

## Item 1. Cover Page

### **Part 2A: Appendix 1 of Form ADV: Wrap Fee Program Brochure**

# **FIDUCIARY FINANCIAL SERVICES OF THE SOUTHWEST INC. D/B/A: Fiduciary Financial Services Wealth Management**

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SEC File Number: 801-37185

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This brochure provides information about the qualifications and business practices of Fiduciary Financial Services Wealth Management ("FFSS"). If Clients have any questions about the contents of this brochure, please contact FFSS at (972) 934-9070 or [info@ffss.net](mailto:info@ffss.net). 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.

Additional information about Fiduciary Financial Services Wealth Management also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Clients can search this site by a unique identifying number, known as a CRD number. The CRD number for FFSS is - 106607.

FFSS is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training.

## Item 2. Summary of Material Changes

On July 28, 2010, the United States Securities and Exchange Commission (“SEC”) published “Amendments to Form ADV” which amends the disclosure document that FFSS provide to clients as required by SEC rules. The amendment requires Fiduciary Financial Services Wealth Management (“FFSS” or the “Firm”) to provide a summary of material changes to Client within 120 days of our fiscal year end, which is September 30<sup>th</sup>, or upon the occurrence of a material change.

In the past, FFSS has offered or delivered information about our qualifications and business practices to Clients on at least an annual basis via the Form ADV Part 2A. Pursuant to current SEC Rules, FFSS will provide Clients either: (i) a copy of our Wrap Fee Program Brochure that includes or is accompanied by a summary of material changes; or (ii) a summary of material changes that includes an offer to provide a copy of the current Wrap Fee Program Brochure. FFSS urges Clients to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to FFSS’s advisory services, fee structure, business practices and conflicts of interest.

Clients may obtain a copy of our most current Disclosure Brochure at any time by contacting FFSS at (972) 934-9070. Additionally, the FFSS current Wrap Fee Program Brochure is available to our existing and prospective Clients through the Investment Adviser Public Disclosure website. [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

### **Material changes since our last annual update:**

Please note that this Appendix 1 is being published for the first time. FFSS has determined that, because of its fee structure, as it relates to FFSS Clients that have their accounts through Wunderlich Securities, Inc. (“WSI”), FFSS is a sponsor of a “wrap fee program,” thus, FFSS must provide this Appendix 1 to all Clients within the wrap fee program, both upon opening of the account and annually thereafter.

On July 3, 2017, B. Riley Financial, Inc. (“B. Riley”), a publicly-traded diversified financial services company, completed the acquisition of Wunderlich Investment Company, the parent holding company of Wunderlich Securities, Inc. (“WSI”) and Fiduciary Financial Services of the Southwest, Inc. (“FFSS”). Consequently, B. Riley is now an owner of FFSS.

## Item 3. Table of Contents

### Table of Contents

Item 1. Cover Page .....	2
Item 2. Summary of Material Changes .....	3
Item 3. Table of Contents.....	4
Item 4. Services, Fees and Compensation.....	5
4.A. Services .....	5
4.A.1. Fees.....	7
4B. Cost to Clients .....	8
4C. Additional Fees.....	8
4D. Compensation.....	9
Item 5. Account Requirements and Types of Clients .....	9
Item 6. Portfolio Manager Selection and Evaluation .....	9
6A. Selection of Portfolio Managers .....	9
6.A.1. Portfolio Manager Performance .....	10
6.A.2. Account Performance .....	10
6.A.3. Review of Performance Information .....	11
6.B. Related Persons Disclosure .....	11
6.C. Additional Information.....	11
Advisory Business.....	11
Retirement Planning .....	11
Financial Planning .....	12
Estate Planning.....	12
Tax Return Preparation .....	12
Participant Loan Administration .....	12
Performance-Based Fees and Side-By-Side Management.....	13
Methods of Analysis, Investment Strategies and Risk of Loss .....	13
Fundamental Analysis .....	13
Income Investing .....	13
Risk of Loss .....	14
Voting Client Securities .....	15
Item 7. Client Information Provided to Portfolio Managers .....	15
Item. 8. Client Contact with Portfolio Managers .....	15

Item 9. Additional Information .....	16
9.A.1 Disciplinary Reporting .....	16
9.A.2. Other Financial Industry Activities and Affiliations.....	16
9.B.1. Code of Ethics, Participation in Client Transactions and Personal Trading .....	17
Participation or Interest in Client Transactions/Personal Trading.....	17
9.B.2. Review of Accounts.....	18
9.B.3. Client Referrals and Other Compensation .....	19
9.B.3. Financial Information .....	19
10. Requirements for State-Registered Advisers .....	19

## Item 4. Services, Fees and Compensation

### 4.A. Services

FFSS is the sponsor of a wrap-fee program (the “Wrap-Fee Program”), which is a program that provides Clients with advisory, custody and brokerage execution services for one all-inclusive fee (the “Fee”). This means that the cost of FFSS’s investment advisory services, the cost of executing brokerage transactions and custodial fees are “wrapped” into a single annual fee based on the value of the Client’s portfolio.

FFSS Clients with accounts that trade through WSI pay fees through a “wrap account” program sponsored by FFSS, which is a program that provides Clients with advisory, custody and brokerage execution services for one all-inclusive fee (the “Fee”). This means that the cost of FFSS’s investment advisory services, the cost of executing brokerage transactions and custodial fees are “wrapped” into a single annual fee (charged quarterly in advance) based on the value of the Client’s portfolio. Investments offered through the Wrap-Fee Program include such securities as equities, mutual funds, Electronically Traded Funds (“ETFs”), and fixed income securities.

Other types of investments may also be recommended where FFSS deems such investments appropriate based on Clients’ stated investment objectives. Accounts are managed on an individualized basis. Further, restrictions and guidelines imposed by Clients, which must be in writing, may affect the composition and performance of a Client’s investment portfolio. Performance of each individual Client portfolio may not be identical with other Clients of FFSS.

While WSI does charge brokerage fees for the accounts, WSI charges the brokerage fees back to FFSS for payment. This may be a potential conflict of interest between FFSS and its Clients, in that FFSS may wish to avoid payment of brokerage fees, and thus trade less in Client accounts than in other Client accounts. However, because of FFSS’s commitment to its fiduciary obligation, FFSS trades Client accounts held at WSI in the exact same manner as Client accounts held at firms other than WSI.

For the Wrap-Fee Program, FFSS’s affiliated broker-dealer WSI provides brokerage services and acts as broker/agent in executing securities transactions at the direction of FFSS, the Adviser.

WSI, the affiliated broker/dealer, works with its clearing firm First Clearing<sup>1</sup> (the “Custodian”) to take possession and maintenance of the cash, securities, and other assets in Client accounts. First Clearing is a “qualified custodian,” as that term is defined in Rule 206(4)-2(d)(6) of the Investment Advisers Act of 1940.

Services offered by WSI will include all functions customarily performed with respect to such accounts including, but not limited to: back office support, execution of securities transactions, crediting of interest and dividends, and periodic reporting, which reports WSI will send directly to the Client.

In FFSS’s Wrap-Fee Program, a Client enters into an Investment Management Agreement with FFSS (the “Agreement”) whereby investment adviser representatives (“IARs”) of FFSS will continuously

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<sup>1</sup> First Clearing is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.

manage client portfolios based on the individual needs of the Client. FFSS provides discretionary and non-discretionary portfolio management services where the investment advice provided is customized to meet the needs and investment objective of the Client.

FFSS's Wrap-Fee Program includes the following services:

- a separately managed account based on Clients' specific goals and investment objectives;
- identification and analysis of the Clients' investment objectives;
- continuous management of the Client accounts;
- on-going communication with Clients about Client accounts through calls, meetings, account statements and performance updates;
- brokerage services and commissions through FFSS's affiliated registered broker-dealer, WSI; and
- custody services for Client accounts through First Clearing.

FFSS has established an Investment Strategy Committee to perform due diligence and monitoring of existing and potentially new products. FFSS may refine its product offerings and introduce new products, as part of its continuous efforts to meet the investment needs of its Clients, respond to changing market conditions, and to take advantage of recent technological or other innovations. This Investment Strategy Committee maintains a selected product list and sets the income strategy based on economic expectations and the movement in interest rates. However, implementation of the strategy is determined by each portfolio manager around each Client's individual situation and circumstances.

The Firm's investment advice varies depending upon each Client's individual life situations, objectives and preferences. Client accounts managed under the Wrap Fee Program are managed in the same way as accounts not under the program.

Each Client recognizes that there may be a gain, as well as a loss or depreciation of the value, of any investment due to the fluctuation of market values.

Unless Clients indicate to the contrary, FFSS shall assume that there are no restrictions on our services, other than to manage Client accounts in accordance with Client designated investment objectives. It is each Client's responsibility to promptly notify FFSS if there are ever any changes in a Client's financial situation or investment objectives, for the purpose of reviewing, evaluating, and/or revising our previous recommendations.

FFSS makes no guarantee, either oral or written, that a Client's investment objectives will be achieved. FFSS shall not be responsible for any loss incurred by reason of any act or omission of a Client, custodian, any broker-dealer, or any other third party.

In limited circumstances and at our discretion, some investors may instruct FFSS to use one or more particular brokers for the transactions in their accounts. Those investors who may want to direct us to use a particular broker should understand that this may prevent FFSS from obtaining the most favorable net price and execution. Moreover, investors that "direct" brokerage may incur additional costs. Thus, when directing brokerage business, Clients should consider whether the commission expenses, execution, clearance, and settlement capabilities that they will obtain through their broker are adequately favorable in comparison to those that FFSS otherwise obtains for Clients.

If FFSS believes that the purchase or sale of a security is in the Client's best interest, along with the best interest of other Clients, the Firm will aggregate the securities to be sold/purchased to obtain favorable execution. In the event that these block transactions are executed at different prices on the same day, Clients will receive an average price per share.

#### 4.A.1. Fees

In consideration for the investment management services provided under the Wrap-Fee Program, the Client pays to FFSS the Fee, which is based upon the market value of Client's account on the last business day of the prior quarter. The Client's account will be debited, or the Client will be billed directly, on a quarterly basis, as set forth in the Agreement.

The Fee paid by a Client shall be set forth in the Client's Agreement. Fees are charged quarterly in advance. Fees are subject to negotiation between the Client and FFSS. For a majority of its accounts, FFSS charges from 0% to 1% annually for FFSS's investment management service, with fees charged quarterly. There are a small number of accounts that are charged a flat dollar amount, in advance, per quarter, however, FFSS anticipates that these will be the only accounts with this arrangement. Some factors FFSS considers when negotiating the fee amount are: the length of the relationship, the size of the account, the extent of personal servicing, and whether an account is directly or indirectly affiliated with a client. As a result, one Client may pay a different fee from another client for the same services.

For new Clients, the initial fee will be charged on a prorated basis for the number of days assets were held through FFSS accounts in the prior quarter, plus a fee for the upcoming quarter.

Current Clients may terminate their relationship with FFSS by notifying FFSS in writing. FFSS considers the relationship to be terminated on the 30th day after the date of receipt of Client's written notice. In the event of termination, FFSS will prorate fees, and either refund to the Client any unearned fees, or, charge Clients for earned fees not yet collected.

Fees are charged quarterly in advance. The management fee is calculated quarterly by the average monthly market value, within the previous quarter, of *all assets*, inclusive of assets purchased on margin within each of the months during the previous quarter. Unless negotiated otherwise, FFSS includes, in the fee calculation, assets resulting from trades that FFSS executes which Clients direct, as well as from any outstanding participant loan balances.

FFSS's preferred method of collection is to deduct fees. However, Clients may select to pay the Fee by a check instead. Each quarter, FFSS will notify Clients and their Custodian of the amount of the Fee due and payable to FFSS. The Custodian will deduct the Fee from Client account. If Clients have more than one account, the Custodian will deduct the Fee from the account that the Client has designated. The Custodian does not validate nor check the Fee calculation, this is done by FFSS. If a Client elects to pay the Fee by a check, FFSS will send the Client an invoice for services and the Client is expected to pay within 30 days of the due date. If payment is not made by the 15<sup>th</sup> day of the second month of the quarter, then FFSS will instruct the custodian to deduct the fee from the Client's account, and to pay FFSS directly. In the event, that a Client check arrives after the fees are deducted, then FFSS will refund the check amount to the Client.

Wrap fee programs may not be suitable for all investment needs, and any decision to participate in a wrap fee program should be based on your financial situation, investment objectives, tolerance for risk, and investment time horizon, among other considerations. The benefits under a wrap fee program depend, in part, upon the size of the account and the number of transactions likely to be generated.

For example, a wrap fee program may not be suitable for accounts with little trading activity. To determine whether a wrap fee program is suitable, Clients should evaluate the Fee and any other costs of the Program with the amounts that would be charged by other advisers, broker-dealers, and custodians, for services comparable to those provided under the Program considering their personal circumstances.

Clients should bear in mind that asset-based fee arrangements, when compared with the traditional commission option, generally result in lower costs during periods when trading activity is heavier, such as the year an account is established. During periods when trading activity is lower, such arrangements may result in higher annual costs. Some Clients favor the asset-based fee because it fixes their brokerage cost at a predetermined level; whereas other Clients may not find such an arrangement suits their needs because they anticipate their accounts will have low turnover.

Depending on the amount of the wrap fee, the frequency (low or high) of transactions, and the nature and value of the services that are provided under the Program, the wrap fee may or may not exceed the aggregate cost of obtaining these services separately. The fees for a wrap fee program may result in higher costs than Clients might otherwise incur by paying a management fee and negotiating separate arrangements for brokerage and trade execution, custodial services, and performance reporting.

#### 4B. Cost to Clients

The Fee may be greater than, or less than, would have been the case if Clients paid separately for investment advice and brokerage and other services, or, participated in another program.

#### 4C. Additional Fees

The management fee payable to FFSS does not include all the fees a Client will pay when FFSS purchases or sells securities for the account. The following list of fees or expenses are what Clients pay directly to third parties, whether a security is being purchased, sold, or held in an account under our management. FFSS does not receive any of these fees charged to Clients. They are paid to the broker, Custodian, or the mutual fund or other investment held. Depending on what a Client has selected, the Client can incur the following expenses:

- SEC fee;
- Wire fee;
- Margin fee;
- Custody fee;
- Exchange fee;
- Check order fee;
- Returned check fee;

- Stop payment fee;
- Insufficient funds fee;
- Deposit item returned fee;
- Account fee;
- Account inactivity fee;
- Account transfer fee;
- Account termination fee;
- Foreign security fees;
- Safekeeping fee;
- Lost certificate fee;
- Markups, markdowns and spreads;
- Management fees for mutual funds and exchange traded funds (ETFs);
- Mutual fund sales charges or service fees; or
- Brokerage costs and transaction costs.

#### 4D. Compensation

The Fees received from portfolio management are paid to the Firm. The portfolio managers are employees of FFSS. They receive a salary and have the potential to earn a year-end bonus. Thus, any potential conflict of a manager pumping up performance, to increase personal income, is mitigated.

There is also a potential conflict in the Wrap-Fee Program, in that limiting the amount of trading in an account can increase FFSS's net income from the Fees. Because wrap fee accounts, within trading limits, do not impose brokerage commissions to Clients, the best interests of the Client (trading when appropriate) differs from the self-interest of financial advisors and FFSS (no trading). FFSS reviews accounts for inactivity to address this conflict.

### Item 5. Account Requirements and Types of Clients

FFSS provides advice to individuals, corporations, government entities, trusts, estates, and pension and profit sharing plans. FFSS does not require Clients to have a minimum account size to obtain advisory services from FFSS.

### Item 6. Portfolio Manager Selection and Evaluation

#### 6A. Selection of Portfolio Managers

FFSS is both a sponsor and portfolio manager of the Wrap-Fee Program. The portfolio managers are employees of FFSS. The management of a Client's portfolio remains with the portfolio manager whom a Client has selected. The portfolio manager continuously manages equity, mutual funds, ETFs, and other assets in the Client accounts, based on the individual needs of a Client. FFSS portfolio managers work in a team concept, in that each Client has two portfolio managers. FFSS believes that in having two managers, Clients have coverage in the absence of one of the managers.

The portfolio managers review Client accounts at least quarterly to gauge the appropriateness of the

securities held in relation to Client needs and objectives, current investment strategies, and asset allocation. Additionally, FFSS recommends periodic meetings with Clients to review Client accounts, objectives and needs.

#### 6.A.1. Portfolio Manager Performance

As noted above, the portfolio managers are employees of FFSS. The managers' performance is reviewed by the FFSS Investment Strategy Committee. Since the portfolio managers are chosen by the Clients, it is up to the Client to determine whether the portfolio manager should be replaced. In such circumstance, FFSS will assist in either moving the account to another portfolio manager within FFSS.

#### 6.A.2. Account Performance

FFSS provides Clients with the following written reports:

- A monthly report showing units, cost, market value, projected annual income and current yield, as well as transactions which occurred in that month;
- A quarterly performance report with year-to-date performance and summary of additions, withdrawals, income and management fees deducted; and,
- A quarterly information invoice showing the asset base on which the Fee is calculated, the Fee calculation, and the Fee due.

All Clients (other than financial planning Clients) will receive the following reports from the Custodian:

- confirmation of each securities transaction,
- all other documents required by law to be provided to security holders; and
- a quarterly statement reflecting all activity in their account during the preceding period, including all transactions made on behalf of the account, all contributions and withdrawals, all fees and expenses, and the value of the account at the beginning and end of the period.

Clients should carefully review the account statements they receive from the custodian and compare them against the ones the Clients receive from FFSS. Comparing statements will allow Clients to determine whether account transactions, including deductions to pay FFSS's management fees, are accurate. If Clients detect a discrepancy between the two statements, they should immediately contact FFSS.

There may, however, be limited instances in which the statements may differ. The differences can be the result of one or more of the following:

- Accrued interest not posting on the date of the report;
- A discrepancy in pricing from a third party;
- The rounding policy pursuant to FFSS's portfolio management system; or

- The reporting of market value by the custodian on a date other than month end.

### 6.A.3. Review of Performance Information

Performance information is not reviewed by a third party. Performance information provided to Clients is based on internal calculations by FFSS. FFSS reviews the performance calculations and verifies its accuracy. All Client performance information is based upon the same formula for each Client.

## 6.B. Related Persons Disclosure

As noted above, the portfolio managers are employees of FFSS and there are no other portfolio managers outside the Firm.

## 6.C. Additional Information

### Advisory Business

FFSS seeks to manage Client assets on a discretionary basis, and has, however, several non-discretionary accounts. Whether discretionary or non-discretionary, FFSS evaluates Clients' financial condition and risk tolerance in order to tailor FFSS's securities recommendations to meet Client investment objectives and individual needs.

FFSS has an Investment Committee consisting of investment officers who work together to create our investment strategy. This investment committee maintains a selected product list and sets the income strategy based on economic expectations and the movement in interest rates. However, implementation of the strategy is determined by each portfolio manager around each Client's individual situation and circumstances. It is this management freedom that FFSS believes provides the steps to achieving Client goals. Client accounts managed under the Wrap Fee Program, discussed below, are managed in the same way as accounts not under the program.

FFSS's securities recommendations are primarily in equity and fixed income securities traded on national exchanges, including mutual funds and exchange traded-funds ("ETFs"). These securities include those that are from entities with a proven history of dividend yields, such as publicly traded partnerships, real estate investment trusts, convertible preferred shares, and royalty trusts. FFSS strives to maintain Client accounts in a fully-invested, diversified portfolio of securities. FFSS will assist Clients in selecting an investment objective based on Clients' articulated goals.

Clients may impose restrictions on investing in certain securities or types of securities.

### Retirement Planning

FFSS works with Clients to assist them for planning through their retirement years. FFSS will review with Clients such things as: assessing current financial status with a view toward how it relates to retirement goals; tax implications for various strategies; the role Social Security plays in retirement;

and, a retirement income plan.

FFSS reviews Client retirement packages, when requested, to help Clients determine their retirement income goals, and the actions and decisions necessary to achieve those goals. FFSS can assist in estimating anticipated income, analyzing Client income taxes to help Clients minimize taxes, and calculating Clients' minimum required distribution amounts.

### Financial Planning

FFSS prepares cash flow analysis and income projections for Clients, when requested. FFSS does not provide comprehensive certified financial plans for Clients.

### Estate Planning

A well-thought-out estate plan is an important part of financial planning. Passing on wealth, to the next generation, while looking to avoid tax consequences, is part of the analysis. FFSS reviews Clients' existing estate plans and makes recommendations that FFSS deems appropriate, when requested. FFSS has a Texas licensed attorney as one of its portfolio managers, Paul Welch, who helps Clients establish powers of attorney to cover Client healthcare and financial decisions. FFSS can provide assistance to Clients' executors in the probate process, as well as in the estate's accounting process.

**NOTE:** In the performance of these above services, FFSS will not accept the role as power of attorney, executor or trustee for its Clients.

### Tax Return Preparation

FFSS prepares trust tax returns, as requested by Clients, and reminds Clients to pay their estimated tax. Services are performed by an employee, who is an IRS enrolled agent<sup>2</sup>.

**NOTE:** FFSS is not a licensed accounting firm and does not hold itself out as an accounting firm.

### Participant Loan Administration

Many 401(k) plans permit loans to participants. Some plan documents include a complete description of loan rules. Others make only a statement that the plan allows participant loans, subject to a separate written loan program. FFSS will work with both plan sponsors and plan participants.

FFSS prepares loan documents under IRC Section 72(p) for pension and profit sharing plans, when requested. FFSS processes principal and interest payments, maintains records of payments and balances, and follows up on delinquencies.

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<sup>2</sup> An enrolled agent is a person who has earned the privilege of representing taxpayers before the Internal Revenue Service by either passing a three-part comprehensive IRS test covering individual and business tax returns, or through experience as a former IRS employee. Enrolled agent status is the highest credential the IRS awards. Individuals who obtain this elite status must adhere to ethical standards and complete 72 hours of continuing education courses every three years. Enrolled agents, like attorneys and certified public accountants (CPAs), have unlimited practice rights. This means they are unrestricted as to which taxpayers they can represent, what types of tax matters they can handle, and which IRS offices they can represent clients before.

<https://www.irs.gov/tax-professionals/enrolled-agents/enrolled-agent-information>

## Performance-Based Fees and Side-By-Side Management

FFSS does not charge any fees based on a share of capital gains on or capital appreciation of the assets of a client (i.e., performance-based fees), nor does FFSS engage in side-by-side management.

## Methods of Analysis, Investment Strategies and Risk of Loss

FFSS's investment strategy is based on Clients' individual goals, risk tolerance, and cash flow needs. FFSS use a top-down approach in investing. FFSS looks at the "big picture" in the economy and financial world, and then break those components down into finer details. After looking at the big picture conditions around the world, FFSS analyzes the different sectors within the economy and selects those that FFSS believes will outperform the market. FFSS then analyzes and will select stocks of specific companies within the chosen sectors.

FFSS analyzes major factors that will influence the capital markets and the companies within it. The main factors will be the overall economy, monetary and fiscal policy, demographic changes, inflation, industrial sector trends, and interest rates. This information is gathered from several publicly available sources, such as prospectuses, news outlets, and research provided by various suppliers.

Transactions for Client accounts might not occur at the same time and at the same price. Also, transactions will be made without regard to the timing of pending dividends, distributions, stock splits, and other events.

## Fundamental Analysis

FFSS uses fundamental analysis. FFSS review a company's annual reports, filings with the SEC, and press releases in conjunction with research material prepared by others to analyze a stock's real worth. Specifically, FFSS's portfolio managers look at a company's financials, revenues, profits/losses, price-to-equity ratio and other available data to assess a company's value and prospects for growth.

FFSS sells securities if there is a material deficiency in reported earnings versus FFSS's expectations, or if there is a material change in the company's operations or business outlook. Among other determinants when selling a security, FFSS considers price movement relative to the purchase price.

## Income Investing

FFSS also uses income investing, which aims to identify entities that provide a steady stream of income. FFSS strives to find companies with sustained dividend yields. FFSS looks at a company's past dividend policy, as well as its financials to determine whether the company's current and

projected business can continue with its dividend payouts. Among the income products reviewed by FFSS are publicly-traded securities, including master limited partnerships, publicly-traded real estate investment trusts (“REIT’s”), convertible preferred securities, and royalty trusts, (which trusts buy the right to royalties on the production and sales derived from a natural resource company). The intent of these trusts is to pass on profits to trust unit holders.

Publicly-traded oil and gas partnerships, also known as master limited partnerships, are entities that own and operate pipelines, primarily for natural gas, oil and refined products. Real estate investment trusts are entities that own and operate income-producing properties such as shopping centers, medical offices, long term care facilities and apartments. Convertible preferred securities, which are convertible into the issuer’s underlying common stock, have a high dividend payment and the potential for capital gains should the underlying common shares appreciate.

FFSS call this group of securities “enhanced income securities.” FFSS believe that they produce more income and total return than bonds or certificates of deposit. However, the tax treatment for some in the group is more complex than the treatment of dividends of common shares. Most accounts have some allocation of enhanced income securities because of the cash flow requirements of the account.

## Risk of Loss

**Note that investments such as REITs, royalty trusts, and limited partnerships are complex securities that are carry with them tax consequences. In addition, along with the potential for enhanced income, comes enhanced risk. There is also the risk that the entity will stop paying the income.**

Investing in securities involves risk of loss that Clients should be prepared to bear. All investments in securities include a risk of loss of all of the Clients’ principal (invested amount) and of any profits that have not been realized (securities not sold to “lock in” the profit).

Performance of any investment is not guaranteed. FFSS cannot guarantee any level of investment performance, or that Clients will not experience a loss in their accounts.

Specific types of risks that are taken into consideration by the Investment Strategy Committee include, but are not limited to:

- Market Risk
- Interest Rate Risk
- Inflation Risk
- Business Risk
- Foreign Securities and Currency Risk
- Credit Risk
- Concentration Risk

## Voting Client Securities

Except as discussed below for ERISA accounts, FFSS does not accept authority to vote Client securities. Clients receive proxies or other solicitations directly from the custodian. If Clients have questions about a particular solicitation, Clients can call or write FFSS about them. FFSS will provide FFSS's opinion, if Clients wish to solicit FFSS's advice, however, FFSS will not vote the proxy on a Client's behalf.

An exception applies to ERISA accounts where FFSS has a fiduciary responsibility to vote their proxies, unless the plan documents state that the plan trustees will vote. For these accounts, FFSS will vote their proxies. If in FFSS's opinion there is no valid business reason to object, FFSS will vote according to the recommendations of the issuer.

For resolutions which FFSS believes that voting as recommended by the issuer may not be appropriate, FFSS's Investment Strategy Committee will review the proxy statement. This committee will also review newspaper articles, trade journals, or other information reasonably available to the public to make a decision in the plan's best interest.

FFSS does not anticipate any conflicts of interest between the plans and FFSS. But in the instance where a conflict of interest may arise, FFSS will disclose it to the plan trustees in writing and solicit their instructions as to how to vote the proxy.

Clients may request a copy of FFSS's proxy policy, and plan trustees may request a copy of the proxy votes made on the plan's behalf, by submitting a written request addressed to FFSS Proxy Voting. FFSS will respond within 10 business days of all written requests.

## Item 7. Client Information Provided to Portfolio Managers

Portfolio managers are chosen by the Clients. The portfolio managers have access to all information provided by Clients to the FFSS. Through personal discussions with Clients, goals and objectives, based on a Client's circumstances, are established. During the Firm's data-gathering process, FFSS determines the Client's individual objectives, time horizons, risk tolerance, and liquidity needs. FFSS then develops a Client's personal investment guidelines and creates and manages a portfolio based on that policy. Information obtained from the Client is used to identify risk tolerance, objectives, and appropriate asset allocation.

## Item. 8. Client Contact with Portfolio Managers

Client information will be communicated directly from the Client to the portfolio manager. There are no restrictions on the ability of Clients to contact and consult with the portfolio manager.

## Item 9. Additional Information

### 9.A.1 Disciplinary Reporting

FFSS is required to disclose any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business, or the integrity of our management.

FFSS has no disciplinary information to discuss as related to the Firm.

On June 24, 2014, Stephen Bonnema, one of FFSS's directors, was sanctioned by the Financial Industry Regulatory Authority ("FINRA"), a self-regulatory organization for broker-dealers. Without admitting or denying the findings, he consented to the sanctions and to the entry of findings that his employer, Wunderlich Securities, Inc. ("WSI"), sold, on behalf of customers, approximately 271 million unregistered shares of thinly traded low-priced stocks without first confirming, through a sufficient independent inquiry, that the shares could be sold pursuant to an exemption from registration. The findings stated that because the shares were not covered by a registration statement, the firm could not sell those shares without having confirmed, through a reasonable inquiry, the availability of an exemption from registration.

The findings also stated that WSI, acting through Mr. Bonnema, failed to establish and implement an Anti-Money Laundering ("AML") Compliance Program that was reasonably designed to detect, investigate, and report suspicious activity in customer accounts. Mr. Bonnema, as WSI's AML Compliance Officer, was responsible for monitoring customer account activity to ensure for the detection, investigation, and reporting of patterns of activity that might be indicative of money laundering.

The findings further noted that, regarding monitoring for potentially suspicious activity, Mr. Bonnema delegated much of that responsibility to branch office managers, while giving them little training beyond what was contained in WSI's written supervisory procedures. Mr. Bonnema failed to adequately supervise the branch managers in their performance of that responsibility. As a result of WSI's inadequate procedures, training and supervision, WSI and Mr. Bonnema failed to detect and investigate potentially suspicious activity in a timely manner.

Mr. Bonnema consented to a \$5,000 fine, which was paid in full on July 10, 2014, and served a ten-business day suspension from association with any FINRA member in a supervisory capacity. As Mr. Bonnema is a registered representative of WSI and has no day-to-day responsibilities with FFSS, FFSS has not imposed any form of heightened supervision on Mr. Bonnema.

### 9.A.2. Other Financial Industry Activities and Affiliations

FFSS is not registered to conduct business in any other capacity besides as an investment adviser. FFSS prepares income tax returns for some of FFSS's clients and charges a negotiated fee with each client.

Paul Welch is a Texas licensed attorney and provides legal services to some of FFSS's clients. The legal service is incidental to the service that is provided to that client.

James Parrish, a director, is a registered representative and investment adviser representative of WSI and Stephen Bonnema, a director, is a registered representative of WSI.

Because of the affiliation with WSI, FFSS recommends that its Clients maintain their accounts at WSI to execute their transactions, and with WSI's clearing firm, First Clearing, to custody their assets. As a result, WSI received a fee for assets directed to First Clearing during a six-month period ending August 22, 2016. This presented a conflict of interest in that the fee WSI received was an indirect compensation to FFSS by virtue of the affiliation. WSI paid none of the fee to FFSS, and no one at FFSS received direct payments from the fee.

In addition, pursuant to agreement, in 2015, the Firm's shareholders sold their shares of FFSS to Wunderlich Investment Corporation ("WIC"), WSI's parent. All portfolio managers and senior staff were shareholders of FFSS at the time. There was an initial payment from WIC to FFSS shareholders, and a three-year earnout provision, which provision has a minimum payment to be made at the end of each earnout year. Should the Firm meet increased revenue targets, the shareholders receive an increase in the annual earnout payment. There was no additional payment for the earnout periods ending April 30, 2016 and April 30, 2017. The final earnout period ends April 30, 2018. This presents a conflict in that FFSS could potentially act in its own interest to obtain the earnout payment. The Firm has in place account review procedures to detect whether new assets/Clients are being encouraged so as to trigger the earnout payment.

#### 9.B.1. Code of Ethics, Participation in Client Transactions and Personal Trading

FFSS has adopted a Code of Ethics ("Code") that governs potential conflicts of interest, pursuant to SEC Rule 204A-1. The Code is designed to ensure that FFSS meets its fiduciary obligation to Clients, which is to place Clients' interests ahead of those of FFSS. FFSS's Code is distributed to each employee at the time of hire and thereafter when there are changes. In addition, employees are required, annually, to certify that they abide by the Code and will report Code violations to Compliance and/or senior management.

FFSS's Code includes the following:

- Prohibitions against trading on non-public information (insider trading);
- Prohibitions against accepting gifts and entertainment that exceed FFSS's policy standards;
- Reporting of gifts and business entertainment;
- Pre-clearance procedures of employee and Firm securities transactions;
- Reporting of personal securities transactions; and
- Certification of compliance with the Code.

FFSS will provide a copy of FFSS's Code to Clients, and prospective Clients, upon written request to – FFSS at ATTN: Compliance, 12222 Merit Drive, Suite 920, Dallas, Texas 75251-2268.

#### Participation or Interest in Client Transactions/Personal Trading

FFSS's Code does not prohibit FFSS or its employees from trading in their own accounts. FFSS

employees are allowed to purchase and sell the same securities that the Firm's Clients purchase and sell. As a result, there exists a conflict of interest whereby FFSS employees trading potentially allows them to obtain a better price (in the case of sales) or pay a lesser price (in the case of buys) than Clients do. FFSS has controls in place to address this conflict, including pre-trading clearance requirements and restricted trading periods.

FFSS does not permit its employees to solicit for, or use discretionary trading authority in any purchases or sales in a security in which the employee has a material financial interest.

To prevent this from happening, FFSS at times will "block" its trades with Clients and every account will receive an average price. It is not always possible to average price trades and in such event, some Clients will receive a position at a price higher (or lower) than if their trades were not block traded. However, trading costs are reduced by such block trades, and the risk of precipitous market swings among a group of Client trades is mitigated.

Where transactions are effected through WSI, WSI will act on an agency or principal basis to the extent permitted by law, and will be entitled to compensation for its services and will receive other benefits. Clients authorize WSI to effect "agency cross" transactions (that is, transactions in which WSI acts as broker for both the Client and the parties on the other side of the transactions) to the extent permitted by law. Clients understand that WSI will receive compensation from the other parties to such transactions and WSI will have conflicting interests, loyalties, and responsibilities. Because FFSS is affiliated with WSI, FFSS will have conflicting interests, loyalties, and responsibilities when Client transactions are executed through WSI.

In a principal transaction, WSI will buy from a Client, or sell from WSI's inventory/account to a Client, instead of buying and selling in the open market. Similar to an agency transaction, FFSS along with WSI will have conflicting interests, loyalties, and responsibilities when executing a principal transaction. FFSS will disclose each principal transaction in writing before the completion of the transaction to the Client and obtain the Client's consent. It is the intent that principal transactions will only occur on a limited basis, if at all.

### 9.B.2. Review of Accounts

Portfolio managers review Client accounts at least quarterly to gauge the appropriateness of the securities held in relation to Client needs and objectives, current investment strategies, and asset allocation. Additionally, FFSS recommends periodic meetings with Clients to review Client accounts, objectives and needs.

FFSS provides Clients with the following written reports:

- A monthly report showing units, cost, market value, projected annual income and current yield, as well as transactions which occurred in that month;
- A quarterly performance report with year-to-date performance and summary of additions, withdrawals, income and management fees deducted; and
- A quarterly information invoice showing the asset base on which FFSS's fee is calculated, the fee calculation, and the investment management fee due.

### 9.B.3. Client Referrals and Other Compensation

FFSS does not receive any Client referrals from the broker-dealers FFSS recommends to Client. Nor does FFSS utilize solicitors or finders for Client referrals.

FFSS receives no other compensation, except that described above.

### 9.B.3. Financial Information

FFSS is not subject to any financial condition that is reasonably likely to impair its ability to meet contractual requirements to Clients.

FFSS does not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

FFSS has not been the subject of a bankruptcy petition in the last ten years.

## 10. Requirements for State-Registered Advisers

FFSS is an investment adviser registered with the U.S. Securities and Exchange Commission, and, therefore, does not fall under the requirements for a state-registered adviser.