

## Item 1

## Cover Page

### The Karras Company ADV Part 2 Firm Brochure

**February 9, 2017**

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This brochure provides information about the qualifications and business practices of The Karras Company (Karras or the Firm). If you have any questions about the contents of this brochure, please contact us at 801-825-3000 or [brett.karras@raymondjames.com](mailto:brett.karras@raymondjames.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Registered Investment Advisor does not imply a certain level of skill or training.

Additional information about Karras is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 Material Changes

This section describes the material changes to The Karras Company's (Karras) Part 2 of Form ADV Firm Brochure since its last annual update amendment on February 12, 2016. This Firm Brochure, dated February 9, 2017, has been prepared according to the U.S. Securities and Exchange Commission's ("SEC") disclosure requirements.

In lieu of providing clients with an updated Firm Brochure each year, we provide Karras's existing advisory clients with a summary describing any material changes occurring since the last annual update of our Part 2 Firm Brochure. In such instances, we will make this delivery to existing clients within 120 days of the close of Karras's fiscal year. Clients wishing to receive a complete copy of the then-current Part 2 Firm Brochure may request a copy at no charge by contacting The Karras Company at 801-825-30007.

This brochure has been prepared according to the U.S. Securities and Exchange Commission's ("SEC") disclosure requirements.

We suggest that all of our clients review this brochure, in its entirety, upon receipt. In lieu of providing clients with an updated Firm Brochure each year, we may provide Karras's existing advisory clients with a summary describing any material changes occurring since the last annual update of our Part 2 Firm Brochure. Clients wishing to receive a complete copy of the then-current Part 2 Firm Brochure may request a copy at no charge by contacting our office directly at 801-825-3000 or [brett.karras@raymondjames.com](mailto:brett.karras@raymondjames.com). We also encourage clients to review this brochure, and pose any questions you may have to their Financial Advisor.

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## **Item 4 Advisory Business**

### **Introduction**

The Karras Company is a registered investment adviser with the Securities and Exchange Commission (“SEC”) pursuant to the Investment Advisers Act of 1940. Registration as an investment adviser with the SEC does not imply a certain level of skill or training. The Karras Company (Karras or the Firm) is entering its 20<sup>th</sup> year of operation. Karras currently has \$1,245,882,985.72 in assets under management.

The primary affiliation of Karras is through its broker/dealer Raymond James Financial Services Advisors, Inc. (“RJFSA”), member FINRA/SIPC. Another important affiliation of Karras is through Raymond James & Associates, Inc. (“RJA”). RJA serves as the custodian for RJFSA client accounts, acts as the clearing agent, and facilitates advisory programs. Asset Management Services (“AMS”) is a division of RJA. AMS manages several investment advisory programs for RJA and RJFSA, which maintain an approved list of investment managers, provide asset allocation model portfolios, establish custodial facilities, monitor performance of client accounts, provide clients with accounting and other administrative services, and assist investment managers with certain trading management activities.

As used in this Brochure, the words “we,” “our” and “us” refer to Karras and your investment adviser representative (“IAR”), and the words “you,” “your” and “client” refer to you as either a client or prospective client of our firm.

Karras provides financial planning and investment advisory services to select individual clients, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, or business entities. Karras gives continuous advice to you or makes investments for you based on your individual needs. Through personal discussions, Karras develops goals and objectives based upon your investment time horizon and risk tolerance, as well as your core financial related values. Karras assists you in developing your personal investment policy, and then creates and manages a portfolio based on that policy.

## **Our Principal Owners**

The principal owners of the Firm are Brett Nolan Karras, President, and Nolan Eldon Karras, Chairman. Brett has been with Karras since 2000, and Nolan established the firm in 1997.

## **Financial Planning Services**

Karras offers financial planning services, which may include a review of all aspects of your current financial situation, including the following components: cash management, risk management, insurance, education funding, goal setting, retirement planning, estate and charitable giving planning, tax planning, and capital needs planning. Karras meets with you to review risk tolerance, financial goals and objectives, and time horizons. Additional meetings may include a review of additional financial information; sources of income, assets owned, existing insurance, liabilities, wills, trusts, business agreements, tax returns, investments, and personal and family obligations.

Financial planning and consulting fees are negotiable. Fees charged for these services will be dependent upon the anticipated time to provide the services and complexity of the plan and/or your financial situation. The fees are determined in advance and disclosed to you at the time the Investment Advisory Consulting Agreement is executed. It is possible that you may pay more or less for similar services which may be available through another firm.

Financial planning services may be comprehensive, or may focus on certain components. When Karras is engaged to address only certain components, you understand that your overall financial and investment issues may not be taken into consideration. Karras may or may not charge a separate fee for financial planning services.

The financial plan may include both long and short-term considerations, depending upon the individual scenario. Karras provides you with recommendations that are found to be compatible with your stated goals and objectives. You are under no obligation to utilize additional services of Karras and its representatives and are under no obligation to implement the advice or plan. You may choose all or certain components of advice and recommendations and can implement the recommendations through the service providers of your choice.

It is important to note that we may provide investment product or securities recommendations as part of financial planning services or hourly consulting services. This may present a conflict to the extent that Karras receives compensation from implementation of such recommendations. Also,

compensation to Karras and RJFSA may vary depending on the product or service Karras recommends.

You are under no obligation to purchase securities or services through RJFSA and Karras nor are you obligated to implement any recommendations through RJFSA. If you decide to purchase certain investments through Karras, who may be acting in a non – advisory capacity, you should understand that RJFSA and Karras may receive compensation for those services, such as commissions and/or trail fees. You should discuss with Karras how RJFSA and Karras will be compensated for any recommendations in the plan.

If you decide to implement the financial plan or consulting advice through an RJFSA advisory program or service, Karras will provide you at the time of engagement with a client agreement that will contain specific information about fees and compensation that Karras and RJFSA will receive in connection with that program.

You should also understand that RJFSA and Karras may perform advisory services for various other clients. RJFSA and Karras may give advice or take actions for those other clients that differ from the advice given to you. Also, the timing or nature of any action taken for your account may be different. You should note that similar advisory services may be available from other registered investment advisers for similar or lower fees.

### **Institutional Consulting Services**

Karras provides consulting services to pension and profit sharing plans and corporations including:

- assistance with the creation of an investment policy statement
- asset allocation services including the selection of an overall benchmark with which to monitor performance
- investment manager selection for the management of the institutional client's portfolios
- reporting and monitoring of investment managers' performance compared to a benchmark
- a compliance review to ensure the managers are in compliance with the client investment policy
- meetings with the institutional client investment committees to review and advise the institutional client on current market conditions, past performance, and recommendations for changes in the investment policy of asset allocation of the institutional client.

### **Types of Investments upon Which Advice is Offered**

Karras offers advice on:

Equity securities:

- exchange listed securities
- securities traded over-the-counter
- foreign issuers

Corporate debt securities (other than commercial paper)

Certificates of Deposit (CDs)

Municipal securities

Investment Company securities:

- variable life insurance
- variable annuities
- mutual fund shares

United States government securities

Option contracts on securities

Interests in partnerships investing in:

- real estate
- oil and gas interests
- equipment leasing
- publicly traded partnerships

Alternative Investments

Pre-paid Variable Contracts

Karras will allocate your assets among various investments taking into consideration the overall management style selected by you. Investment strategies may include long-term and short-term purchases depending upon your individual needs. Karras uses asset allocation, or spreading investments among a number of asset classes and sectors (domestic stocks vs. foreign stocks; large cap stocks vs. small cap stocks; corporate bonds vs. government securities) for most of your accounts as well as mutual funds.

Stock and Mutual funds will be selected on the basis of any or all of the following criteria: The stock/funds' performance history; the industry sector in which the fund invests; the track records of the fund's manager; the fund's investment objectives; management style and philosophy; and management fee structure. Portfolio weighting between funds and market sectors will be determined by your individual needs and circumstances.

After determining what type of investments best suit your financial goals, Karras will offer either a retail account, IMPAC account, or a Freedom account. Refer to Item 5 for additional information on IMPAC and Freedom accounts.

### **Participation in Wrap Fee Programs**

Karras participates in a wrap fee program called Freedom. The Freedom account program is a fee-based Mutual Fund/Exchange Traded Fund ("ETF") managed account operated by Asset Management Services ("AMS"), a division of Raymond James. You appoint RJA as your investment adviser to select the representative funds and monitor their performance on a continuing basis. Karras and RJA receive a portion of the fee for services provided under the agreement. Please see Item 5 for additional information on Freedom.

### **Amount of Assets Under Management**

The amount of client assets Karras manages on a discretionary basis, as of February 9, 2017: \$131,016,430.32.

The amount of client assets Karras manages on a non-discretionary basis, as of February 9, 2017: \$1,114,866,555.40.

## Item 5 Fees and Compensation

### Advisory Services

Karras may be compensated for advisory services through the IMPAC program, Freedom program, Institutional Client fees, hourly charges, fixed fees, and commissions. In certain circumstances, fees, account minimums, and payment terms may be negotiable.

Related accounts may be linked for purposes of fee calculation if all parties agree; meaning certain accounts, approved by Karras, may be grouped for fee calculations.

### IMPAC Program

For fee-based accounts, Karras uses IMPAC. Investment Management Program for Advisory Clients (IMPAC) is a fee-based account, offered and administered through RJFSA, which offers you, on a non-discretionary basis (or discretionary, provided certain qualifications are met), the ability to pay an advisory fee on the assets in your account and a nominal transaction charge in lieu of a commission for each transaction. RJFSA receives a portion of the fee. Management fees are negotiable, but the following schedule will be used as a guideline:

#### Karras' Fee Schedule for IMPAC:

Account Value	Annual Fee
Under \$1,000,000	1.00%
Between \$1,000,000 and \$5,000,000	0.85
Between \$5,000,000 and \$10,000,000	0.75
Over \$10,000,000	Negotiable

Raymond James IMPAC advisory fees exceed that of Karras. Raymond James has accepted the modifications of Karras' IMPAC fees.

For purposes of calculating and assessing asset-based fees, RJFSA uses the term "Account Value", which may be different than the asset value as reported on brokerage statements provided by RJFSA to you. Pursuant to the investment management of advisory agreement, Account Value is defined as the total absolute value of the securities in the account, long or short, plus all credit balances, with no offset for any margin or debit balances.

The annual asset-based fee is paid quarterly in arrears, as outlined in the Investment Advisory Agreement. The asset-based fee is calculated on the account asset value on the last business day of the quarter for the previous quarter.

If cash or securities, or a combination thereof, amounting to at least \$100,000 are deposited to or withdrawn from the account on an individual business day, Raymond James may (i) assess asset-

based fees based on the value of the assets on the date of deposit for the pro rata number of days remaining in the quarter, or (ii) refund prepaid asset based fees based on the value of the assets on the date of withdrawal for the pro rata number of days remaining in the quarter. Notwithstanding the above \$100,000 adjustment threshold, Raymond James reserves the right, in its sole discretion, to process or not process fee adjustments when the source and destination of deposits and withdrawals involve a client's other fee based advisory accounts.

You authorize and direct RJA as Custodian to deduct asset-based fees from the account; you further authorize and direct the Custodian to send a statement of securities, in custody, at least quarterly which show all amounts disbursed from your account, including fees paid to RJFSA. You understand that the account statement will show the amount of the asset-based fee.

The asset-based fees associated with the IMPAC account program include all execution and clearing charges except: (1) certain dealer-markups and odd lot differentials, transfer taxes, exchange fees mandated by the Securities and Exchanges Act of 1934 and any other charge imposed by law with regard to any transactions in the account; and (2) offering concessions and related fees for purchases of public offerings of securities as more fully disclosed in the prospectus.

The IMPAC program has a nominal Processing Fee for the execution and clearing of transactions, as follows:

<u>Security Type</u>	<u>Processing Fee</u>
Stocks: Listed and OTC/Closed End and Exchange Traded Funds	\$9.95
Mutual Funds ( <i>applicable to purchases only</i> )*	
Participating Funds	Waived
Partner Funds	\$30.00
Non-Partner Funds	\$40.00
Unit Investment Trust/Real Estate Investment Trust	\$9.95
Preferred Stock	\$9.95
Option Contracts	\$30.00
Bonds: Government, Corporate, Municipal & Mortgage-Backed	\$30.00

\*Select fund companies have agreed to pay administrative fees to Raymond James in consideration for Raymond James' waiver of the \$30 Processing Fee assessed on certain Passport Account mutual fund purchases ("Participating Funds"). Select fund companies have agreed to pay marketing service and support fees to Raymond James ("Partner Funds"). "Non-Partner Funds" do not participate in Raymond James's Education and Marketing Support program. Effective January 1, 2015, the above Processing Fees will be applied to purchases of Partner and Non-Partner Funds. ERISA Plan and SIMPLE IRA accounts will be charged \$30 for Partner and Non-Partner Fund purchases. Please note that funds may change their Participating, Partner or Non-Partner status at any time, so please consult with your financial advisor to verify their status periodically.

In addition to the foregoing Processing Fee, you will incur a charge in the amount of \$5.95 per transaction for handling charges. You may also incur charges for other account services provided by RJA not directly related to the execution and clearing of transactions including, but not limited to, IRA



custodial fees, safekeeping fees, interest charges on margin loans, and fees for legal or courtesy transfers of securities.

Your agreement may be terminated by you or Karras at any time. There is no penalty for terminating the account. You may be charged a fee according to the number of days the account was managed for the current quarter, upon termination.

### Discretionary IMPAC accounts

Discretionary authority is used by Karras to better implement portfolio changes and keep clients in line with their model portfolio. Karras has discretionary power to act on behalf of clients accounts when agreed and accepted upon by both the client and Karras. Karras accepts any reasonable limitation or restriction on the account placed by the client. All limitations and restrictions placed on account must be presented to Karras in writing.

Only those financial advisers, who have been approved by the Compliance department of Raymond James, will be granted discretionary authority. Discretionary accounts create increased liability for Karras. Therefore, all discretionary accounts must be approved by Raymond James prior to the placement of any opening transactions. Discretionary approval is granted for fee-based advisory accounts only; retail commission-based discretion is prohibited.

All discretionary accounts must be coded as *discretionary*. Karras approves each discretionary order on a daily basis. In addition, Karras reviews each discretionary account regularly to detect and prevent transactions that are excessive in size or frequency for a particular account. All transactions must be on an agency basis. Please note that Karras may not purchase low-priced securities in discretionary accounts on a discretionary basis. Orders for low-priced securities may be accepted on an unsolicited basis.

### Other Compensation Considerations:

#### Administrative-Only Assets

Certain securities may be held in an IMPAC account and designated "Administrative-Only" assets. For example, Karras may make an arrangement with you to hold a security that they did not recommend or you wish to hold for an extended period of time and do not wish for Karras to sell for the foreseeable future. In such cases Karras may elect to waive the advisory fee on this security, but allow it to be held in your advisory account. Alternatively, RJFSA may determine that certain securities may be held in an advisory account but are not eligible for the advisory fee (such as mutual funds purchased with a front-end sales charge through Raymond James within the last two years). Such designated assets will not be assessed an advisory fee. Administrative-Only assets will, however, be included in the account value when calculating applicable asset-based advisory fee rates.

### Asset-Based Fee Aggregation

Participants in the IMPAC program may be entitled to discounted asset-based fees if they maintain one or more eligible Related Accounts within these programs.

Related Accounts are accounts of an individual, his or her spouse, and their children under the age of twenty-one. The term includes individually owned accounts, individual retirement accounts (IRAs), self-directed accounts (i.e., directed by individual participants) under an employee benefit plan (ERISA plan) and ERISA plan accounts in which an individual is the sole participant. Thus, Related Accounts participating in the IMPAC program may be aggregated for advisory fee purposes, so that each account will pay a fee which is calculated on the basis of the total of all Related Accounts. It is your responsibility to identify all Related Accounts for purposes of qualifying for an aggregated account fee discount. While we may attempt to identify related accounts, we will not be responsible for failing to consider any related accounts not listed by you.

### Billing on Cash Balances

Raymond James generally assesses advisory fees on cash sweep balances ("cash") held in IMPAC accounts, provided the cash balance does not exceed 20% of the total Account Value. If the cash balance is greater than 20% of the Account Value as of the last business day of the quarter (the "valuation date"), Raymond James will bill on the full cash balance provided cash did not comprise greater than 20% of the billable Account Value for three consecutive quarterly valuation dates. If the cash balance exceeded 20% of the cash balance for three consecutive quarterly valuation dates, the amount in excess of 20% is excluded from billing. For example, an IMPAC account that held 30% of the Account Value for three consecutive billing valuation dates (March 31st, June 30th and September 30th) would have the amount in excess of 20% excluded from the Account Value in which advisory fees are applied. For simplicity of illustration, assuming an account was valued at \$100,000 for all three quarterly billing periods, with \$30,000 held in cash, the September 30th valuation date would exclude \$10,000 of the cash from the Account Value when assessing the advisory fee. If you participate in the IMPAC program and have one or more related accounts, you may request the 20% threshold be applied to the aggregate household cash value for fee purposes. This fee billing provision (or "Cash Rule") is intended to equitably assess advisory fees to your assets for which an ongoing advisory service is being provided, and the exclusion of excess cash from the advisory fee is intended to benefit your holding substantial cash balances (as a percentage of the total individual account value) for an extended period of time. However, this provision may pose a financial disincentive to Karras, as cash will not be included in the asset-based fee charged to the account.

The aforementioned Cash Rule is applicable only to cash sweep balances and, therefore, non-sweep money market investments would not result in excess "cash" balances being excluded from the asset-based advisory fee calculation. As a result, non-sweep money market mutual fund investments are generally prohibited as an investment option in fee-based accounts. However, certain money market mutual funds may be approved as an investment option, but will be designated as Administrative-Only assets as long as those investments are held in a fee-based account. Neither RJFSA nor Karras will receive fee-based compensation on these investments, but may receive compensation in the form of a 12(b)-1 fee or trail.

Employees of Raymond James or its affiliates are eligible for lower management fee arrangements for their personal accounts.

Please refer Item 14: "Client Referrals and Other Compensation" section for additional information regarding Participating Funds and Partner Funds.

## Freedom Account

For separately managed accounts, Karras may use Freedom. The Freedom Account Program ("Freedom") offers clients a broad selection of Strategies and allocation options within a given Strategy. Clients choosing to participate in the Freedom program appoint Raymond James as their investment adviser in recommending compatible Strategies, selecting Funds for investment, and managing the investments of client accounts participating in the selected Strategy on a discretionary basis. The Freedom program is comprised exclusively of mutual funds and/or ETFs.

Fees are incremental. The fee schedule breakpoints and rates may not be modified.

### All Strategies (Incremental Schedule)

<u>Account Value</u>	<u>Annual Fee</u>
First \$500,000	2.25%
Next \$500,000	1.75%
Next \$4,000,000	1.25%
Over \$5,000,000	1.00%

Leveraging off the research performed by AMS Manager Research & Due Diligence, the Investment Committee constructs multiple investment Strategies comprised of a combination of Funds and/or ETFs representing a broad array of asset classes and investment styles. The Investment Committee identifies asset classes and investment styles that perform differently under varying market conditions, yet are considered complementary to one another. The composition of a given Strategy may include domestic and international equity and fixed income Funds, as well as real estate investment trusts, commodity and other alternative investment Funds to enhance diversification.

A list of current Strategies is available through your financial advisor. In addition to the diversified Strategies, Freedom offers Completion Portfolios Strategies for Alternative Investments, Fixed Income and International Equity allocations. Completion Portfolios are designed to complete a client's asset allocation plan. For instance, if a client's current equity allocation consists of domestic stocks only, a Completion Portfolios account offers clients the opportunity to diversify into an alternative investment, international equity-based and/or fixed income portfolio, if appropriate for their situation. Raymond James, AMS and/or the Investment Committee may develop and offer additional Strategies or discontinue previously offered Strategies in the future, will add or remove Funds, and will likely modify the target allocations of the Strategies in the future.

Clients most appropriate for the mutual fund version of Freedom are those willing to pay more (via higher fund management fee and operating expenses) for the potential to outperform the market or benchmark indices over the long term, but should also be aware the potential to underperform is just as great.

Clients most appropriate for the ETF version of Freedom are those willing to achieve market-/benchmark-like returns, lower management fees and operating expenses (relative to mutual funds), with limited potential for the individual ETFs to outperform the respective market sectors or indices

they track. The “hybrid” versions of Freedom include allocations to both mutual funds and ETFs, versus strategies comprised entirely of mutual funds or ETFs. The hybrid strategies typically utilize ETFs in market sectors the Investment Committee considers more efficient (such as the domestic U.S. and international large capitalization core equity and domestic U.S. corporate, government and securitized bond markets). Alternatively, mutual funds are utilized in market sectors where the investment styles are focused on growth or value segments and in less liquid market sectors (such as domestic U.S. and international small-/mid-capitalization and emerging markets equity and alternative strategies such as managed futures). The hybrid strategies employ a “core” and “satellite” approach to asset allocation, where the core allocations are invested in ETFs the Investment Committee believe have a lower relative probability of outperforming the market/benchmark, and the satellite allocations are invested in actively managed mutual funds the Investment Committee believes have a higher relative probability of outperforming the market/benchmark.

Due predominantly to the tax exempt status of the interest paid on municipal fixed income securities, the yield has typically been lower than the yield on high quality corporate fixed income. Despite the lower yield, the tax exempt status of income from these securities may provide a net benefit over securities distributing taxable income to individuals (depending on the investor’s personal tax situation). There currently is no added tax benefit from holding a municipal fixed income security in a retirement account since distributions from retirement accounts are subject to state and federal income taxes at the investor’s marginal tax rate. As a result, AMS limits the ability of clients to invest their retirement account assets in Freedom municipal strategies. Pursuant to the Freedom Investment Management Client Agreement, municipal strategy selections made on behalf of tax-qualified retirement accounts will be automatically invested by AMS in the non-municipal fund strategy. For example, IRA and/or ERISA accounts that select the Balanced Municipal Strategy will be automatically invested in the Balanced Strategy.

The option to reinvest dividends is not available for ETF strategies. If no selection is made, all dividends will be paid in cash for the High Income and Retirement Income Solution mutual fund strategies. All other mutual fund strategies will reinvest dividends if no alternative selection is made.

## Freedom Strategies

The Investment Committee’s decisions will be based on recommendations provided by AMS Manager Research & Due Diligence, and the Strategies may include “Highly Recommended” Funds from the Raymond James Mutual Fund Research (“MFR”) coverage list. However, the Investment Committee is under no obligation to select Funds exclusively from MFR’s “Highly Recommended” list. For Funds selected by the Investment Committee that are not covered by MFR, it is reasonably likely that MFR will at some point in the future assume research coverage of the Fund(s), and that such Funds may be rated “Highly Recommended”.

AMS Manager Research & Due Diligence continually monitors the Funds in the Freedom. If a Fund is downgraded by MFR, the Investment Committee will determine the appropriate course of action, which may include replacing the downgraded Fund in all Strategies, if necessary.

The target allocations of the available Strategies apply at the time the client establishes an account. Additions to and withdrawals from an account will generally be invested based on the target

allocation. Fluctuations in the market value of securities, as well as other factors, however, will affect the actual asset allocation at any given time. AMS will annually rebalance the client's account, based on the anniversary date of its establishment, if at such time the actual asset allocation varies by more than certain predetermined percentages from the target allocation, as established by AMS. AMS may also rebalance an account upon request, or on an other than annual basis as it deems necessary (for example, when an account's cash balance falls below a level sufficient to cover advisory fees, during fund swaps, to maintain target allocations as a result of client-initiated account withdrawals or additions, among others).

Clients should be aware that ETFs and mutual funds have unique distinguishing characteristics and their cost structures differ, sometimes significantly. Because mutual funds are typically actively managed, the underlying management fees and operating expenses assessed by the fund companies are generally higher than those for ETFs, which typically seek to track the performance of an index (typically 1% to 1.5% for mutual funds versus .20% to .40% for ETFs, although individual mutual funds and ETFs may have higher or lower expense ratios). However, the Investment Committee considers the expense ratio when selecting funds and, where available, will select fund classes with a lower expense ratio (institutional or advisor class). Expense ratios for funds or ETFs selected by the Investment Committee are on average less than 1.00% for funds and less than 0.30% for ETFs, net of 12(b)-1 fees, if any, which if received by Raymond James are credited bi-monthly to the client's account(s).

Unlike shares of mutual funds, shares of ETFs are bought and sold based on market values throughout each trading day, and not at net asset value. For this reason, shares could trade at either a premium or discount to net asset value. The portfolio of securities held by an ETF that tracks an index is publicly disclosed on each trading day, and an approximation of the actual net asset value is disseminated throughout the trading day. Because of this transparency, the trading prices of these index-based ETFs tend to closely track the actual net asset value of the underlying portfolios. Actively managed ETFs will likely not have the transparency of index-based ETFs, and therefore, may be more likely to trade at a discount or premium to actual net asset values. If an ETF trades at a discount to its net asset value, the ETF may decline in value even if the securities in which it invests go up in value.

The Investment Committee may find occasion to invest in a mutual fund with relatively low assets under management. Depending on the total investment in such fund, Freedom accounts may collectively become a significant or majority shareholder of the fund. This could result in potential illiquidity in the event the Investment Committee determines a program-wide or cross-program redemption is warranted. The Investment Committee will endeavor to minimize the market impact of any investment related decisions that it makes.

Accounts may invest in ETFs classified as partnerships for U.S. federal income tax purposes, which may result in unique tax treatment, including Schedule K-1 reporting. Prospective or existing clients should consult their tax adviser for additional information regarding the tax consequences associated with the purchase, ownership and disposition of such investments. Additional information is also available in the fund(s') prospectus(es), which is (are) available upon request.

## Asset-Based Fees

For purposes of calculating and assessing asset-based fees, Raymond James uses the term “Account Value”, which may be different than the asset value as reported on brokerage statements provided by Raymond James to clients. Pursuant to the investment management or advisory agreement, Account Value is defined as the total absolute value of the securities in the Account, long or short, plus all credit balances, with no offset for any margin or debit balances. Please see “Review of Accounts – Brokerage Statement and Performance/Billing Valuation Differences for Fee-Based Accounts” for details on the account valuation methodology employed by Raymond James when calculating asset-based fees.

The annual asset-based fees associated with the aforementioned account programs are payable quarterly in advance. When an account is opened, the asset-based fee is billed for the remainder of the current billing period and is based on the initial contribution. Thereafter, the quarterly asset-based fee is paid in advance, is based on the Account Value as of the last business day of the previous calendar quarter, and becomes due the following business day.

If cash or securities, or a combination thereof, amounting to at least \$100,000 are deposited to or withdrawn from a client’s account on an individual business day in the first two months of the quarter, Raymond James will: (i) assess asset-based fees based on the value of the assets on the date of deposit for the pro rata number of days remaining in the quarter, or (ii) refund prepaid asset-based fees based on the value of the assets on the date of withdrawal for the pro rata number of days remaining in the quarter. No additional asset-based fees or adjustments to previously assessed asset-based fees will be made in connection with deposits or withdrawals that occur during the last month of the quarter unless requested by the client. Notwithstanding the above \$100,000 adjustment threshold, Raymond James reserves the right, in its sole discretion, to process or not process fee adjustments when the source and destination of deposits and withdrawals involve a client’s other fee-based advisory accounts. For example, a transfer of \$100,000 into a joint RJCS account funded from two \$50,000 withdrawals from separate Ambassador accounts will have the \$100,000 billed in their joint RJCS account and each of the Ambassador accounts will be refunded previously assessed fees on the separate \$50,000 withdrawals for the pro rata period remaining in the quarter.

The client authorizes and directs Raymond James as custodian to deduct asset-based fees from their account. Clients will be provided brokerage statements, at least quarterly, showing all amounts disbursed from their account, including the amount of the asset-based fee, the Account Value on which the fee was based, and the manner in which the fee was calculated.

Employees of Raymond James or its affiliates are eligible for lower management fee arrangements for their personal accounts.

## Billing on Cash Balances

Raymond James generally assesses advisory fees on cash sweep balances (“cash”) held in Freedom accounts, provided the cash balance does not exceed 20% of the total Account Value. If the cash balance is greater than 20% of the Account Value as of the last business day of the quarter (the “valuation date”), Raymond James will bill on the full cash balance provided cash did not comprise

greater than 20% of the billable Account Value for three consecutive quarterly valuation dates. If the cash balance exceeded 20% of the Account Value for three consecutive quarterly valuation dates, the amount in excess of 20% is excluded from billing. For example, an Ambassador account that held 30% of the Account Value for three consecutive billing valuation dates (March 31st, June 30th and September 30th) would have the amount in excess of 20% excluded from the Account Value in which advisory fees are applied. For simplicity of illustration, assuming an account was valued at \$100,000 for all three quarterly billing periods, with \$30,000 held in cash, the September 30th valuation date would exclude \$10,000 of the cash from the Account Value when assessing the advisory fee.

This fee billing provision (or “Cash Rule”) is intended to equitably assess advisory fees to client assets for which an ongoing advisory service is being provided; the exclusion of excess cash from the advisory fee is intended to benefit clients holding substantial cash balances (as a percentage of the total individual Account Value) for an extended period of time. Clients should understand that the portion of the account held in cash will experience negative performance if the applicable advisory fee charged is higher than the return received on the cash sweep balance.

Cash balances are generally expected to be a small percentage of the overall account value in Freedom managed accounts, although cash balances may fluctuate at any given time at the discretion of the portfolio manager or the AMS Investment Committee, as applicable. However, Freedom offers the Defensive Conservative Strategy which includes a 50% cash allocation, as well as the Defensive Balanced and Defensive Growth Strategies which include a 20% cash allocation. These Strategies are intended to provide clients the flexibility of raising cash in their Freedom account while maintaining continued market exposure. Clients selecting one of these Defensive Strategies should understand the cash balance is subject to the asset-based advisory fee, although the Cash Rule will apply to clients that select the Defensive Conservative Strategy. Due to the high cash allocation of the Defensive Strategies, clients should periodically re-evaluate whether their selection of such a Strategy is appropriate in light of their financial situation and investment goals.

The Cash Rule is applicable only to cash sweep balances and, therefore, non-sweep money market funds would not result in excess “cash” balances being excluded from the asset-based advisory fee calculation. As a result, non-sweep money market funds are generally prohibited as an investment option in fee-based accounts. However, certain money market funds may be approved as an investment option, but will be designated as Administrative-Only assets as long as these funds are held in a fee-based account. Neither Raymond James nor the financial advisor will receive fee-based compensation on these funds, but may receive compensation in the form of a 12(b)-1 fee or trail from the fund company.

## **Institutional Clients**

Institutional Consulting clients are charged an annual retainer fee, ranging up to \$50,000. Fees are paid quarterly in arrears.

### **Hourly Charges, Fixed Fees, and Commissions**

Karras has set a standard rate of \$250 an hour for consulting or financial planning. On a project-oriented basis or other terms that are applicable, the standard rate could be higher.

## How Fees are Paid

### STANDARD FEES FOR IMPAC

IMPAC fees are deducted directly from your account quarterly, in arrears. The initial asset-based fee will be calculated from the date of the agreement, or when the account is funded, to the end of the quarter. Subsequent fees will be based upon the total asset value of the account on the last day of the quarter, for the previous quarter.

### STANDARD FEES FOR FREEDOM

Freedom fees are deducted directly from client accounts quarterly, in advance. The initial asset-based fee will be calculated from the date of the agreement, or when the account is funded, to the end of the quarter. Subsequent fees will be based upon the total asset value of the account of the last day of the quarter.

### INSTITUTIONAL CLIENT FEES

Clients are sent a quarterly detailed invoice to pay fees for services provided in the previous quarter. Fees are paid in check form directly to Karras.

## Additional Expenses Not Included in Advisory Services

All fees paid to Karras for investment advisory and financial planning services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. Mutual fund expenses are generally described in each fund's prospectus. These expenses will generally include a management fee, other fund expenses, and possibly a distribution fee. In addition, mutual funds incur transaction costs and opportunity costs, which are not disclosed in the funds' prospectus or Statement of Additional Information, but which may be estimated.

You may also incur charges for other account services provided by Raymond James not directly related to the advisory, execution, and clearing services provided including, but not limited to, IRA custodial fees, safekeeping fees, charges/interest for maintenance of margin and/or short positions, and fees for legal or courtesy transfers of securities.

Certain open-end mutual funds that may be acquired by you, in addition to assessing management fees, internally assess a distribution fee pursuant to section 12(b)-1 of the Investment Company Act of 1940, or an administrative or service fee ("trail"). Trails are included in the calculation of operating expenses of a mutual fund and are disclosed in the fund prospectus. Karras may receive trails in addition to any advisory fee assessed in your account. The existence of a 12(b)-1 fee is disclosed in the mutual fund prospectus.

You should understand that the annual advisory fees charged in the IMPAC program are in addition to the management fees and operating expenses charged by open-end, closed-end and exchange-traded funds. To the extent that you intend to hold fund shares for an extended period of time, it may be more economical for you to purchase fund shares outside of these programs. You may be able to purchase mutual funds directly from their respective fund families without incurring the Registrant's



advisory fee or, where applicable, processing and handling fees. When purchasing directly from fund families, you may incur a front or back-end sales charge.

You should also understand that the shares of certain mutual funds offered in these programs impose short-term trading charges (typically 1%-2% of the amount originally invested) for redemptions generally made within short periods of time. These short-term charges are imposed by the funds (and not RJFSA) to deter “market timers” who trade actively in fund shares. You should consider these short-term trading charges when selecting the program and/or mutual funds in which they invest. These charges, as well as operating expenses and management fees, increase the overall cost to you by 1%-2% (or more). More information is available in each fund’s prospectus.

You should be aware that exchange traded funds (“ETFs”) incur a separate management fee, typically 0.20%-0.40% of the fund’s assets annually (although individual ETFs may have higher or lower expense ratios), which is assessed by the fund directly and not by RJFSA. This management fee is in addition to the ongoing advisory fee assessed by RJFSA, and will generally result in clients which utilize a Separately Managed Account Investment Strategy that invests in ETFs paying more than clients utilizing one that does not invest in ETFs, without taking into effect negotiated asset-based fee discounts, if any.

Certain ETFs may be classified as partnerships for U.S. federal income tax purposes, which may result in unique tax treatment, including Schedule K-1 reporting. Prospective or existing Freedom clients should consult their tax adviser for additional information regarding the tax consequences associated with the purchase, ownership and disposition of such investments. Additional information is also available in the ETF prospectus, which is available upon request.

Alternative Investments refers to securities products that serve as alternatives to more traditional asset classes and may include investment products such as hedge funds, private equity funds, private real estate funds and structured products. RJA, through its affiliates, offers a wide range of alternative investments. It is important for you to work with Karras to evaluate how a particular alternative investment and its features fit your individual needs and objectives. An important component of the selection process includes carefully reading the accompanying offering documents and/or prospectus prior to making a purchase decision. The offering documents contain important information that will help you make an informed choice.

As part of the review process, you should consider the fees and expenses associated with a particular alternative investment, along with the fact Karras and RJA, through its affiliates, receive compensation related to any such purchase. It is important to note that the fees and expenses related to alternative investments are often higher than those of more traditional investments. Karras will answer any questions regarding the total fees and expenses and the initial and ongoing compensation.

While each investment will differ in terms of both total fees and expenses and how those fees and expenses are calculated, the following section will discuss the primary categories of fees and expenses that are common to many alternative investments and the different ways that RJA and its affiliates and Karras may be compensated.

- **Management fees:** The manager for any particular investment will often charge a management fee that is based on the total value of your investment. As the value of your investment increases, the total management fees that a manager receives increases. As the value of your investment decreases, the total management fees that a manager receives decreases. These fees are similarly structured but are often higher than management fees associated with other, more traditional, investments such as mutual funds. RJA and its affiliates and/or Karras may share in a portion of management fees to which an investment manager is entitled.
- **Incentive-based compensation:** Many alternative investment managers receive incentive-based compensation in addition to management fees. Incentive-based fees typically involve the manager retaining a percentage of profits generated for clients. Fees related to incentive compensation are often referred to as incentive/performance-based fees or carried interest. It is important to note that these fees are in addition to management fees that are charged by the manager and that the exact calculation of incentive fees or carried interest differs by product and manager. RJFSA and/or Karras may share in any incentive-based compensation to which an investment manager is entitled.
- **Upfront or ongoing servicing fees or placement fees:** Many alternative investments have upfront costs. These fees are generally based on the total amount of your investment. Additionally, there may be ongoing fees, based on value of your investment, that are directly related to compensating Karras and/or RJFSA. The total level of compensation received by RJFSA may be related to the total RJFSA client capital invested with a particular manager or product.
- **Redemption fees:** Some investments have direct or indirect costs related to liquidating your position, particularly if an investment is liquidated shortly after being purchased or if an investment is specifically designed to provide limited or no liquidity to investors.

Alternative investment strategies may be accessed through a variety of legal structures, including mutual funds, limited partnerships and limited liability companies. In certain structures, particularly for new offerings, investors may incur organization and offering expenses that are related to the creation of the legal structure and marketing of the product. These costs ultimately serve to decrease the amount of the client's investment. Additionally, investors may incur other expenses based on the investment activity of the fund. For instance, in a real estate fund, investors may be charged fees related to the acquisition of a property. In a hedge fund that shorts stock, there are costs associated with establishing and maintaining the short position. Lastly, investors in alternative investments generally bear the cost of certain ongoing expenses related to administration of the product. These expenses may include costs related to tax document preparation, auditing services or custodial services.

Alternative investments often have limited liquidity, intermittent pricing and values based on appraisal-based pricing versus market-based pricing. Additionally, if an alternative investment is reflected on your Raymond James statement, the value reflected is often an estimate subject to revision by the investment manager. One or a combination of these issues impact the value on which you are charged when your investment is eligible for asset-based advisory fees. RJFSA will typically only assess an advisory fee on alternative investment products that are priced at least quarterly and are

not assessed an upfront commission or sales load upon initial investment. Conversely, alternative investment products not eligible for the asset-based advisory fee typically price less frequently than quarterly and/or have an upfront commission or sales load assessed upon the initial investment; such investments will be designated as Administrative-Only assets by RJFSA. You may hold one or more of these Administrative-Only products in your IMPAC account, but no asset-based advisory fee will be assessed as long as they are held in your IMPAC account.

You should also understand that certain no-load variable annuities may be held in the IMPAC programs and charged an advisory fee. The annual advisory fees charged for these variable annuities are in addition to the management fees and operating expenses charged by the insurance companies offering these products.

You should understand that certificates of deposit ("CD"s) from Raymond James Bank may be purchased, with a commission in the IMPAC program. These CDs are considered non-billable assets for one year. Due to Karras's affiliation with Raymond James Financial (NYSE-RJF) and Raymond James Bank, being a wholly owned subsidiary of Raymond James Financial, Inc. (NYSE-RJF), a potential conflict of interest exists.

You should also understand that more sophisticated investment strategies such as short sells and margins may be offered in the IMPAC program. Fees for advice and execution on these securities are based on the total asset value of the account. While a negative amount may show on your statement for the margined security as the result of a lower net market value, the amount of the fee is based on the absolute market value. This could create a conflict of interest where Karras benefits from the use of margin creating a higher absolute market value and therefore receive a higher fee. The use of margin also results in interest charges in addition to all other fees and expenses associated with the security involved.

Your total cost of each of the services provided through these programs, if purchased separately, could be more or less than the costs of each respective program. Cost factors may include your ability to:

- 1) obtain the services provided within the programs separately with respect to the selection of mutual funds,
- 2) invest and rebalance the selected mutual funds without the payment of a sales charge, and
- 3) obtain performance reporting comparable to those provided within each program.

When making cost comparisons, you should be aware that the combination of multiple mutual fund investments, advisory services, and custodial and brokerage services available through each program may not be available separately or may require multiple accounts, documentation and fees. If an account is actively traded or you otherwise may not qualify for reduced sales charges for fund purchases, the fees may be less expensive than separately paying the sales charges and advisory fees. If an account is not actively traded or you otherwise would qualify for reduced sales charges, the fees in these programs may be more expensive than if utilized separately.

Further information regarding fees assessed by a mutual fund, variable annuity or UIT is available in the appropriate prospectus, which you may request from Karras.

The mutual funds and ETFs available in the programs often may be purchased directly. Therefore, you could avoid the second layer of fees by not using the investment advisory account and making your own decisions regarding the investment.

You should be aware that only those mutual fund companies which RJFS has a selling agreement with will be available for purchase within the IMPAC program, and are generally limited to those fund companies that provide RJFS and its affiliates marketing service and support fees. As a result, not all mutual funds available to the investing public will be available for investment. However, RJFS has selling agreements with over 300 fund companies, offering over 9,000 separate mutual funds for potential investment.

If you are considering transferring mutual fund shares to or from Raymond James you should be aware that if the firm from or to which the shares are to be transferred does not have a selling agreement with the fund company, you must either redeem the shares (paying any applicable contingent deferred sales charge and potentially incurring a tax liability) or continue to maintain an investment account at the firm where the fund shares are currently being held. You should inquire as to the transferability, or "portability", of mutual fund shares prior to initiating such a transfer. The AMS Investment Committee may invest in funds or share classes not available outside of managed account programs such as the Freedom program. For example, a fund company may agree to allow the AMS Investment Committee to buy an institutional share class of a fund for Freedom program accounts, while restricting individual client-directed purchases of the same share class in non-managed retail accounts. Upon termination of their Freedom account, you would generally be permitted to continue holding the institutional class of the fund, but will be unable to make additional investments. In addition, upon termination of an account holding Separately Managed Account ("SMA") Fund shares purchased in a managed account through RJA, these shares will be redeemed immediately by RJA, as they may not be held outside of an SMA account.

Raymond James provides a variety of marketing and other sales support services to mutual fund companies related to their mutual funds which depend on the tier level of the mutual fund company - Premier, Preferred, or Partner. The participants in the three tiers in Education and Marketing Support Program were selected based on a number of quantitative and qualitative factors. These services include, but are not limited to, providing detailed mutual fund information to financial advisors, assisting mutual fund companies with strategic planning support, inclusion in the no Transaction Fee Platform, and providing opportunities for assisting with professional development workshops, study groups, and other events and conferences. The level of support and types of services provided are commensurate with the tier level and increase at higher tiers.

Raymond James also provides distribution support for prospectuses and promotional materials relating to their mutual funds. The marketing service and support fees come in a variety of forms, including payments which are sometimes referred to as "revenue sharing" fees and 12b-1 fees. This compensation may not be disclosed in detail in a mutual fund's prospectus or Statement of Additional

Information. The following schedule gives you an idea of the potential level of marketing support or revenue sharing fees that Raymond James receives from a particular mutual fund group:

- up to 0.14% on mutual fund share purchases (e.g., \$14 for a \$10,000 purchase) and/or
- up to 0.30% per year on mutual fund assets

The actual amounts that Raymond James receives will vary from one mutual fund Company to another and investments in certain asset classes and/or mutual fund types may be excluded from the above formulas.

For a list of fund companies that have agreed to participate in Raymond James' current Education and Marketing Support program, please visit:

[http://www.raymondjames.com/disclosure\\_mutual\\_funds\\_co.htm](http://www.raymondjames.com/disclosure_mutual_funds_co.htm). Mutual fund companies that are indicated with an asterisk (\*) have also agreed to participate in the No Transaction Fee (NTF) Platform.

Marketing representatives of mutual fund companies, who are often referred to as "wholesalers", work with Raymond James financial advisors and their branch office managers to promote their mutual funds. Consistent with applicable laws and regulations, these mutual fund companies may pay for or provide training and education programs for Raymond James' financial advisors and their existing and prospective clients. Mutual fund companies may also pay for due diligence meetings, conferences, relationship building events, occasional recreational activities and other events or activities that are intended to result in the promotion of their mutual funds.

Mutual fund companies with mutual funds electronically linked or "networked" with a broker/dealer's account system or with mutual funds available through a broker/dealer's fee-based account programs often reimburse broker/dealers for a portion of their account servicing and administrative costs, which may include accounting, statement preparation and mailing, tax reporting and other shareholder services. Networking is a service that enables data sharing between Raymond James and mutual fund providers and/or their transfer agents. Raymond James currently receives up to \$ 20 annually in servicing fee reimbursements per each client mutual fund position. RJFSA IARs do not receive any part of these payments.

For a list of fund companies that have agreed to pay Raymond James networking or servicing fees, please visit: [http://www.raymondjames.com/disclosure\\_mutual\\_funds.htm](http://www.raymondjames.com/disclosure_mutual_funds.htm).

In addition, you may write to us to request a list (either Raymond James' Education and Marketing Support program or of fund companies that have agreed to pay Raymond James networking or servicing fees) at:

Raymond James Advisory Compliance  
880 Carillon Parkway  
St. Petersburg, FL 33716

You may also call Raymond James Advisory Compliance at 800-237-8691, extension 75877 or email us at [RJFSAdcompliance@raymondjames.com](mailto:RJFSAdcompliance@raymondjames.com).

Mutual fund companies will also pay Raymond James fees to provide shareholder liaison services to you. These shareholder services may include responding to your inquiries and providing information on your investments. Raymond James may receive these shareholder services fees in amounts not to exceed 0.25% annually of the assets invested in a particular mutual fund.

Raymond James may also receive annual fees of up to \$10,000 from each mutual fund company for providing marketing and sales support services for certain corporate retirement plans. Raymond James makes available to its clients a variety of mutual funds advised or offered by Eagle Asset Management, Inc. ("Eagle"), a subsidiary of Raymond James, including the Eagle Class shares of the J.P. Morgan Prime and Tax Free Money Market Funds. Raymond James and its affiliates generally receive more revenue for selling mutual funds advised or offered by Eagle because they receive compensation for providing these mutual funds with services not provided to unaffiliated mutual funds, including (but not limited to) investment advisory, administrative, transfer agency, distribution and/or other services. Payments made by mutual funds advised or offered by Eagle to Raymond James and its affiliates may be terminated, modified, or suspended at any time. Raymond James financial advisors and branch managers do not receive additional compensation or other cash or non-cash incentives for recommending mutual funds (or any particular class thereof) advised or offered by Eagle.

In addition to the aforementioned compensation arrangements in connection with Raymond James' mutual fund sales, Raymond James receives compensation from its affiliate Eagle for providing services unrelated to sales of Eagle mutual funds, including (but not limited to) consulting services, marketing services, sponsorship fees, and support services and transfer credits for trade execution services. Payments made by Eagle to Raymond James may be terminated, modified, or suspended at any time.

## Additional Disclosures

### Investment of Cash Reserves

Raymond James has established a system in which cash reserves "sweep" daily to and from your investment account to cover purchases or to allow excess cash balances to immediately begin earning interest, subject to certain minimum balances. The account in which these cash reserves are held is considered your sweep account. Available sweep options include the Raymond James Bank Deposit Program ("RJBDP"), the Client Interest Program ("CIP") sponsored by Raymond James, and a proprietary class of money market funds (the "Eagle Class - JP Morgan Money Market Funds") of the JP Morgan Prime Money Market Fund and JP Morgan Tax Free Money Market Fund, managed by J.P. Morgan Investment Management, Inc. ("J.P. Morgan") and offered by Eagle. You may select RJBDP, CIP, the Eagle Class - JP Morgan Money Market Funds, or any combination thereof.

With respect to cash reserves of advisory client accounts, the custodian of the account assets will determine where cash reserves are held. The custodian may offer one or multiple options to different account types (such as non-taxable and managed accounts). In addition, the custodian may, among other things, consider terms and conditions, risks and features, conflicts of interest, current interest

rates, the manner by which future interest rates will be determined, and the nature and extent of insurance coverage (such as deposit protection from the Federal Deposit Insurance Corporation ("FDIC") and the Securities Investor Protection Corporation ("SIPC")). The custodian may change an investment option at any time by providing you with thirty (30) days advance written notice of such change, modification or amendment.

If you select the RJBDP option you are responsible for monitoring the total amount of deposits held at each Bank in order to determine the extent of FDIC insurance coverage available. Raymond James is not responsible for any insured or uninsured portion of your deposits at any of the Banks.

Raymond James Bank and the interest rate it offers may differ from the yield on the Eagle Class - JP Morgan Money Market Funds and CIP, but Raymond James Bank generally earns more than the interest it pays on such balances. The Eagle Class - JP Morgan Money Market Funds are offered by Eagle through an agreement with J.P. Morgan. Under the agreement, Eagle, Eagle Fund Services, Inc. and Eagle Fund Distributors, Inc. (together, the "Eagle Affiliates"), and Raymond James and its affiliate RJFS are compensated by the Eagle Class - JP Morgan Money Market Funds and J.P. Morgan for, among other things, distribution costs, shareholder record-keeping activities, and the coordination and administration of the funds. Raymond James generally earns a higher rate of interest on CIP balances than the interest rate it pays on such balances. The income earned by the Eagle Affiliates and Raymond James is in addition to the asset-based fees that Raymond James receives from these accounts.

Where an unaffiliated third party acts as custodian of account assets, you and/or the custodian will determine where cash reserves are held.

Cash balances arising from the sale of securities, redemptions of debt securities, dividend and interest payments and funds received from customers are invested automatically on a daily basis to your cash sweep account. When securities are sold, funds are deposited on the day after settlement date. Funds placed in your account by personal check usually will not be invested until the second business day following the day that the deposit is credited to the Client's account. Due to the foregoing practices, Raymond James may obtain federal funds prior to the date that deposits are credited to your accounts and thus may realize some benefit because of the delay in transferring of such funds to their interest-bearing cash sweep account.

## Other Services

### Buying Securities on Margin and Margin Interest

When clients purchase securities they may either pay for the securities in full or borrow part of the purchase price from Raymond James. Clients that choose to borrow funds for purchases must open a margin account with Raymond James, upon approval based on the firm's analysis of, among others things, the client's creditworthiness and the suitability of margin use by the client. The securities purchased on margin are the firm's collateral for the margin loan. If the securities in the client's account decline in value, so does the value of the collateral supporting the margin loan, and as a result, Raymond James may take action, such as issue a margin call and/or sell securities in the account, in order to maintain the required equity.

It is important that clients fully understand the risks involved in trading securities on margin (including selling short). Upon approval, where applicable, clients will receive a Truth In Lending Statement from Raymond James disclosing such risks, as well explaining the details and conditions under which interest will be charged, the method of computing interest and the conditions under which additional collateral may be required. Clients should understand that the extension of credit by Raymond James to clients will appear as a debit balance on the monthly brokerage statement. While the value of the margined security will appear as a debit, clients with a margin balance in an account in the IMPAC account program will be assessed asset-based advisory fees based on the gross value of the account(s) without any offset for margin or debit balances. With respect to short sales, the client will be assessed asset-based advisory fees based on the value of the security sold short, but not on the proceeds received upon initiation of the short sale.

As a result of the foregoing, Karras and Raymond James benefits by recommending the acquisition of securities on margin or otherwise have margin credit extended (including selling short). In the event of such margin credit extension, the costs incurred by the client, as well as the compensation received by the client's financial advisor and Raymond James, will generally increase as the size of the outstanding margin balance increases. Please refer to the "Client Referrals and Other Compensation Arrangements" section for information regarding additional compensation received by Raymond James in connection with margin interest and short sales.

Clients that purchase securities on margin should understand: 1) the use of borrowed money will result in greater gains or losses than otherwise would be the case without the use of margin, and 2) there will be no benefit from using margin if the performance of their account does not exceed the interest expense being charged on the margin balance plus the additional advisory fees assessed on the securities purchased using margin.

## Use of Assets as Collateral

### Securities-Based Lending

In certain circumstances, the client may wish to enter into a loan agreement with Raymond James Bank N.A. ("RJ Bank"), a wholly-owned subsidiary of Raymond James Financial and an affiliate of Raymond James, and utilize the assets in the client's investment management or other custodial account(s) as collateral for the loan (also known as "pledging"). In these situations, the loan cannot be used to acquire additional securities. The client is responsible for independently evaluating whether: (i) the loan is appropriate for their needs; (ii) the terms on which RJ Bank is willing to lend are acceptable; and (iii) the loan will have adverse tax, investment, accounting or other implications for the client and the account.

At the client's election and RJ Bank's consent, securities in the client's custodial account may be used as collateral for these loans. RJ Bank may use different valuations for the securities in connection with any loan than the values reflected on brokerage or other performance statements or for other purposes. As a result, collateral values that RJ Bank provides may be materially different than the fair value of or other pricing provided by Raymond James on these securities. Unless otherwise specified, products purchased from or held at Raymond James are not insured by the FDIC, are not deposits or other obligations of RJ Bank, are not guaranteed by RJ Bank, and are subject to investment risks, including possible loss of the principal invested.



The fees related to a securities-based loan are separate from the advisory fees charged to a client's account(s). Additionally, RJ Bank compensates Raymond James for the financial advisor's referral and for other services performed by Raymond James' margin department such as, but not limited to, the monitoring of margin levels, calls, and liquidations as needed. The additional compensation received by Raymond James, typically shared with the financial advisor, may result in a conflict of interest. Clients should explore this subject thoroughly with their financial advisor in order to be able to determine whether a securities-based lending arrangement is appropriate for their needs.

#### Risks and Conflicts Related to Pledging Assets

There are certain risks and conflicts of interest that arise when RJ Bank lends to a client against a pledge of the client's advisory assets, including: (i) fees and interest received from the client in connection with the loan, which fees and interest may be substantially higher than those charged by other lenders, (ii) a situation could arise where the value of the account is zero and the client still owes money on the loan, (iii) the client will no longer have the benefit of segregation rights for its pledged assets but, instead, will grant Raymond James full rights to re-hypothecate the pledged assets and use them in Raymond James' own business, thereby increasing the client's credit exposure upon an insolvency of Raymond James or RJ Bank to the extent that the value of the pledged assets are greater than the value of the loan, (iv) RJ Bank may force the sale of assets in the client's account(s) if the value of those assets falls below certain levels, (v) neither RJ Bank nor Raymond James is obligated to contact the client before selling assets to enforce RJ Bank's rights under the loan and may sell the assets in any manner Raymond James may choose in our sole discretion, including for prices that are less than the value that the client believes the assets are worth or are not the best available, (vi) the client is not entitled to select which assets are liquidated to meet a margin call or satisfy a repayment requirement under the terms of the loan and assets may be selected for liquidation that the client wishes to retain, or that may be difficult for the client to replace, or that have a low tax basis and, thus, through the liquidation, create an adverse taxable event for the client, (vii) RJ Bank is entitled to require the client to provide collateral substantially in excess of statutorily required margin levels and to increase the amount of required margin in the client's account(s) at any time (including intra-day) without prior notice to the client, (viii) the client is not entitled to an extension of time on a margin call, (ix) the timing and size of securities sales in connection with enforcement of RJ Bank's rights pursuant to the loan might be different than if those securities were not used as collateral in connection with the loan, (x) the loan itself as well as the selling of collateral in the accounts pursuant to the terms of the loan may negatively impact the performance of the account and, in the event of quick liquidations of securities pledged as collateral, may adversely affect the price of the underlying securities and, thus, the value of other accounts of the client, (xi) with respect to the loan and collateral, RJ Bank will act in the capacity of a lender and may take the actions described above, which may be in conflict with the client's best interest and with Raymond James' role as an investment adviser to the client's applicable advisory account(s) including, without limitation, selling the loan to a third party that has no relationship with the client, (xii) since Raymond James has not developed customer statements or performance reports that reflect the impact of the loans reflected in a client's account(s), which are generally reflected as a debit or negative value, clients must review the different types of reports generated for their margin loan, their advisory account and any account in which the loan proceeds are reinvested to determine the impact of the loan or margin on their investment performance, including material adverse trends, (xiii) RJ Bank may call the loan at any time, even if at such time it is unfavorable to the client or the client does

not, to RJ Bank's knowledge have sufficient funds to repay the loan at such time, and (xiv) Raymond James does not act as an investment adviser to the client with respect to any assets (including securities) which the client may acquire with the proceeds of the loan.

In authorizing the use of margin and/or entering into a loan arrangement with RJ Bank, the client will be: (i) deemed to consent to incurring the risks described above, (ii) deemed to consent to the conflicts of interest on the part of RJ Bank, Raymond James and its affiliates, including, without limitation, conflicts arising due to RJ Bank's role as lender and Raymond James' role as the investment adviser to the client, where applicable, and (iii) required to provide written representations, agreements and consents to RJ Bank, upon which RJ Bank will rely in extending a loan, concerning a number of risks and conflicts, including those described herein, as well as representations regarding the client's sophistication, understanding of the role of margin, including that the use of margin increases the risk of loss to the client, and non-reliance on Raymond James and its affiliates for advice regarding the loan.

### **Institutional Clients:**

Institutional Clients are billed a quarterly fee, in arrears. The client's send a check for the amount billed. In addition to the quarterly fee, these clients pay Karras for expenses incurred during the respective quarter. These expenses include paper, printing, binding, shipping charges, and traveling expenses for Karras.

### **Comparable Services**

Karras believes that the charges and fees offered within its program are competitive with alternative programs available through other firms offering a similar range of services; however, lower fees for comparable services may be available from other sources. You could invest in mutual funds directly, without the services of Karras. In that case, you would not receive the services provided by Karras which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate for your financial condition and objectives.

### **Proper Management of Conflicts of Interest**

Some of our client's pay Karras fees based upon a percentage of the assets we advise upon. This is a very common form of compensation for registered investment advisory firms and avoids the multiple inherent conflicts of interest associated with commission-based compensation. Any advice that increases assets under our management will increase the management fee, and any advice that decreases assets under our management decreases the management fee. We strive to maintain a high degree of objectivity and ensure that our advice is not based on these considerations. However the potential for conflict of interests exists and you must be aware of that fact as they consider our recommendations. We have adopted internal policies to properly manage these and other potential conflicts of interest. Our goal is that our advice to you remains at all times in your best interest, disregarding any impact of the decision upon our firm.

## **Item 6      Performance-based fees and Side-by-side Management**

Karras does not charge fees based on performance.

## **Item 7      Types of Clients**

Karras generally provides investment advice to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, or business entities other than those listed above.

Karras requires new clients to have \$250,000 in assets under management, with the exception of a current client relationship already established. Also, clients must be at age of majority to open an account with Karras.

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

### **Generally**

Karras provides an investment strategy and its implementation for all clients, utilizing a variety of stock securities or securities pooled investment vehicles (such as mutual funds). Clients of Karras receive the benefit of Karras' developed investment philosophies and strategies, research and due diligence, account monitoring and personal financial planning recommendations.

Expansive academic research, investment information, and certain proprietary analyses are drawn up by Karras, in order to provide innovative investment advisory services. Each of Karras' clients receives a written Portfolio Recommendation, which sets forth a recommended strategic asset allocation. Karras' philosophy is to bring the client's over-all portfolio volatility down.

Specific stocks, mutual funds and other investment products and securities are then recommended to clients. Client's portfolios are then periodically monitored and changes to investment portfolios are suggested when appropriate. A disciplined approach to rebalancing is employed in order to maintain asset class exposures within desired risk tolerances, subject to variances permitted for tax reductions, tax planning or other reasons.

### **Methods of Analyses and Investment Strategies**

Karras' methods of analyses include stock research which applies Fundamental analyses. Fundamental analyses involve analyzing the characteristics of a company in order to estimate its value. Karras' methods also include a Technical analysis, which involves price movements in the market.

In designing investment plans for clients, Karras relies upon the information supplied by the client and the client's other professional advisors. Such information may pertain to the client's financial situation, estate planning, tax planning, risk management planning, short-term and long-term lifetime financial goals and objectives, investment time horizon, and perceived current tolerance for risk.

This information becomes the basis for the strategic asset allocation plan which we believe will best meet the client's stated long term personal financial goals. The strategic asset allocation (based on historical data and Karras analysis) will possess attractive combinations of long term purchases, short

term purchases, trading, short sales, margin transactions, and option writing, including covered options, uncovered options or spreading strategies.

A tremendous amount of research reveals that strategic asset allocation is determinative of the majority of the expected long-term gross returns of investor's portfolios. Karras' investment approach is firmly rooted in the belief that markets are fairly efficient (although not always rational) and that investors' gross returns are determined principally by asset allocation decisions. Karras focuses on providing diversified portfolios, principally through the use of stocks and stock mutual funds.

Investment policy and overall portfolio weightings as between equities and fixed income investments are based upon each client's needs and desires, perceived risk tolerance and the need to assume various risks, and investment time horizon. The portfolios of clients may then follow models designed by Karras to fit the overall weightings of equities (stocks, stock mutual funds, etc) and fixed income investments (notes, bonds, bond funds, CDs, etc) in an investor's portfolio. Karras analyzes the objectives of the client; the absolute need for liquidity, income, growth of income, growth of principal, and preservation of capital. Karras balances all of these needs and helps clients develop an investment strategy that will maximize the probability of achieving those needs. The client's investment objectives also consider the rate of inflation. Based on the portfolio's assets liability structure and spending requirements, Karras assists in establishing return objectives.

## Sources of Information

Our security analysis is based upon a number of factors including those derived from financial newspapers and journals, research materials, securities rating services, annual reports, prospectuses, filings with the SEC, company press releases, commercially available software technology containing fundamental and technical analyses, general economic and market and financial information, due diligence reviews and specific investment analyses that clients may request. The main sources of information include commercially available investment information and evaluation services, financial newspapers and journals, academic papers and periodicals. Prospectuses, statements of additional information, and data aggregation services (Morningstar Advisor, etc) are also utilized. Karras also attends various investment and financial planning conferences.

Research is also received from consultants, including financial economists affiliated with Raymond James Financial Services. Raymond James provides historical market analysis, risk/return analysis, and continuing education services. Various computer software programs from Raymond James and from other third parties may also be utilized to better model the historical and/or expected returns of designed portfolios.

## Types of Investments

Each client typically receives an investment portfolio which consists mainly of stocks and of no-load stock and bond mutual funds. Some investment portfolios may also include individual fixed income investment (bonds, CD's, etc) and/or bond funds. For clients with a substantial fixed income allocation, Karras generally recommends a combination of bond funds and individual fixed income

investments, with recommended actual investments dependent upon Karras' views of the risk/return relationship for various forms of fixed income investment or bond funds.

Client portfolios may also include some individual equity securities. Publicly traded real estate investment trusts (REITS) and commodities index or passive mutual funds or ETFs may be recommended for certain clients who desire to include real estate or commodities in their asset allocation strategy.

Insurance products such as annuities and various types of life insurance products may also be evaluated. Recommendations may be undertaken to clients to invest in low-cost, no-load (no commission) variable or fixed deferred or immediate annuities when appropriate to the circumstances and tax situation of the client. More often this occurs when a client possesses an existing high-cost variable annuity, and a rollover of the annuity is indicated rather than a redemption for tax planning purposes, in order to seek to lower the total fees and costs paid by the client and/or provide different investment choices. At times clients may be advised to retain an existing annuity, previously purchased by the client, or undertake partial or full surrenders of same (and/or tax-free exchanges), following an evaluation of the annuity contract, riders thereto, investment alternatives within the annuity and their fees and costs, including any surrender fees which may be imposed by the insurance company.

New clients' existing investments are evaluated in light of the desired investment policy objectives. We work with new clients to develop a plan to transition from a client's existing portfolio to the desired portfolio. Investment advice may be offered on any investment held by a client at the start of the advisory relationship. Each client's portfolio holdings and strategic asset allocation are then monitored periodically, taking into account the cash flow needs of the client. Review meetings with clients are held regarding either investment assets under advisement or other personal financial planning issues.

## **Risk of Loss**

Investing in securities involves a risk of loss that clients should be prepared to bear. The investment recommendations seek to limit risk through broad global diversification in equities (though broadly diversified stock mutual funds and/or separate account management programs) and investment in high quality fixed income securities or diversified bond funds.

However, the investment methodology will still subject the client to decline in the value of their portfolios, which can at times be dramatic. We believe there exists a high probability in most market environments of a long-term (15 year or greater) outperformance of small cap and value stocks, relative to large cap and growth stocks, and hence the stock (equities) portion of an investor's portfolio may be tilted toward small cap and value stocks. Accordingly, the normal greater expected return of the equity portion of the portfolio will in turn often permit the overall allocation to equities (stocks, stock mutual funds) to be reduced, and the allocation to fixed income investments increased. Karras believes this is the best manner to temper the shorter-term volatility of the stock market, especially for clients who derive cash flow from their portfolios (such as clients who are in retirement years).

Karras' investment philosophy is best suited for investors who desire a buy and hold strategy for substantial portion of their funds. Karras stock mutual fund strategies are usually appropriate for clients possessing an investment time horizon of a minimum of ten years, and preferably even longer. Even then, investing is inherently uncertain as to future returns. Karras does not engage in market timing activities. Karras believes the equity, value and small cap effects are highly likely to occur in the future, over long periods of time. While Karras seeks to reduce non-compensated risks to which a client may be exposed, other risks (including but not limited to the risk of a general stock market decline) may be assumed in order to seek to attain the client's longer-term goals and objectives; however, Karras cannot provide any guarantee that the client's goals and objectives will be achieved.

Karras at times may recommend the purchase individual common stocks, and clients may at times desire to retain certain existing holdings, or to purchase same. Reasons for client's desires might include emotional ties to the stock and/or the presence of substantial unrealized capital gains or other reasons. When individual common stocks (and related types of securities, such as American Depository Receipts) are held in a client's investment portfolio, the client remains exposed to specific company risks.

Individual U.S. government, government agency, AAA rated and AA rated corporate and municipal bonds may be recommended to clients. All bonds bear risk of default and such bonds generally possess somewhat higher risks. Karras undertakes annual due diligence on all corporate and municipal bond issuers.

While all Certificates of Deposits (CDs) are FDIC insured, the pricing of certain of these CDs, which trade in the secondary market can vary due to price declines and/or transaction costs associated with trading, these CDs could lose value if redeemed prior to maturity. When CDs are recommended to clients, it is our intent that clients hold the CDs to maturity.

## **Item 9      Disciplinary Information**

Karras has no disciplinary history.

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

The Karras Company, Inc. is a financial advisor, as designated by the client, who is registered as a registered representative of Raymond James Financial Services Advisory, Inc (RJFSA). The primary affiliation of RJFSA, through its holding company Raymond James Financial, Inc. (RJF) is with Raymond James Financial Services Inc. (RJFS), member FINRA/SIPC, through various licenses and registrations. RJFS is a broker-dealer and primarily in the business of selling securities and other investments including annuity, fixed and life insurance products, on a full-time basis in all 50 states, including DC, Puerto Rico and the US Virgin Islands. RJA, RJFSA and RJFS will be collectively referred to as Raymond James.

Another important affiliation of RJFSA, through its holding company Raymond James Financial, Inc. (RJF) is with Raymond James & Associates, Inc. (RJA), which is a broker-dealer and member of the

New York Stock Exchange and a registered investment adviser. RJA acts as the clearing firm for those accounts and securities transactions introduced by RJFSA. RJFSA is obligated to seek best execution pursuant to its fiduciary duty as an SEC registered investment adviser for all trades executed, however better executions may be available via another broker-dealer based on a number of factors including volume, order flow and market making activity. To the extent recommendations are implemented through this affiliate, it should be noted that compensation will contribute to the overall profitability of the holding company, RJF.

RJFSA will recommend RJA to you as clearing firm. RJFSA IARs may also be registered representatives of RJFS and therefore subject to FINRA's Conduct Rule 3040. Therefore, you are advised that such IARs are most often limited to conducting securities transactions through RJFS and its clearing firm RJA. It may be the case that RJFS charges a higher fee than another broker charges for a particular type of service, such as transaction fees. You may utilize the broker-dealer of your choice and have no obligation to effect transactions through RJFS. However, if you do not utilize RJFS as your broker-dealer, the financial advisor will generally not be able to accept your account(s). RJA may aggregate sale and purchase orders of securities held by you with similar orders being made simultaneously for other clients if, in RJA's reasonable judgment, such aggregation is reasonably likely to result in overall economic benefit to you based on an evaluation that you are benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In some instances, the purchase or sale of securities for you will be affected simultaneously with the purchase or sale of like securities for other clients.

Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such event, the average price of all securities purchased or sold in such transactions is determined, and at RJA's sole discretion, you may be charged or credited, as the case may be, the average transaction price.

#### Investment Advisory Program Client Notice

Pursuant to Rule 3a-4 under the Investment Company Act of 1940, RJFSA provides the following notification to Clients with a Freedom account(s), or who have delegated investment discretion to Karras for IMPAC account(s):

If you have delegated investment discretion to RJFSA or a third-party manager, you should be aware of your ability to impose reasonable restrictions on the investments made within your account(s), or reasonably modify existing restrictions you have already imposed. Reasonable restrictions include the designation of particular securities or types of securities that should not be purchased in your account (i.e. Company XYZ or companies involved in a particular industry, etc.), or should be sold if held in your account. However, since investment discretion has been delegated to RJFSA or a third-party manager, RJFSA or the manager may determine that the implementation of such a restriction is impractical. In the event such a determination is made, you will be notified promptly.

In addition, as owner of the securities in the account(s) you should be aware of your right to:

1) Withdraw securities or cash from your account(s), provided they maintain the minimum account balance, as appropriate, based on their particular account type;

2) Vote securities, or delegate the authority to vote securities to another person (i.e. proxies, tender offers, etc.);

3) Be provided written confirmation, in a timely manner, of securities transactions placed for your account; and

4) Proceed directly against any issuer (i.e. class action participation) and not be obligated to join other parties as a condition precedent to initiating such a proceeding.

If you wish to impose or modify existing restrictions, or your financial condition or investment objectives have changed, you should contact Karras or the Raymond James Advisory Compliance Department at 727-567-3800, extension 75877.

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

Karras has in place a Code of Ethics and will provide client's a copy upon request. The Code of Ethics discloses that Karras is dedicated to providing effective and proper professional investment management services to its clients and depends upon a high level of public and client confidence for its success. That confidence can be maintained only if Karras' supervised persons observe the highest standards of ethical behavior in the performance of their duties. Karras has the obligation to exercise its authority for the benefit of its clients, to place the interest of its clients first and to refrain from having outside interests that conflict with the interests of its clients. Karras and its supervised persons must avoid any circumstances that might adversely affect or appear to affect the firm's duty of complete loyalty to clients.

Karras' general policy is to avoid conflicts of interest wherever possible and, where they unavoidably occur, to resolve them in favor of clients. When a potential conflict of interest arises, Karras and supervised persons must recognize that the client has a prior right to the benefits of the Firm's judgment over the Supervised Person or any members of the Supervised Person's family whom he or she may advise. Inevitably, this policy places some restriction on freedom of investment for supervised persons and their families.

While it is not possible to specifically define and prescribe rules regarding all possible cases in which conflicts might rise, the Code is designed to set forth Karras' policy regarding supervised persons conduct in those situations in which conflicts are most likely to develop.

The interests of the clients must come first. Karras' personnel must scrupulously avoid serving their own interests ahead of those of the client when making any decision relating to personal investments. Karras must not take inappropriate advantage of their positions. Information concerning client's investments must be kept confidential. Karras must always provide professional investment management advice based upon unbiased independent judgment. Karras never participates in "trading ahead" of their clients to receive a better price for the same security on the same day.



These principles govern all conduct by Supervised or Access Persons whether or not such conduct is covered by specific procedures. Failure to comply with these general principles may result in disciplinary action, including termination.

A director, officer, or employee of Karras shall not buy or sell securities for their personal portfolio where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public upon reasonable inquiry. No associated person of Karras shall prefer his or her own interest to that of the client. Karras requires that all individuals must act in accordance with all applicable Federal and state regulations governing registered investment advisers.

Karras requires that all Access Persons strictly comply with the firm's policies and procedures regarding Personal Securities Transactions. Those employees found to be out of compliance are subject to disciplinary action including termination of employment.

All Supervised Persons are required to report personal securities transactions on a quarterly basis, as well as an annual report of holdings, to the Chief Compliance Officer.

In order to adhere to our fiduciary obligation to act in the client's best interest, it is the policy of Karras to disclose, at the time of recommendation or sale, all material facts relating to conflicts of interest which may arise in connection with such transaction, so that the client is able to understand the conflicts of interest the adviser has and the business practices in which it engages, and so that the client can give his or her informed consent to the transaction or practice that gives rise to the conflict or to reject the transaction or practice.

## **Item 12 Brokerage Practices**

The principle executive officers and other associated persons of Karras are registered representatives of Raymond James Financial Services Advisors (RJFSA), a registered broker dealer with FINRA/SIPC. Karras will recommend Raymond James to advisory clients for brokerage services. These individuals are subject to FINRA/SIPC rules that restrict them from conducting securities transactions away from Raymond James. Therefore, clients are advised that Karras is limited to conducting securities transactions through Raymond James. It may be the case that Raymond James charges a higher or lower fee than another broker charges for a particular type of service, such as transaction fees. Clients may utilize the broker dealer of their choice and have no obligation to purchase or sell securities through Raymond James. However, if the client does not use Raymond James, the IAR will reserve the right not to accept the account.

While it is possible that clients may pay higher commission or transaction fees through Raymond James, Karras has determined that Raymond James currently offers the best overall value to Karras and its clients for the customer service, brokerage, research services and technology it provides. Karras believes these qualities make Raymond James superior to most non-service oriented, deep – discount and internet/web based brokers that may otherwise be available to the public.

Karras follows Raymond James' Best Execution Practices, as follows:

- Examines the quality of execution of individual trades upon request and provides price improvement where appropriate;
- Reviews daily reports regarding potentially inferior trade executions and provides price improvement for those executions where appropriate;
- Reviews monthly reports regarding quality of executions offered by various trading venues;
- Monitors systems issues with execution venues;
- Meets periodically with Compliance in Raymond James & Associates Best Execution Committee to discuss best execution; and
- Provides reports to Raymond James Financials quality of execution committee for review.

As a registered FINRA/SIPC broker dealer, Raymond James routes order flow through its affiliated broker dealer Raymond James and Associates.

Raymond James may also provide general access to research and perhaps discounts on research products. Any research received is used for the benefit of all clients. Karras has no written or verbal arrangements whereby it receives soft dollars. From time to time, Raymond James may offer production-based incentives such as the ability to attend industry-related conferences or other benefits; however, Karras does not believe that such incentives impair Karras' independence

When accounts are established, clients are directed to clear through Raymond James by means of their contract. Any client wishing to change their brokerage direction will effectively terminate their account, as we cannot accommodate client directed brokerage (execute transactions outside of Raymond James).

Karras may have the ability from Raymond James to aggregate securities transactions and then allocate the appropriate shares to client accounts; ability to have investment advisory fees deducted directly from client accounts; access to an electronic communication network for client order entry and account information; access to mutual funds which generally require significantly high minimum initial investments or those that are otherwise only generally available to institutional investors; reporting features; receipt of industry communications; and perhaps discounts on business-related products.

### **Item 13    Review of Accounts**

Investment management accounts or financial plans are reviewed formally, at least annually; accounts are frequently monitored and reviewed informally. Reviews are performed by Brett Karras, President and IAR. Clients are obligated to promptly notify Karras of any changes in the client's financial status to ensure that investment strategies continue to meet the client's changing needs. Primary client contacts are performed by Brett Karras. Administrative personnel assist with general client communication and services.

Reviews could occur at the time of new deposits, material changes in client's financial information, changes in economic cycles, at Karras' discretion, or as often as the client may direct. Reviews entail analyzing securities, sensitivity to overall markets, economic changes, investment results and asset allocation, etc., to ensure the investment strategy and expectations are structured to continue to meet clients' objectives.

Clients receive holding and activity reports at least quarterly from custodial and brokerage firms. Karras may prepare reports or written communications related to investment advisory services provided or as may be requested by clients.

Additional monitoring of accounts is provided by compliance and sales management personnel located within the RJFSA corporate headquarters. Reviews include, but are not limited to; suitability, concentration, and accounts managed on a discretionary and non-discretionary basis.

## Brokerage Statement and Performance/Billing Valuation Differences for Fee-Based Accounts

The value used to calculate your asset-based advisory fee may differ from the net value shown on the brokerage statement. There are several reasons for these values to differ:

1. Trade Date versus Settlement Date – The brokerage statement values all securities and cash balances based upon trades not being completed until settlement date (when the money is due), while the value used for billing is derived from the performance system, which values all securities and cash balances based upon trade date (initiation of cost basis for performance and tax reporting purposes.) For example, if a recent buy in an account has executed, but not yet settled at quarter end, the trade will still show as a cash position on the brokerage statement. In contrast, the purchased security, and value, will be used for performance and billing calculations.
2. Margin Balances and Short Sales – Because the brokerage statement reads like a balance sheet, short sells and margin purchases are reflected as liabilities. For example, if a client buys a security on margin (or sells it short), they will have to pay for that security eventually, so it is shown as a liability (negative value) on the brokerage statement. The performance-related value does not view shorts and margins in this manner.

Rather, clients that employ margin are in fact utilizing the advisory services of their financial advisor, who in turn is compensated for it. For comparison, a client with a retail commission-based account would be charged a commission on each margin trade/short sale because in essence a security position that did not exist before has been now been created. While considered a liability on the brokerage statement, these “new” positions are relevant from a performance and billing perspective and are therefore included for performance and billing purposes. As a result, the use of margin or short sells generally results in the largest discrepancy in terms of value between the brokerage statement and performance/billing values. This can be seen in the fact that a client’s brokerage statement “net” liquidation value is reduced by liabilities, while their performance/billing value is increased.

3. Options – Clients that write calls or puts, much like short sales, are creating a potential liability by doing so. While a client may understand that the net value of the account reflects what they would receive today if all securities were liquidated, it does not take into account the advisory or commission aspects of the securities that were “created”. Again, clients are charged commissions in retail accounts when writing calls or puts because a security is being created. The correlation in a fee-based account is to value the security based upon the liability of the client by taking the absolute

value of the short option. For example, a call writer expects the value of a particular security to decrease. If it does, the liability gradually decreases until it becomes zero. By taking the absolute value of the liability (the opposite of the long option) we value the short option based on the client's potential obligation to pay the option holder, and thus more accurately reflect the true "value" of the position.

4. Cash Balances – Clients that hold cash balances greater than 20% of their overall Account Value for 3 consecutive quarterly valuation dates will have the cash balance above 20% excluded from the Account Value used to calculate advisory fees. Please refer to the "Billing on Cash Balances" section for additional information.

5. Administrative-Only Assets – Clients that hold securities designated as "Administrative-Only" are not assessed advisory fees on these positions. As a result, these positions will be included when determining the overall advisory fee rate, but the Account Value upon which the advisory fee rate is applied will not include the value of these positions. Please refer to the "Administrative-Only Assets" section for additional information.

6. Primary Market Distributions – Clients that purchase initial public offerings and other new issues where Raymond James is a distribution participant will not be assessed advisory fees on these positions for one year from their purchase date. As a result, the Account Value will not include the value of these positions, although they will be reflected on the brokerage statement. Please refer to the "Participation or Interest in Client Transactions" section for additional information.

The methodology Raymond James uses to derive the Account Value is intended to align the calculation of account performance and advisory fees. Account performance is calculated in a standardized manner, which reflects the initiation and disposition of securities, flows into and out of your account as well as the timing of these flows. The advisory fee is based on the investment advice provided by your financial advisor and Raymond James, and the long-term performance of your account forms the basis of our mutual investment advisory relationship.

## Account Valuation and Pricing

Raymond James relies on third party pricing services to determine the value of client account assets. These values are shown on client's brokerage statements and are used in preparing a client's performance reports. However, if the client has its assets custodied with a custodian other than Raymond James and if the third party pricing service does not provide a price for assets in the client's account, Raymond James will generally rely upon the price reported by the client's third party custodian. If a client has assets held by a third party custodian, the prices shown on a client's account statements provided by the custodian could be different from the prices shown on statements and reports provided by Raymond James.

While sources used for pricing publicly traded securities are considered by Raymond James to be reliable, the prices may be based on actual trades, bid/ask information or vendor evaluations. As a result, these prices may or may not reflect actual trade prices a client may receive in the current market. Pricing for non-publicly traded securities is obtained from a variety of sources, which may include issuer-provided information (such as for limited partnerships, real estate investment trusts and

other alternative investments). Raymond James cannot guarantee the accuracy, reliability, completeness or availability of this information.

## Pricing On Fixed Income Securities

Fixed income securities, including brokered certificates of deposit, are priced using evaluations, which may be matrix- or model-based, and do not necessarily reflect actual trades. These price evaluations suggest current estimated market values, which may be significantly higher or lower than the amount a client would pay (or receive) in an actual purchase (sale) of the security. These prices, obtained from various sources, assume normal market conditions and are based on large volume transactions.

The bond “market” is largely comprised of dealers that trade over the counter amongst themselves and very few bonds trade on organized exchanges. While traders are able to trade larger round lot sizes relatively easily (generally for institutional accounts), the prices realized for factored mortgage-back and odd-lot bonds reflect the fact that it is more difficult to obtain a bid for such bonds. Factored mortgage-back and odd-lot bonds generally exhibit increased dispersion from publicly available pricing, which is typically based on institutional-level pricing.

Bond prices are determined by what someone is willing to pay (the “bid”) and what the bond owner would like to receive (the “ask”). The difference between the two is referred to as “the spread”. With increases in price volatility, this spread may increase to wider levels, making bond valuation less precise. As a result, bond prices reflected on brokerage statements or available online through the Investors Access portal (or available from your financial advisor) are best efforts estimates and should not be considered as potential sales prices or actual “bids”. In cases where there is a need to sell a bond (or bond portfolio), Raymond James recommends that clients contact their financial advisor to determine an actual bid(s).

Market prices of fixed income securities may be affected by several risks, including: (i) interest rate risk – a rise (fall) in interest rates may reduce (increase) the value of your investment, (ii) default or credit risk – the issuers ability to make interest and principal payments, and (iii) liquidity risk – the inability to sell a bond promptly prior to maturity with minimal loss of principal. Please see “Methods of Analysis, Investment Strategies and Risk of Loss” in this Part 2A Brochure for additional information.

## Item 14 Client Referrals and Other Compensation

As part of its fiduciary duties to Clients, Karras and RJFSA endeavors at all times to put the interests of its advisory Clients first. Clients should be aware, however, that the receipt of economic benefits by Karras and RJFSA [or its related persons and affiliates] in and of itself creates a potential conflict of interest.

In addition to the fee based compensation Karras receives for providing advisory services, Karras may act as a registered representative and earn commissions for transactional business in accordance with Raymond James Financial Services, Inc.’s published commission schedule. At the conclusion of each year, qualifying advisers are awarded membership in the Raymond James Financial Services, Inc.’s recognition clubs. Qualification for recognition clubs is based upon a

combination of the adviser's annual production (both advisory and transactional), total client assets under administration, and the professional certifications acquired through educational programs.

From time to time Karras and RJFS receives compensation in the form of sponsorship fees for seminars, meetings or conferences from product sponsors such as limited partnerships, affiliated and unaffiliated mutual funds, insurance companies and annuity sponsors. Such sponsorship fees generally entitle the sponsor to an allotted presentation to representatives of Karras and RJFSA.

If you act upon Karras's advice and choose to use one of RJFSA's affiliates as a money manager, custodian or purchasing insurance, RJFS may receive compensation in the form of commissions from the affiliate. If you choose to use Karras in their individual capacity as an insurance agent, Karras will receive a commission.

Mutual fund companies may also pay Raymond James for the provision of sub-accounting, sub-transfer agency and/or administrative services. In arrangements providing for these fees, Raymond James will maintain an omnibus account with a particular mutual fund company and that mutual fund company will pay Raymond James to provide various services related to your account, including processing dividend payments and distributions, recording-keeping, and processing purchase and redemption orders.

Certain mutual fund companies, including "Participating Funds", may charge ongoing fees. Karras may receive this fee in addition to any advisory fee that may be assessed in your account. The existence of a 12(b)-1 fee is disclosed in the mutual fund prospectus.

Select fund companies have agreed to pay administrative fees to Raymond James in consideration for Raymond James' waiver of the \$30 Processing Fee (also known as a "transaction fee") assessed on certain Passport Account mutual fund purchases ("Participating Funds"). In addition, effective January 1, 2014 select fund companies have agreed to pay marketing service and support fees to Raymond James ("Partner Funds"). "Non-Partner Funds" do not participate in Raymond James's Education and Marketing Support program. Please note that funds may change their Participating, Partner or Non-Partner status at any time, so please consult with your financial advisor to verify their status periodically.

Raymond James financial advisors do not receive any part of these payments. For a list of fund companies that have agreed to pay Raymond James administrative and marketing service/support fees for eligible purchases of Participating Funds or Partner Funds, please visit: [www.raymondjames.com/disclosure\\_mutual\\_funds\\_co.htm](http://www.raymondjames.com/disclosure_mutual_funds_co.htm). For a list of fund companies that do not pay Raymond James industry standard networking and service fees, please visit: [www.raymondjames.com/disclosure\\_mutual\\_funds\\_co3.htm](http://www.raymondjames.com/disclosure_mutual_funds_co3.htm). You may also receive a hardcopy of these lists by contacting your financial advisor, or by contacting Raymond James Asset Management Services by phone at (800) 248-8863, extension 74991, or by sending in a written request to:

Raymond James Asset Management Services Client Services Department  
880 Carillon Parkway  
St. Petersburg, FL 33716

Karras, in utilizing any of the previously mentioned account programs offered by RJFSA generally receive compensation in the form of asset-based fees, and this compensation is typically credited to Karras on a quarterly basis.

Karras will receive a rebate of the Registrant's management fee equal to .03% of the assets invested in the FREEDOM account program.

IMPAC - Karras will receive a discount on the RJFSA Administrative Fee based on the total number of IMPAC Accounts they maintain. This discount is based on economies of scale achieved by RJFSA as the number of accounts increase. However, such compensation arrangements may represent a conflict of interest where a financial advisor may have incentive to recommend an asset-based fee account program rather than recommending an alternative product or service.

Financial advisors are typically compensated based on their annual gross revenue production, whereby higher production will generally result in higher payouts. The above additional compensation programs constitute a targeted payout increase to certain qualified financial advisors based on economies of scale achieved by Raymond James, its affiliates and financial advisors at increasing asset levels, and are intended to maintain compensation parity for financial advisors of Raymond James and its affiliates.

While Raymond James believes the charges and fees assessed to clients within each of the asset-based fee programs are competitive with alternative programs available through other firms, competitive forces within the financial services industry necessitates that Raymond James periodically review such payouts and make adjustments, either individually or more broadly, based on the specific circumstances of an account program, client relationship, financial advisor and/or branch office, or otherwise as is deemed necessary.

With the increasing popularity of asset-based fee programs, competitive forces have generally resulted in a decrease in the annual costs to clients. However, such decreases are not typically uniform throughout the industry, and as a result, firms generally have the discretion to adjust financial advisor payouts, either individually or more broadly, based on their analysis of payouts available from firms they consider to be in their peer universe. Such determinations can be complex, considering the number of banking institutions, wirehouse and regional brokerage firms, and fee-only advisers available to clients. Compensation adjustments may represent a conflict of interest where a financial advisor may be incentivized to recommend an asset-based fee account program rather than recommending an alternative product or service, if comparable or if available separately to clients. Conversely, lack of such compensation adjustments may provide a disincentive to a financial advisor to recommend an asset-based fee account program to a client. Clients should be aware of such arrangements and should consult their financial advisor for additional details regarding their compensation levels in fee-based accounts.

#### Mutual Funds Assessed or Subject to Sales Charges

Many mutual funds also assess sales charges on mutual fund transactions (mutual fund equivalent to a commission, also known as a "load"), a portion of which is paid by the fund company to compensate broker-dealers and their financial advisors for providing financial advice and client service. Sales

charges may apply when you make your investment (known as a “front-end sales charge” or “front-end load”), or when you redeem your investment (known as a “back-end sales charge” or “back-end load”), or in the form of an on-going charge that is assessed against fund assets; these on-going charges are the marketing/support (also known as 12b-1) fees discussed previously.

## Client Referral Arrangements:

### Professional Partner’s Program

Karras offers a program that will pay professionals for referrals. The professional who refers the account will receive a portion of the advisory fee but in no case will the client pay more because of the referral fee. The referral fees will be on a cash only basis. The professional will be either an investment adviser representative or a registered investment advisor. In these cases, there will be a written agreement between Karras and the solicitors, which clearly defines the duties and responsibilities of the solicitor under this arrangement. In addition, each solicitor is required to provide a written disclosure document, which explains to the prospective client the terms under which the solicitor is working with the Firm and the fact that the solicitor is being compensated for the referral activities. The solicitor is also required to furnish a copy of the Firm's written disclosure document to the prospective client and obtain a written acknowledgement from the client that both the solicitor's and Karras' disclosure documents have been received.

This arrangement creates a conflict of interest because while the client may have the ability to choose a certain firm for investment advice, they are being referred by a professional that receives an economic benefit from Karras for the referral.

## **Item 15 Custody**

Karras does not have custody of client's assets or funds.

## **Item 16 Investment Discretion**

Raymond James may have a limited discretionary trading authority to determine the types and amount of securities bought and sold in your account. This authority is granted in writing by you for each account via a discretionary asset management agreement. We cannot take possession of funds or securities.

## **Item 17 Voting Client Securities**

Karras does not vote proxies for clients, and does not provide advice to clients about how to vote proxies. Clients have the responsibility to vote proxies and will be required to ensure that proxy materials are sent directly to them.

## **Item 18 Financial Information and Other Information**



Karras does not have custody of client's assets or funds. Karras does not solicit payments of \$500 per client or more, six (6) months in advance for services. Karras has not been subject to bankruptcy and knows of no reason that its financial condition would be impaired in meeting its contractual obligations to clients.

## Other Information

### Business Continuity

Karras has adopted a business continuity plan that provides for the continuation of business critical functions in the event its place of business becomes partially or totally inaccessible, or a technical problem occurs affecting its network. The recovery strategies Karras employs are designed to limit the impact on clients from such business interruptions or disasters. Although Karras has taken reasonable steps to develop and implement detailed business continuity plans, unforeseen circumstances may create situations where Karras is unable to fully recover from a significant business interruption. However, Karras believes its planning and implementation process reduces the risk in this area.

### Privacy Policy

Karras is committed to maintaining the confidentiality, integrity and security of personal information about our current and prospective Clients. Karras considers customer privacy to be fundamental to our relationship with Clients. It is our policy to respect the privacy of current and former Clients and to protect personal information entrusted to us. The policy describes the steps we have taken to safeguard the client's information and what Client information we may share with others. For more information or a copy of our Privacy Policy, contact us at 801-825-3000.

We have not and will not sell client personal information to anyone, even if our formal Client relationship ends.