objectives of the client.

### **Review Triggers**

Portfolio adjustments may be made when the Investment Committee revises its view of a security or asset class relative to other opportunities. Other reviews may be triggered by market activity, general economic conditions, political trends, and individual client objectives and risk tolerance.

### **Regular Reports**

SFG will provide written performance reports at least annually to all clients. Clients have access to electronic reports through SFG's secure website and/or their custodian. The custodian will send clients an account statement at least quarterly.

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

### **Incoming Referrals**

SFG has no arrangements, oral or in writing, where it directly or indirectly compensates any person for client referrals. The firm also receives referrals as a corporate member of the National Association of Professional Financial Advisors (NAPFA), the national membership association of fee-only advisors. The firm also receives referrals from the Financial Planning Association (FPA). The firm does not compensate referring parties for these referrals.

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## Referrals Out

SFG does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

## Item 15 Custody

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### Our Policy

Based on SEC regulations, SFG is deemed to have custody of the funds and securities of most of our clients. SFG has certain client accounts that are subject to an annual examination by an independent public accountant based on certain services that SFG provides. We are required to maintain all such funds and securities with a bank, broker-dealer or other qualified custodian. Such third-party custodian (unaffiliated with SFG) will provide account statements directly to clients at their address of record at least quarterly.

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### Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly. SFG periodically samples clients, generally during client meetings, to confirm that they are receiving custodian statements.

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### Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements prepared by SFG.

## Item 16 Investment Discretion

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### Discretionary Authority for Trading

SFG accepts discretionary authority to manage securities accounts on behalf of clients. In the advisory agreement, you give us the authority to determine, without obtaining your specific consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

At the beginning of our relationship, you pre-approve the custodian to be used to fulfill the trades we direct on your behalf. SFG does not receive any portion of the transaction fees or commissions you pay to the custodian on trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may maintain the investment policy that you have approved in writing.

Where we serve as a consultant, we must obtain your approval to make portfolio changes.

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## Limited Power of Attorney

A limited power of attorney is a trading authorization for this purpose. You sign a limited power of attorney so that we may execute trades without your specific approval.

## Item 17 Voting Client Securities

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### Our Policy

SFG does not vote proxies on securities. Clients are expected to vote their own proxies. Clients receive their proxies directly from the custodian.

Clients may contact SFG via phone or email when assistance on voting proxies is requested and we will provide recommendations to you. In the unlikely event that a conflict of interest exists, it will be disclosed to you.

SFG has engaged Chicago Clearing Corporation (CCC) as a resource to clients eligible to participate in securities class action settlements. For clients opting to utilize this service, CCC will prepare, file, accept and process securities claims on clients' behalf. Clients authorize CCC to deduct its fee of 15% of the clients' pro rata share of any resulting claims distributions. CCC will collect these distributions directly from the claims administrator and then distribute the net proceeds (claims distributions minus CCC's fee) to clients based on clients' designated delivery instructions.

## Item 18 Financial Information

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### Our Financial Condition

Registered investment advisors are required in this item to provide certain financial information or disclosures about SFG's financial condition. SFG has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.

## Item 19 Disaster Recovery and Business Continuity Plan

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### General

SFG has a Disaster Recovery and Business Continuity Plan in place that provides detailed steps to mitigate and recover from the loss of office space, communications, services or key people.

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### Disasters

The Disaster Recovery and Business Continuity Plan covers natural disasters such as snow storms, hurricanes, tornados, and flooding. The Plan also considers man-made disasters such as loss of electrical power or electronic communications, fire,



bomb threat, nuclear emergency, chemical event, biological event, railway accident and aircraft accident. Electronic files are backed up at least daily and archived offsite by SFG's technology support providers.

### **Alternate Offices**

SFG's main office is located in Greensboro, NC with a second office in Chapel Hill, NC. In addition to the Chapel Hill office, alternate offices will be identified to support ongoing operations in the event the main office is unavailable. It is our intention to contact all clients within five days of a disaster that dictates moving our office to an alternate location.

## **Item 20 Privacy Policy and Information Security Program**

### **Information Security**

As part of our privacy policy, SFG maintains an information security program to reduce the risk that your personal and confidential information may be breached.

We are committed to implementing appropriate best practices to maintain the confidentiality, integrity and security of the personal information that is entrusted to us.

### **Privacy Notice**

We are required by law to deliver the following **Privacy Notice** to you annually, in writing:

#### **SFG Privacy Notice:**

Stearns Financial Group respects the privacy of our clients and former clients. In the course of providing investment management and financial planning services, we collect nonpublic personal information. This information is used only to allow us to provide you with the highest level of personal service. The nonpublic personal information that we gather during the normal course of doing business with you may include:

- Information we receive from you on applications or other forms;
- Information about your transactions with us or others;
- Information received from a financial institution;
- Information we receive from a consumer reporting agency.

The categories of information we collect may include:

- Your name, home and business addresses, home and business telephone numbers, family information and demographic information;
- Financial information, including banking, investment, insurance, estate planning, and retirement planning;
- Tax information, including your sources of income, credit/deduction information, and accounting.

**We do not sell your personal information to anyone.**

**We do not disclose personal information to third parties**, other than as permitted by law or as follows:

- As necessary to provide the service that you have requested or authorized, or in cases where you have requested that we share this information with one of your other professional advisors (e.g., attorney, accountant) or others.
- To selected service providers in connection with the administration and servicing of your account(s).
- When we believe in good faith that the disclosure is required by regulatory authorities or law enforcement officials, or as otherwise required by any applicable law.
- To the extent reasonably necessary to prevent fraud and unauthorized transactions.

**We protect the confidentiality and security of your personal information.**

- We restrict access to personal information to our employees for business purposes only. All employees are trained and required to safeguard such information.
- We maintain physical, electronic and procedural safeguards to guard your personal information.

**We regularly review our information accuracy and protection practices.**

**We will provide notice of any changes in our information sharing practices.**

**Please contact us if you need to make a change in your personal information.**

We will notify you in advance if our privacy policy is expected to change.