

Disclosure Brochure

September 28, 2017

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

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. If Clients have any questions about the contents of this brochure, please contact us at (972) 934-9070 or 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.

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

Item 2: Material Changes

The following items explain material changes that Clients should be aware of as a current or prospective client of Fiduciary Financial Services Wealth Management (“FFSS”) advisory programs or services. Each year Clients will receive either a summary of material changes that were made to the brochure over the previous year or an updated brochure.

This brochure is the FFSS annual update. The last brochure update was filed with the SEC on August 4, 2017.

The material changes since the last filing are that:

Item 5 has been updated to include language regarding potential bonuses that portfolio managers can receive for net new business. Further, any and all fees and costs the Clients may incur in addition to the Wrap Fee, some of which may benefit WSI, the Firm's affiliate, represent not just additional costs, but also additional indirect revenue to the firm.

Item 12, Trade Aggregation has been changed to indicate that only client transaction can be aggregated. FFSS employee trades can no longer be aggregated with client trades.

Also, please note that FFSS has a new address; all other contact information remains the same:

13155 Noel Road, Suite 750
Dallas, Texas 75240-5040

Item 3: Table of Contents

Table of Contents

Item 1: Cover Page	1
Item 2: Material Changes	2
Item 3: Table of Contents	3
Item 4: Advisory Business.....	5
Types of Services	5
Investment Management.....	5
Retirement Planning.....	6
Financial Planning.....	6
Estate Planning.....	6
Tax Return Preparation	6
Participant Loan Administration	7
Item 5: Fees and Compensation.....	7
Wrap Account Program Through Wunderlich Securities, Inc. (“WSI”)	8
Other Fee Considerations.....	9
Fees for Loan Participation Administration.....	11
Fees for Retirement Planning, Estate Planning, and Tax Return Preparation	11
Item 6: Performance-Based Fees and Side-By-Side Management.....	11
Item 7: Types of Clients.....	11
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	11
Methods of Analysis and Investment Strategies.....	11
Fundamental Analysis	12
Income Investing	12
Risk of Loss	13
Item 9: Disciplinary Information	13
Item 10: Other Financial Industry Activities and Affiliations	14
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	15
Code of Ethics.....	15
Participation or Interest in Client Transactions/Personal Trading.....	15
Item 12: Brokerage Practices	16
Selecting/Recommending Brokers for Client Transactions.....	16
Research and Other Soft Dollar Benefits.....	17

Brokerage for Client Referrals	18
Directed Brokerage	18
Trade Aggregation	18
Item 13: Review of Accounts.....	19
Item 14: Client Referrals and Other Compensation.....	19
Item 15: Custody	19
Item 16: Investment Discretion.....	20
Item 17: Voting Client Securities	20
Item 18: Financial Information.....	21
Item 19 – Requirements for State-Registered Advisers.....	21

Item 4: Advisory Business

Fiduciary Financial Services Wealth Management (“FFSS”) is a registered investment advisory firm, that was established in 1990 and is registered with the U.S. Securities and Exchange Commission (“SEC”). FFSS’s owner is Wunderlich Investment Company (“WIC”), which is wholly-owned by B. Riley Financial, Inc. (“B. Riley”), a diversified financial services company. As of June 30, 2017, FFSS managed \$369,465,733 on a discretionary basis and \$382,518 on a non- discretionary basis. FFSS provides the services noted below.

The FFSS key individuals are:

Paul Welch	Director/Chief Investment Officer
Hank Sanchez	Chief Compliance Officer
Clarissa Risner	President, Treasurer and COO
James Parrish	Director
Stephen Bonnema	Director

Types of Services

Investment Management

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.

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.

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 Clarissa Risner, who is an IRS enrolled agent¹.

¹ An enrolled agent is a person who has earned the privilege of representing taxpayers before the Internal Revenue Service by

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 when participant loans are requested by Clients.

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.

Item 5: Fees and Compensation

For a majority of its accounts, FFSS charges from 0% to 1% annually for FFSS's investment management service, with fees charged quarterly in advance. 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.

FFSS and FFSS's employees do not receive compensation for the sale of securities or other investment products, including asset-based sales charges, or service fees from the sale of mutual funds. FFSS recommends and selects investment products for Clients based on Client needs, and not on any financial incentive related to the product.

As part of the compensation package of our portfolio managers, they receive an annual bonus compensation for net new business brought in each year. The bonus compensation is calculated on average new revenues generated by the net new business for the year and divided proportionately amongst the portfolio managers based upon the net new business for which each one is responsible for managing. Net new business is calculated by the difference between the market value of new assets managed less the market value of assets no longer managed. This compensation arrangement could present a conflict of interest if a portfolio manager recommends funds be transferred to a new advisory account when a client might be better served to transfer funds to his bank account. The President will be responsible for reviewing the purpose of all new accounts with the portfolio managers prior to accounts being funded to determine if the account is in the best interest or need of the client.

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>

Wrap Account Program Through Wunderlich Securities, Inc. (“WSI”)

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 the annual Fee (charged quarterly in advance) based on the value of the Client’s portfolio (the “Wrap-Fee Program”). Investments offered through the Wrap-Fee Program include such securities as equities, mutual funds, Electronically Traded Funds (“ETFs”), and fixed income securities. The maximum fee to Clients is 1%. See “Other Fee Considerations” below, and the Appendix 1 – Wrap Program Brochure, for a description of the charges.

WSI charges the brokerage fees back to FFSS for payment. While this may be a potential conflict of interest between FFSS and Clients, in that FFSS may wish to avoid payment of brokerage fees, and thus lessen trading in Client accounts, because of FFSS’s commitment to its fiduciary obligation, FFSS trades Client accounts held at WSI in the exact same manner as accounts held at Fidelity or TD Ameritrade.

For a more detailed description of the Wrap-Fee Program, please refer to the separate Appendix 1 to this brochure, the Wrap Program Brochure, provided by FFSS. Clients may request a copy of the Wrap Program Brochure from FFSS, and it can also be found at <https://www.adviserinfo.sec.gov/>.

In a wrap fee arrangement, Clients pay a combined fee for investment advice, brokerage commissions, clearance, settlement, and custodial services. Clients may also be charged for expenses or services that are not covered by the wrap fee.

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.

If you choose to use margin, you should be aware that the market value of the Account's assets is not reduced by the amount of the margin, and will therefore increase the Fee. The increased Fee may provide an incentive for FFSS to recommend portfolio strategies or Third-Party Advisers who use margin strategies. The use of margin is not suitable for all investors, since it increases leverage in the account and therefore increases its risk.

Other Fee Considerations

The management fee is negotiable. 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.

As noted above, 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.

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.

FFSS's preferred method of collection is to deduct, from Client accounts, the quarterly fees by instructing the custodians to deduct the funds from Client accounts and to pay FFSS. If a Client has more than one account, the custodian will deduct the fee from the account the Client has designated. The custodian does not validate or check FFSS's fee calculation.

Clients may also elect to pay the management fee by a check instead of having it deducted from their account. If a Client elects to pay by a check, FFSS will send the Client an invoice for FFSS's services and Clients are required pay FFSS within 30 days of the due date. If payment is not made by the 15th 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.

The management fee payable to FFSS does not include all the fees Clients will pay when FFSS directs the brokerage firm to conduct purchases or sells of securities for Clients. The following list of fees or expenses are what Clients pay directly to third parties, for securities purchased, sold, or held in Client accounts. FFSS does not receive any of these fees charged to Clients. They are paid directly to the Clients' broker, custodian, or the mutual fund or other investment that Clients hold. Depending on what Clients have selected, Clients may incur the following expenses relating to FFSS's advisory services:

- 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.

Clients have the option to execute trades recommended by FFSS through their accounts at broker-dealers other than WSI, Fidelity or TD Ameritrade. In such an instance, it is the Client's responsibility to pay for any fees charged by those broker-dealers, and FFSS will not be held responsible for any trading in such other accounts.

In addition, any and all fees and costs Clients may incur in addition to the Wrap Fee, some of which may benefit WSI, the Firm's affiliate, and therefore represent not just additional costs, but also additional indirect revenue to the Firm.

Fees for Loan Participation Administration

FFSS charges a \$150 set up fee to prepare loan documents for FFSS's participant loan administration service. This fee is collected directly from the participant at the time the Client signs the loan papers.

Fees for Retirement Planning, Estate Planning, and Tax Return Preparation

The fees related to retirement planning, estate planning, and tax return preparation services for Clients are negotiated with each client, and range from \$0 to \$1000.00.

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

FFSS and FFSS's employees do not charge performance-based fees – that is, compensation based on a percentage of total assets managed that is paid to FFSS if FFSS delivers returns above a specified benchmark.

The Firm does not engage in side-by-side portfolio management.

Item 7: Types of Clients

FFSS provides advice to individuals, high net worth individuals, charitable entities, corporations, government entities, trusts, estates, and pension and profit sharing plans. FFSS does not require Clients to have a minimum account size.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

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 breaks 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 reviews 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 calls this group of securities "enhanced income securities." FFSS believes 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 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. Clients should consult with their tax advisers regarding investments in these products.

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 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

Item 9: Disciplinary Information

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.

Item 10: 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, LLC, 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.

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

Code of Ethics

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, 13155 Noel Road, Suite 750, Dallas, Texas 75240-5040..

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.

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.

Item 12: Brokerage Practices

Selecting/Recommending Brokers for Client Transactions

FFSS recommends that Clients use WSI, FFSS's affiliated broker-dealer, and First Clearing, as the qualified custodian. This presents a conflict of interest for the following reasons: (1) best execution, or FFSS's duty to seek to execute securities transactions for Client in such a manner that Client's total cost or proceeds in each transaction is the most favorable under the circumstances, may not be achieved, and, (2) the trading costs may not be as favorable as those charged by other brokers. To mitigate trading cost conflicts, Clients will not be charged commissions on Client transactions executed by WSI, as WSI charges back the commissions to FFSS for payment. This, however, presents another conflict of interest where FFSS may want to limit transaction frequency in those accounts where FFSS pays Clients' commissions. To manage this conflict, FFSS will monitor for inactive accounts to ensure that it is not because FFSS is trying to minimize trading due to commission costs being borne by FFSS.

FFSS also recommends Fidelity Investments ("Fidelity") and TD Ameritrade ("TDA") as broker-dealers and qualified custodians. FFSS has agreed to pricing (including commissions and transaction account and service fees) for accounts with them. This is based on the nature and scope of business FFSS does with them, including the current amount of FFSS's client assets in their custody, the types of securities FFSS manages, and the expected frequency of FFSS's trading. Neither Fidelity nor TDA charges Clients separately for custody services, however, they are compensated by charging Clients commissions or other fees on trades that they execute or that settle into Client accounts with them.

In addition to commissions, Fidelity and TDA will charge Clients a flat dollar amount for each trade that FFSS executes by a different broker-dealer, but where the securities bought, or the funds from the securities sold, are deposited (settled) into a Client's Fidelity or TDA account. These fees are in addition to the commissions or other compensation Clients pay the executing broker-dealer. Because of this, in order to minimize Clients' trading costs, FFSS has each respective broker-dealer execute

trades for Clients' accounts. What this means is that if Client has an account with Fidelity, Fidelity will execute Client transactions, and if a Client has an account with TDA, TDA will execute Client transactions. FFSS has determined that having Clients' respective broker-dealer execute Client transactions is consistent with FFSS's duty to seek best execution of Client trades.

Regardless of the FFSS agreements with WSI, Fidelity and TDA, FFSS does not require Clients to open an account with any of these recommended broker-dealers/custodians. Clients may use any broker-dealer and custodian of their choice. However, if the Client selects its own broker-dealer, FFSS recommends that Clients place their assets in a custodial relationship with a broker-dealer that has demonstrated it has an efficient and effective custodial reporting service for its clients. Clients' broker-dealers must also provide FFSS access to download Client transactions electronically and to perform trades for no additional charge.

First Clearing will hold Client assets in a brokerage account and WSI will buy and sell securities when FFSS instructs them. Similarly, Fidelity and TDA will hold Client assets, as well as buy and sell securities when FFSS instructs them.

Research and Other Soft Dollar Benefits

FFSS receives "soft dollars" from WSI, Fidelity and TDA. The term "soft dollars" refers to arrangements under which an investment adviser directs client transactions to a broker-dealer and, in exchange, obtains research products or services, in addition to brokerage services from the broker-dealer. It is a means of paying a broker-dealer for its services through commission revenue, as opposed to through normal direct payments.

Because FFSS uses the soft dollar benefits FFSS receives to service any and all of FFSS's Clients' accounts, FFSS does not allocate soft dollar benefits to accounts proportionately to the soft dollar credits they generate.

FFSS receives a range of services and other benefits to help FFSS conduct FFSS's business and serve Clients from FFSS's recommended broker-dealers. Some services will benefit Clients, some will not directly benefit Clients, and some will only benefit FFSS.

When FFSS uses client commissions to obtain research or other products or services, FFSS receives a benefit because FFSS does not have to produce, or pay for, the research, products, or services. FFSS has an incentive to recommend a broker-dealer based on FFSS's interest in receiving the research or other products or services. The Firm monitors the brokers' best execution processes so as to mitigate this conflict of interest.

Products and services that assist FFSS in managing and administering Client accounts do not directly benefit Client. They include investment research, both proprietary and third-party. FFSS uses the research to service all, or a substantial number of FFSS's Clients' accounts, including accounts not maintained at any of the recommended broker-dealers. In addition to investment research, the brokerages also make available software and other technology that:

- Provide access to Client account data (such as duplicate trade confirmations and account statements);
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- Provide pricing and other market data;
- Facilitate payment of FFSS's fees from Client accounts; and
- Assist with back-office functions, recordkeeping, and Client reporting (the ability to download data files into a portfolio management system).

The following services, the broker-dealers offer, are intended to help FFSS manage and further develop FFSS's business, which only benefits FFSS. These include:

- Education conferences and events;
- Marketing assistance
- Consulting on technology, compliance, legal, and business needs;
- Publications and conferences on practice management;
- Access to employee benefits providers, human capital consultants, and insurance providers.

These services provided to or made available to FFSS, are either at no fee or at a discounted price.

Brokerage for Client Referrals

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.

Directed Brokerage

FFSS recommends that Clients utilize WSI, Fidelity or TDA, Clients have the ability to direct FFSS to execute transactions through a specific broker-dealer, outside of these three. However, if Clients direct FFSS to use a specific broker dealer, other than WSI, Fidelity or TDA, Clients may receive a less favorable price, because FFSS will not be able to obtain best execution on these Client orders. FFSS will complete other transactions before completing directed brokerage transactions, so as to not adversely impact those other transactions. Also, as noted above, because FFSS and WSI are affiliated this presents a conflict of interest in that FFSS could be incentivized to place trades through WSI. FFSS is aware of this conflict and its portfolio managers are cognizant that they are required to exercise their fiduciary obligations in Clients' best interest.

Trade Aggregation

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 aggregated transactions, Clients will receive an average price per share. 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.

Item 13: Review of Accounts

Portfolio managers review Client accounts regularly, but no less than annually, 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.

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.

Item 14: 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.

Item 15: Custody

Accounts are custodied at the various firms that hold the Clients' accounts. Such firms are "qualified custodians," as that term is defined in Rule 206(4)-2(d)(6) of the Investment Advisers Act of 1940.

FFSS will not maintain custody of Clients' funds or securities, with the exception of deduction of FFSS's fees from Clients' accounts, as authorized in the advisory agreement between Clients and FFSS. Clients will receive account statements directly from the qualified custodian at least quarterly. 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.

Item 16: Investment Discretion

Unless instructed otherwise in writing by the Client, FFSS manages Client portfolios using a limited power of attorney, which allows FFSS to execute transactions using investment discretion. Investment discretion means that FFSS is authorized to execute trades without Client prior approval. Clients grant FFSS this authority when each Client signs FFSS's management agreement. However, on occasion Clients may direct FFSS to buy or sell a security. Clients may also place restrictions on securities that Clients do not want bought or sold in Client accounts.

Item 17: 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 18: 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.

Item 19 – Requirements for State-Registered Advisers

FFSS is an SEC registered investment adviser so this Item is not applicable to FFSS.