



# Financial Guard

## **FINANCIAL GUARD, LLC**

1952 East Fort Union Blvd., Suite 200  
Salt Lake City, UT 84121  
(614) 973-6999  
[support@financialguard.com](mailto:support@financialguard.com)  
[www.financialguard.com](http://www.financialguard.com)

## **Form ADV Disclosure Brochure**

June 24, 2019

This brochure provides information about the qualifications and business practices of Financial Guard, LLC (hereinafter “Financial Guard” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (614) 973-6999 or at [support@financialguard.com](mailto:support@financialguard.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Financial Guard is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for Financial Guard is 156059.

## **Item 2. Summary of Material Changes**

There have been no material changes to the Brochure since the last annual update of the Brochure dated June 21, 2018 and the interim amendments to the Brochure dated October 19, 2018 and January 25, 2019.

While there are no material changes to report, the Brochure has been revised to remove any references to “Referral Partners” because at this time, Financial Guard is not in partnership with any financial firms or other organizations that offer and make information about Financial Guard and its investment advisory services available to their employees, members and/or clients on such firms’ or organizations’ websites. In addition, Appendix A of the Brochure, which includes the discussion of common investment risks associated with investing in mutual funds and ETFs, has been updated and revised.

### **Item 3. Table of Contents**

<b>Item</b>	<b>Section</b>	<b>Page Number</b>
1.	Cover Page	1
2.	Material Changes	2
3.	Table of Contents	3
4.	Advisory Business	4
5.	Fees and Compensation	6
6.	Performance-Based Fees and Side-by-Side Management	7
7.	Types of Clients	7
8.	Methods of Analysis, Investment Strategies and Risk of Loss	8
9.	Disciplinary Information	16
10.	Other Financial Industry Activities and Affiliations	16
11.	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	17
12.	Brokerage Practices	20
13.	Review of Accounts	21
14.	Client Referrals and Other Compensation	21
15.	Custody	21
16.	Investment Discretion	21
17.	Voting Client Securities	22
18.	Financial Information	22

## **Item 4. Advisory Business**

### **General Description of the Firm**

Financial Guard is an online investment services provider registered with the Securities and Exchange Committee ("SEC") as an investment adviser pursuant to Rule 203A-2(e) under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Financial Guard has been providing investment advice and recommendations to clients through an interactive website at [www.financialguard.com](http://www.financialguard.com) (the "Website") based on the information input into the Website by such clients since 2013. Until the end of May 2018, Financial Guard provided non-discretionary advice and recommendations as well as discretionary investment management services to clients through its Website. However, effective as of May 31, 2018, the firm decided to discontinue its provision of non-discretionary investment advisory services and to focus its attention and resources on the discretionary investment management services it provides to clients and development of new service offerings. The firm is headquartered in Salt Lake City, Utah. On August 17, 2016, Legg Mason, Inc., a publicly traded company, acquired a majority and controlling interest in Financial Guard, which has caused Financial Guard to become an affiliate of Legg Mason, Inc. and its other affiliated managers (collectively, "Legg Mason"). As of March 31, 2019, Financial Guard had \$1,482,709 in discretionary assets under management.

Financial Guard provides a simple solution for investing, and offers its investment advisory services only over the internet. This Brochure is meant to help you understand the nature of the advisory services offered by Financial Guard and whether they are right for you. You should review it carefully.

### **Summary of Financial Guard's Investment Advisory Services**

Financial Guard's investment process is to design investment advice that is consistent with each client's investment objective and risk tolerances. Through its process, Financial Guard seeks to identify a model portfolio – the asset classes in which to invest and the ideal mix of asset classes – based on the client's financial and risk profile. Each such model portfolio is designed to meet a particular investment objective, as described in more detail in Item 8 of the Brochure.

Financial Guard provides investment advice primarily with respect to mutual funds and exchange-traded funds (ETFs). All investment advice is based on client information gathered solely through the Website.

Financial Guard tailors its investment advice by assessing a client's ability to take risk and willingness to take risk solely through an online questionnaire that must be completed by the client as part of the onboarding process via the Website. Financial Guard asks each prospective client a series of objective financial profile questions such as investment time horizon and financial situation, including income and investible assets, as well as subjective risk tolerance questions such as the appetite for risk and capacity for loss. Once the client has provided information pertaining to those factors, Financial Guard will suggest an appropriate model portfolio suitable for such client based on an algorithm that combines all those factors, except in the case of an investment time horizon of less than 3 years where the algorithm will always recommend a conservative model portfolio regardless of the client's answers to the other financial and risk

profile questions in the questionnaire. Financial Guard asks objective financial profiling questions to estimate the ability to take risk. Generally, the greater the income or investible assets, the greater the ability to take risk. Alternatively, the lower the income or investible assets, the lower the ability to take risk. Financial Guard also asks subjective risk profiling questions to determine the level of risk an individual is willing to take while taking into account consistency or inconsistency among the answers. For example, if an individual is willing to take a lot of risk in one case and very little in another, then the scores are combined to determine the appropriate risk profile. Within each model asset allocation portfolio (except the conservative model portfolio described above), a client's answers to the risk tolerance questions determine the client's assignment to one of five variations of that model asset allocation portfolio (labeled L1 through L5), with L1 representing the allocation of that specific model with the least risk and L5 representing the allocation of that specific model with the highest risk within that model.

After the recommendations are implemented by Financial Guard and subject to the lock period of at least 90 days, as described in Item 8 of the Brochure, Financial Guard reviews the account and, if applicable, rebalances the account to realign it to the most appropriate investments weightings based on the client's model portfolio. In order to ensure that Financial Guard's initial model portfolio recommendation continues to be suitable based on the client's responses to the online questionnaire, Financial Guard maintains the client's financial and risk profile information in the system. The Website allows clients to change their answers to the questionnaire in order to update their financial and risk profiles online at any time. A change to the financial and/or risk profiles may result in a change to the model portfolio recommendation.

In order for Financial Guard to implement its investment advice for a client, such client must set up an account with a designated broker-dealer and custodian with which Financial Guard has operational connectivity ("Discretionary Account"), transfer assets into such Discretionary Account and grant Financial Guard authority to provide investment and trade instructions with respect to the Discretionary Account on a discretionary basis. Each client has the ability to place reasonable restrictions on the mutual funds and ETFs that may be purchased for the client's Discretionary Account. These restrictions are captured and monitored through the Website system. Discretionary Accounts are opened and maintained according to a Discretionary Client Account Agreement ("Discretionary Account Agreement") which describes the discretionary authority that a client grants to Financial Guard.

***In generating its advice with respect to a specific client Discretionary Account, Financial Guard considers and takes into account only the client's financial and risk profile information provided as part of the online questionnaire pertaining to such client's Discretionary Account and does not consider any other client information to which Financial Guard may have access nor does it take into consideration such client's tax situation, debt obligations or specific goals. Clients are strongly encouraged to consult with their tax, legal and/or other advisers regarding their personal tax and financial circumstances.***

#### Financial Guard's Aggregation Service

Aggregation is a non-advisory service made available by Financial Guard to its existing clients that allows clients to view holdings in their accounts maintained at various financial institutions ("Aggregated Accounts") in a consolidated dashboard. In order to use the aggregation service,

clients must provide a third party vendor retained by Financial Guard for this purpose with the authority and necessary login credentials to access account information within such Aggregated Accounts and enable electronic linking to Financial Guard's systems in order for such Aggregated Account information to be displayed to clients on the Website. Clients may also input information about their Aggregated Accounts manually. In no event does Financial Guard have access to or is provided with a client's login credentials for any Aggregated Accounts. Financial Guard provides the aggregation service to its clients on a complimentary basis and does not charge any fees for it.

## **Item 5. Fees and Compensation**

Clients generally pay an annualized investment advisory fee in the amount of 0.50% based on the Discretionary Account assets managed by Financial Guard (the "Advisory Fee"), although Financial Guard may, in its sole discretion, agree to or set Advisory Fees that are different (either lower or higher or flat fees that do not depend on the Discretionary Account assets) than the Advisory Fee stated herein, or entirely waive such Advisory Fee, depending on specific circumstances and/or nature of the relationship with a particular client.

The Advisory Fee is paid quarterly in advance within ten (10) business days following the end of each calendar quarter based on the market value of a client's Discretionary Account determined by the Designated Broker (as defined in Item 12, below) as of the close of the last business day of the previous quarter. The Advisory Fee for a new Discretionary Account is prorated for the number of days remaining in the calendar quarter and is paid for that period within ten (10) business days of the calendar month immediately following the initial funding of the Discretionary Account. The Advisory Fee for such initial billing period is based on the fair market value of the Discretionary Account assets determined by the Designated Broker as of the initial funding date. No adjustments to the Advisory Fee are made in the event of a client's additions to or withdrawals from the Discretionary Account during the quarter. In the event that Financial Guard's discretionary authority over a Discretionary Account is terminated (either by client or by Financial Guard) during a calendar quarter, Financial Guard refunds the client the portion of the Advisory Fee paid in advance, prorated for the number of days remaining in the last quarter during which the Discretionary Account was managed by it.

As part of the Discretionary Account opening and setup, each client must instruct Designated Broker (who is also the Custodian of the Discretionary Account) to deduct Financial Guard's Advisory Fee upon the receipt of an invoice from Financial Guard or in accordance with an automated billing plan established by Financial Guard and to remit payment of such fee directly to Financial Guard within ten (10) business days after the end of the month or quarter, as applicable, with respect to which payment is due.

If for any reason there is insufficient cash available in a Discretionary Account to cover Financial Guard's Advisory Fees at the time they are charged and deducted from the Discretionary Account, Financial Guard, in its sole discretion, may cause the shares of mutual funds and ETFs in the Discretionary Account to be sold to generate cash sufficient to cover its Advisory Fees. In addition, upon the request of the Designated Broker, Financial Guard may cause the shares of mutual funds and ETFs in a client's Discretionary Account to be sold in order to generate sufficient cash to cover any unpaid fees and charges owed by the client to the Designated Broker.

### Fees for Services Available Through the Licensing Partners' Websites

With respect to the websites of our Licensing Partners (as defined in Item 7, below), client account fees are set and determined by such Licensing Partners and may be different from the fees charged by Financial Guard in connection with its provision of investment advisory services available through the Website, as described herein.

### Mutual Fund and ETF Fees and Expenses

All fees paid by clients to our firm for investment advisory services provided to them, as described in this Brochure, are separate and distinct from, and in addition to, the fees and expenses that clients may bear by virtue of being invested in mutual funds and ETFs that Financial Guard acquires for their Discretionary Accounts. Such mutual fund and ETF fees and expenses that clients may be subject to are described in each fund's prospectus and generally include an investment management fee, other fund operating expenses, and, in some cases, a distribution fee or a sales load.

While clients certainly may invest in mutual funds and ETFs directly and without the use of Financial Guard's investment advisory services, they should note that in doing so, they would not receive the benefit of Financial Guard's asset allocation model recommendations and advice that are designed to select mutual funds and/or ETFs that are most appropriate for them based on their investment objectives and risk profile.

In addition to the fees paid to Financial Guard and the fees and expenses of the mutual funds and ETFs to which clients are subject by virtue of being invested in such funds, clients are also responsible for transaction, brokerage, and custodian costs and fees incurred as part of or associated with their Discretionary Accounts and any transactions therein. Please see Item 12 of this Brochure for important disclosures regarding Financial Guard's brokerage practices.

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

Financial Guard does not charge any fees to clients based on a share of capital gains or capital appreciation of clients' assets.

## **Item 7. Types of Clients**

### Clients

Our firm generally provides investment advisory services to individuals and high net worth individuals who access our services directly through the Website.

From time to time, in addition to provision of investment advice through the Website, Financial Guard may, for a fee, license its technology ("Licensed Technology") to financial firms or other organizations that may utilize it in providing investment advisory services to their advisory clients ("Licensing Partners"). In such licensing relationships, Financial Guard may act as a subadviser to a Licensing Partner with respect to its clients or may not play any investment advisory role

because the Licensing Partner has sole responsibility for development and provision of investment advice and recommendations utilizing Financial Guard's Licensed Technology.

Depending on the nature of the relationship and the requirements of a particular Licensing Partner, the website that Financial Guard helps the Licensing Partner develop and/or where its Licensed Technology is used may be structured in a different manner than and may offer different types of services (including without limitation a different basis for developing investment advice and recommendations) than Financial Guard's own Website.

### *Investment Minimums*

The minimum amount of assets that a client must deposit into a Discretionary Account upon inception is \$5,000, although Financial Guard may waive this minimum in its sole discretion. In the event that the total value of the Discretionary Account assets drops below \$5,000 for any reason (whether due to client withdrawals or due to market movement) after the Discretionary Account inception, Financial Guard may, in its sole discretion, terminate such account.

With respect to the websites of our Licensing Partners, client account minimums are determined by such Licensing Partners and may be different from the minimum account sizes required by Financial Guard in connection with its services made available through the Website.

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

Financial Guard employs the following types of analyses and processes to formulate its investment advice with respect to Discretionary Accounts of its clients.

### *Developing and Applying Asset Allocation Models*

Financial Guard's approach to building asset allocation models is based primarily on the principles of Modern Portfolio Theory ("MPT"). At its core, MPT is a mathematical framework for diversification, or the combination of different investments within a portfolio. The theory suggests that if you combine investments that behave differently from one another, you are spreading the risk among different types of securities which can limit the risk of the total mix while improving its potential returns. Diversification forms the basis for the Financial Guard asset allocation and investment philosophy. By mixing asset classes that behave differently from one another within a portfolio, Financial Guard seeks to provide better outcomes to help clients meet their investment objectives while mitigating potential risks.

While Financial Guard's Investment Committee (currently consisting of four individuals) has the ultimate responsibility for developing all asset allocation models, it has retained QS Investors, LLC, an affiliate of Financial Guard that develops asset allocation models ("QS"), to provide it with non-discretionary advice in the form of asset allocation guidance that is considered by the Investment Committee in developing the asset allocation models. The Investment Committee may also use other independent third-party research companies to assist it in developing its multi-asset class allocation models and asset allocation recommendations.



In developing asset class combinations that are furnished to Financial Guard for its consideration, QS incorporates the key tenets of MPT but with a key differentiating methodology in an effort to address some limitations such as the reliance on historical data and the statistical challenges that account for the randomness of returns. QS's method distinguishes between positive returns, or upside, and negative returns, or downside. QS views these outcomes separately in an effort to lessen the risk of negative returns while maintaining the potential to outperform. Additionally, QS incorporates advanced statistical techniques to understand how asset classes have performed over time and to estimate future behavior. QS integrates forward-looking asset class views to complement historical data and takes into account a level of uncertainty in those views when modeling portfolio outcomes.

Fundamentally, each of the various asset allocation models used by Financial Guard to invest clients' assets may consist of 4 main asset categories (stocks, bonds, alternatives, and cash) with a number of distinct asset classes. Exposure to the various asset categories and classes is achieved through investments in ETFs and mutual funds, and clients have the ability to choose active investments (i.e., mutual funds) or passive investments (i.e., ETFs and index-based mutual funds) for their Discretionary Accounts. Limitations associated with MPT and diversification include the assumption that correlations among asset classes tend to be stable over time. Historically, in periods of market stress, correlations increase and asset classes behave similarly. In such market environments the diversification benefit from holding different asset classes may be reduced.

In an effort to use diversification to minimize portfolio risk, with respect to each asset allocation model, Financial Guard attempts to identify an appropriate ratio of equity, fixed income, alternatives and cash suitable to a client's investment objective and risk tolerance. As described in Item 4, based on a client's circumstances, Financial Guard's algorithm will match each client to the most appropriate Financial Guard asset allocation model in order to give the client a portfolio that is consistent with his/her responses to the online financial and risk profile questionnaire and any investment restrictions imposed on the management of his/her Discretionary Account. In periods of market instability or other types of emergency or catastrophic events, Financial Guard may delay, suspend or otherwise manage trading in response to such conditions. Financial Guard may do so when it determines that it is appropriate to respond to extraordinary circumstances of market instability, such as incomplete execution, instances of elevated volatility across broad asset classes, widening bid-ask spreads, or unstable markets. If Financial Guard delays placing orders in response to extraordinary market volatility during market hours, Financial Guard will notify clients of such delay either via email or via the Website. For the avoidance of doubt, Financial Guard does not delay or manage trading based on any view about whether markets are likely to rise or fall and regardless of its long-term investment view.

### Recommended Portfolios

Once Financial Guard's algorithm has matched a client to one of the asset allocation models, the algorithm will recommend mutual funds and ETFs to implement such an asset allocation model based on the results of Financial Guard's proprietary algorithm and "Best of Class" fund review process and in accordance with the client's preference for either active or passive investments. Financial Guard maintains a list of "Best of Class" funds tied to each of the distinct asset allocation classes that is determined by its Investment Committee. The universe of mutual funds and ETFs

from which Financial Guard selects the Best of Class funds is limited to the funds available for investment through the Designated Broker (as defined in Item 12). Financial Guard's Investment Committee's Best of Class fund selections are based on several criteria, such as, for example, short and long-term performance, fund manager tenure, expense ratios and fees, risk-adjusted returns, and style purity and includes the identification of the best combination of funds to implement the asset allocation model. As part of this process, Financial Guard works with a third party service provider ("Research Provider") that, using its proprietary processes and methodologies, applies quantitative analyses and qualitative factors to the mutual funds and ETFs initially contemplated for inclusion by Financial Guard and then, subject to the judgement of its analysts, presents a list of recommended mutual funds and ETFs to Financial Guard for further consideration and analyses. Such further analyses by Financial Guard include an in-depth analysis of underlying exposure of each fund and ETF recommended by the Research Provider using Financial Guard's factor-based model and QS' proprietary optimization engine that focuses on downside and expected shortfall, as described in more detail in Item 10. The Best of Class mutual funds and ETFs are reviewed at a minimum quarterly and are subject to change. In some circumstances, including but not limited to a change in peer group, fees, or strategy change, the Investment Committee may initiate a detailed review outside of the standard quarterly cycle.

While Financial Guard strives to invest in Best of Class funds in order to fill the specific asset classes of each asset allocation model that it recommends, it may not always be able to do so due to a variety of factors, including limited assets in Discretionary Accounts and any reasonable investment restrictions imposed by clients on the purchase of specific mutual funds or ETFs for their Discretionary Accounts. However, clients are not able to restrict specific asset classes included in the overall asset allocation model recommended by Financial Guard. If a particular fund or ETF is restricted from purchase, Financial Guard will determine an alternative fund to be purchased for the Discretionary Account in lieu of the restricted fund. With respect to certain asset classes, Financial Guard may have a limited universe of funds and ETFs to choose from in order to fill those asset classes in accordance with the recommended asset allocation model and, therefore, a client may not be able to exclude or restrict funds or ETFs recommended with respect such asset classes as part of the asset allocation model as the imposition of such restrictions would be considered unreasonable and inconsistent with Financial Guard's investment strategy.

### ***Lock Period***

Once the system recommends a particular asset allocation model portfolio (including specific funds and ETFs to be purchased and/or held) and Financial Guard proceeds with implementing such recommendation, a lock will be placed on the model portfolio recommendation for a client's Discretionary Account until at least 90 days after the last trade in such Discretionary Account for operational reasons and in order to avoid incurring redemption fees that may be imposed by fund companies in an effort to prevent fund shareholders from frequent trading in fund shares, subject to some limited exceptions, such as a client initiated activity (for example, a change in a client's financial or risk profile information), changes in Best of Class funds as a result of Investment Committee's review outside of the standard quarterly cycle or reinvestment of dividends that may have been paid during the lock period in accordance with the automatic dividend reinvestment plan. Any client contributions to a Discretionary Account made during the lock period are swept into short-term investments or interest-bearing accounts available in the cash sweep

program operated and made available to the client by the Custodian of the Discretionary Account (as described in Items 12 and 15) until the next rebalancing date when they will be invested as part of the Account rebalancing and in accordance with updated investment recommendations. While Financial Guard may operationally assist the Custodian in implementing the Custodian's cash sweep program for Discretionary Accounts, Financial Guard has no fiduciary or other responsibility with respect to the Custodian's cash sweep program, the sweep vehicle options available in such program or the Custodian's selection of such sweep vehicle for clients' Discretionary Accounts. Such cash sweep program will be subject to and operated in accordance with the terms and conditions agreed to by clients and the Custodian.

### ***Legg Mason Advised Funds***

Financial Guard is a subsidiary of Legg Mason, Inc. and, as such, is an affiliate of Legg Mason and all of its affiliated asset managers ("Legg Mason Advisory Affiliates"). Due to this affiliation, no mutual fund or an ETF that is managed by a Legg Mason Advisory Affiliate ("Legg Mason Advised Fund") currently is included in Financial Guard's Best of Class analysis or recommended as a Best of Class fund.

### ***Individual Stocks and Bonds Within A Client's Portfolio***

While Financial Guard may permit a client to deposit individual stocks or bonds into his/her Discretionary Account upon initial funding of such account, Financial Guard will proceed to promptly sell and liquidate such individual stocks or bonds from the Discretionary Account, which may result in client paying certain brokerage commissions and/or transaction fees. The proceeds of such sales will be available for investment after the sale transactions have settled in the Discretionary Account.

### **Rebalancing of Discretionary Accounts**

Financial Guard evaluates whether a client's Discretionary Account needs to be rebalanced at least ninety (90) days following the last trade date in that Discretionary Account, as described above under "Lock Period". The Discretionary Account is reviewed for any necessary rebalancing trades based on the date of the last review and/or trade in the Account and a tolerance band around the holdings. This is done without regard to structural market conditions or changes, except in the case of certain extraordinary circumstances of market instability described above when Financial Guard may decide to delay, suspend or otherwise manage trading in response to such unstable conditions. As described above, the Discretionary Account will not be rebalanced during the lock period, subject to some limited exceptions, such as a client initiated activity (for example, a change in a client's financial or risk profile information) or changes in Best of Class funds as a result of Investment Committee's review outside of the standard quarterly cycle. If the holdings in a Discretionary Account are within a certain percent (as determined by Financial Guard) of the selected asset class target allocation (a "Target Range") after the lock period has elapsed, then no trades will be placed in the Discretionary Account. In addition, no trades will be placed in the Discretionary Account even if the holdings are outside the Target Range after the lock period has elapsed due to investment types of limitations, such as limited cash in the Discretionary Account or market-specific requirements or restrictions, for example. In all other

cases, if the composition of the securities in a Discretionary Account is outside of the Target Range, then such Discretionary Account will be rebalanced in accordance with the selected asset class target allocation.

Each day the U.S. stock markets are open, Financial Guard determines whether any Discretionary Accounts need to be rebalanced and/or traded that day. Financial Guard reviews new Discretionary Accounts that need to be traded (e.g., purchase mutual funds and/or ETFs associated with an asset allocation model) as well as existing Discretionary Accounts that are eligible for rebalancing. After Financial Guard identifies all Discretionary Accounts that need to be rebalanced and/or traded, it sends trade orders to the Designated Broker (as defined in Item 12) for execution at the next available trading window:

- The Designated Broker groups trade orders for all client accounts across its entire platform for the same security and executes them at the next available trading window, as determined in accordance with the Designated Broker's policies and procedures. Financial Guard may send trade orders for execution during one or more trading windows throughout the trading day. The Discretionary Accounts that trade same ETFs during the same trading window as all other client accounts of the Designated Broker will receive the average price for the ETFs allocated to them. Discretionary Accounts that trade the same ETFs during different trading windows may receive different execution prices because such transactions occur at different times.
- In some circumstances, Financial Guard may need to proceed with executing a transaction for a specific Discretionary Account in advance of the next available trading window at the Designated Broker (examples include, without limitation, liquidation of a security that was contributed in kind and raising cash to meet a redemption request by the client if the client requests execution prior to the next available trading window). In such case, the Designated Broker will execute the trade order for such Discretionary Account upon its receipt from Financial Guard, subject to Designated Broker's execution policies and procedures and additional fees and/or trade commissions, if any.
- In certain situations, the Designated Broker may not be able to complete execution of all trade orders submitted to it for a Discretionary Account on the same day and transactions may continue to take place over several days due to availability of cash and settlement of transactions in the Discretionary Account.

#### Updates to Investment Time Horizon

When completing the financial and risk profile questionnaire on the Website, each client must indicate his/her investment time horizon, which, together with other information provided by the client, assists Financial Guard in determining the appropriate model asset allocation portfolio for the client's Discretionary Account. In generating such model asset allocation portfolio recommendation, the algorithm assumes that the client's time horizon remains static over time, except in the case of clients with retirement accounts. For example, if a client indicated an investment time horizon of 8-10 years, Financial Guard's advice over the life of the Discretionary Account will be based on the assumption that the client will not need to access the assets in the

Discretionary Account for 8-10 years. Financial Guard will not, on its own initiative, adjust the time horizon that it considers in providing advice to the client to reflect the passage of time. However, the client may change the investment time horizon that should be considered by Financial Guard in investing his/her Discretionary Account by revising his/her financial and risk profile questionnaire to indicate a new investment time horizon, which, as discussed above, would trigger a change in the model portfolio recommendation. In the case of retirement accounts, however, the recommended model asset allocation portfolio automatically adjusts to account for changes in a client's age.

#### *Services Available Through the Licensing Partners' Websites*

As mentioned in Item 7, above, depending on the nature of the relationship between Financial Guard and a particular Licensing Partner and the requirements of such Licensing Partner, the website that Financial Guard helps the Licensing Partner develop and/or where its technology is used may be structured in a different manner than and may offer different types of services (including without limitation a different basis for developing investment advice and recommendations) than Financial Guard's own Website as described herein.

#### *Risks of Which Clients Should Be Aware*

The following are some of the more significant risks associated with or inherent in investing and investment services provided by Financial Guard through its Website which clients should be aware:

- *Asset Allocation Risk.* A risk of asset allocation is that a client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client in light of his/her investment goals and objectives, although Financial Guard generally seeks to rebalance client portfolios to bring them in line with their asset allocation models on a quarterly basis. Also, clients should bear in mind that diversification across asset classes does not guarantee a profit or protect against loss as well as that their ability to achieve their investment objectives depends upon the Financial Guard's skill in determining the asset class allocations and recommending the best mix of funds to clients. The value of a client's investment may decrease if Financial Guard's judgment about the attractiveness, value or market trends affecting a particular asset class or fund is incorrect.
- *Risks Associated with Mutual Fund and ETF Analyses.* As part of its Best of Class process (as described above), Financial Guard looks at the experience and track record of the manager of each mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest successfully over a period of time and in different economic conditions. Financial Guard also conducts, in collaboration with the Research Provider, analyses and monitoring to ensure that mutual funds and ETFs are performing and operating as expected. As with all securities analyses, a risk of mutual fund and/or ETF analysis is that past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition,

because Financial Guard is not able to control the underlying investments in mutual funds and ETFs, managers of different funds held by a client may purchase the same security, thereby increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the mutual fund or ETF, which could make such fund or ETF less suitable for the client's portfolio.

- *Asset Class Variation Risk.* The funds that Financial Guard acquires for clients' Discretionary Accounts invest principally in the securities constituting their asset class (e.g., equity, fixed income and alternatives). However, under normal market conditions, a fund may vary the percentage of its assets in these securities (subject to any applicable regulatory requirements). Depending upon the percentage of securities in a particular asset class held by the funds at any given time and the percentage of a client's Discretionary Account assets invested in various funds, the client's actual exposure to the securities in a particular asset class may vary substantially from the asset allocation model portfolio recommended and implemented by Financial Guard for that asset class.
- *Risks of Relying on Information and Data Provided By Others.* Financial Guard's analysis methods rely on the assumption that the companies whose funds and ETFs Financial Guard purchases and sells for clients' Discretionary Accounts, the rating agencies that review such funds and ETFs, the Research Provider and other available sources of information about such funds and ETFs, are providing accurate, reliable and unbiased data and information. While Financial Guard has reviews and alerts in place to help it identify possible indications that data and information may be incorrect, incomplete or inaccurate, Financial Guard is not able to guarantee that its analyses and recommendations will not be compromised by or free from any inaccurate, incomplete, inaccurate or misleading data and information provided by such other third parties.
- *Long-Term Purchases Risks.* Financial Guard typically purchases investments for clients' Discretionary Accounts with the intention of holding them for a year or longer. It may do this because it believes the investments to be currently undervalued and/or because it wants to recommend exposure to a particular asset class over time, regardless of the current projection for such class. A risk of a long-term investment strategy is that, by holding an investment for a long time, the client may not be able to take advantage of potential short-term gains. Moreover, if Financial Guard's analysis is incorrect, an investment may decline sharply in value before Financial Guard is able to sell or dispose of it.
- *Volatility and Correlation Risk.* Clients should be aware that Financial Guard's asset selection process is based in part on a careful evaluation of past price performance and volatility in order to evaluate future probabilities. However, it is possible that different or unrelated asset classes may exhibit similar price changes in similar directions, which may adversely affect a client and may become more acute in times of market upheaval or high volatility. ***Past performance is no guarantee of future results, and any historical returns, expected returns or probability projections may not reflect actual future performance.***

- *Risks Associated With Fund Investments.* By owning shares or units of funds, each client is exposed and subject to the investment risks associated with the types of securities and instruments in which such funds may invest and techniques they may pursue in seeking to achieve their investment objectives. Appendix A hereto summarizes some of the common investment risks to which clients may be subject by virtue of them being invested in the funds. More complete information and discussion regarding the investment practices of the funds and their investment risks are located in the prospectuses and statements of additional information or other types of disclosure documents for such funds, which clients are strongly encouraged to review and may obtain by contacting the Designated Broker. No offer is made in this Brochure of any of the funds that Financial Guard may acquire for clients' Discretionary Accounts.
- *Risks Associated with Limitations of Web-Based Investing.* Web-based advice has significant limitations that clients should consider before signing up for Financial Guard's services. Specifically, in a web-based advisory arrangement, an individual does not receive the benefits of face-to-face, telephone, or otherwise individualized interaction with his/her investment adviser, therefore limiting the individual's ability to ask questions or relay important information. Moreover, such an arrangement also limits the ability of the adviser to fully assess the unique financial condition of an individual, as well as the individual's specific investment goals and objectives.
- *Risks Inherent In The Use Of An Algorithm.* The models and techniques, including codes, utilized by Financial Guard in developing and designing the algorithms used for delivering investment advisory services to clients are based on the information and data available to Financial Guard as well as on its assumptions, assessments, and estimates, all of which are subject to error. As a result, such models and techniques may not account for all relevant factors or may not account for any such factors correctly. More generally, there can be no assurance that such models and techniques would be effective. Because algorithms depend and rely on models, they do not take into account market conditions when rebalancing client accounts and they may not effectively address prolonged changes in market conditions.
- *Advisory and Model Risk.* There is no guarantee that Financial Guard's judgment or investment decisions about particular securities or asset classes will necessarily produce the intended results. Financial Guard's judgment about the quality, relative yield, value or market trends affecting a particular security, industry or sector, country or region, or about market movements may prove to be incorrect, and a client might not achieve his or her investment objective. In addition, the proprietary models used to evaluate securities or securities markets are based on an understanding of the interplay of market factors and do not assure successful investment. The markets or the prices of individual securities may be affected by factors not foreseen in developing the models. Financial Guard may also make changes to the investing algorithms and advisory services that it provides. In addition, it is possible that client or Financial Guard itself may experience computer equipment failure, loss of internet access, viruses, or other events that may impair access to Financial Guard's software-based financial advisory service. Financial Guard and its representatives are not responsible to any client for losses unless caused by Financial Guard's breach of its fiduciary duty.

- **Cyber Security Risk.** With the increased use of technologies such as the Internet to conduct business, clients and their Discretionary Accounts are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events that include, but are not limited to, gaining unauthorized access to digital systems, misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches by a third party service provider and the issuers of securities in which clients invest have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

***Clients should understand that investing in any security, including mutual funds and ETFs, involves a risk of loss of both income and principal. There can be no assurance that Financial Guard's investment advice, recommendations and strategies will be successful or that a client's investment objective will be achieved.***

#### **Item 9. Disciplinary Information**

No member of Financial Guard's management or Investment Committee has been subject to any legal or disciplinary events.

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

##### **Relationship with Legg Mason & Co., LLC**

Financial Guard has a relationship with Legg Mason & Co., LLC, a non-advisory affiliate ("LM&Co."), in which LM&Co. supports Financial Guard with respect to certain functional areas, such as management, legal and compliance, technology, finance and human resources. In addition, certain employees of LM&Co. serve as the members of Financial Guard's Investment Committee, which is ultimately responsible for provision of all investment advisory services to clients, including making all decisions regarding Financial Guard's investment algorithms, asset allocation model portfolios and investment fund selections and recommendations.

##### **Relationship with QS**

As mentioned in Item 8, above, Financial Guard has an arrangement with QS, its affiliate, pursuant to which QS provides non-discretionary advice to Financial Guard in the form of asset allocation guidance that is considered by Financial Guard's Investment Committee in developing the asset allocation model portfolios. In addition to providing non-discretionary asset allocation guidance to Financial Guard, Financial Guard may ask QS to use its proprietary optimization tool to evaluate one or more investment funds identified by Financial Guard as potential candidates to fulfill an asset class included within an asset allocation recommendation. Such evaluations are performed by QS utilizing inputs and data chosen by Financial Guard and furnished to QS by Financial Guard



on a “blind” basis (i.e., Financial Guard does not disclose the identity of the investment funds for which an evaluation is being requested to QS). While such non-discretionary advice and information is considered by Financial Guard as an input in developing asset allocation models and selecting investment funds, Financial Guard’s Investment Committee is exclusively responsible for developing all asset allocation models and making all of Financial Guard’s investment recommendations and investment decisions with respect to or on behalf of clients and client accounts and, as part of its process, it independently assesses and evaluates QS’ asset allocation guidance and makes changes or adjustments in the asset allocation models as it deems necessary and/or appropriate.

#### *Relationship with Legg Mason Investor Services, LLC*

Legg Mason Investor Services, LLC (“LMIS”) is registered as a broker-dealer under U.S. securities laws and is an affiliate of Financial Guard. LMIS markets investment advisory services of Legg Mason affiliated managers and various Legg Mason investment products and services. While LMIS is not involved in marketing or promoting of Financial Guard’s investment advisory services, two members of Financial Guard’s Investment Committee as well as five other employees, including dual-hatted employees of LM&Co. who perform certain functions on behalf of Financial Guard, are registered representatives of LMIS. This status enables these persons to assist LMIS with its marketing and promotional activities. However, such Financial Guard employees and Investment Committee members do not receive commissions or other sales-based compensation and spend no more than a limited amount of their time assisting LMIS.

#### *Conflicts of Interest*

Financial Guard generally receives an asset-based advisory fee from clients that is charged on a quarterly basis for the discretionary investment advisory services that it provides to clients. Financial Guard is not compensated on the basis of the investment(s) selected by the client. Neither Financial Guard nor any of its employees, agents or representatives receive from any party, directly or indirectly, any fee or other compensation (including commissions, salary, bonuses, awards, promotions, or other things of value) that varies depending based on the investment(s) selected by Financial Guard for clients’ Discretionary Accounts.

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

#### *Code of Ethics*

As part of an overall internal compliance program, Financial Guard has adopted a code of ethics (“Code of Ethics”) and other related policies and procedures (“Related Policies”). The Code of Ethics and Related Policies are based on the principle that Financial Guard owes a fiduciary duty to its clients. The Code of Ethics emphasizes that Financial Guard employees and supervised persons must avoid activities, interests and relationships that might (i) present a conflict of interest or the appearance of a conflict of interest with Financial Guard’s clients, or (ii) otherwise interfere with Financial Guard’s ability to make decisions in the best interests of the firm’s clients. The Code of Ethics and Related Policies impose standards of business conduct, including requirements to put client interests first and to not take inappropriate advantage of employment-

related information. The Code of Ethics and Related Policies are intended to mitigate or obviate potential conflicts of interest between Financial Guard's employees and supervised persons and Financial Guard's clients and assure compliance with applicable laws and regulations.

### Personal Trading

Investment and trading activities by Financial Guard employees in the same investment funds or individual securities held by or considered for Financial Guard client Discretionary Accounts may create conflicts of interest, or potential conflicts of interest, between Financial Guard's employees and Financial Guard's investment advisory clients. Such conflicts or potential conflicts could include:

- using knowledge of open, executed or pending portfolio transactions in a client account to profit from the market effect of such transactions;
- causing a client account to engage in a transaction in order to positively impact a personal investment holding; and
- while currently not applicable, using knowledge of portfolio holdings in Legg Mason Advised Funds to engage in a short-term trading strategy involving such Legg Mason Advised Funds to the extent Financial Guard begins investing clients' Discretionary Accounts in Legg Mason Advised Funds at some point in the future.

The Code of Ethics includes Policies and Procedures on Personal Trading Activities ("Personal Trading Policy"). The Personal Trading Policy is intended to mitigate or obviate potential conflicts of interest between Financial Guard's employees and Financial Guard's investment advisory clients with respect to personal trading activities of Financial Guard employees.

Key elements of Financial Guard's Personal Trading Policy include the following:

- Employees and supervised persons are prohibited from making a purchase or sale of a security at a time when they are in possession of nonpublic information to the effect that a Legg Mason Advisory Affiliate is or may be considering a purchase or sale of such security.
- Employees and supervised persons are prohibited from engaging in securities transactions that involve the use of nonpublic knowledge of the portfolio holdings of a Legg Mason Advised Fund to engage in any short-term or other trading strategy involving such Legg Mason Advised Fund.
- Employees and supervised persons are subject to a 60 day holding period with respect to their purchase of shares of a Legg Mason Advised Fund.
- Investment in initial public offerings (IPOs) or other new issues or in private placements by employees and supervised persons requires the pre-approval of the Legg Mason Compliance Department to which Financial Guard's Chief Compliance Officer ("CCO") has

delegated certain monitoring responsibilities under the Code of Ethics and Related Policies (“Legg Mason Compliance Department”).

- Subject to certain exceptions, employees and supervised persons must effect personal securities transactions through brokerage firms which have agreed to forward information regarding the transactions to Legg Mason Compliance Department.

In addition to the Personal Trading Policy, Financial Guard and Legg Mason Advisory Affiliates maintain Informational Barrier policies and procedures that restrict or limit access by Financial Guard and its employees and supervised persons to information relating to the investment intentions, activities, transactions and portfolio holdings of Legg Mason Advised Funds and other client accounts managed by Legg Mason Advisory Affiliates.

Personnel in Legg Mason Compliance Department, under the supervision of Financial Guard’s CCO, have principal oversight responsibility with respect to trading conducted by Financial Guard’s employees for their personal accounts.

#### *Gifts and Entertainment; Political Contributions and Outside Business Activities*

The Code of Ethics and Related Policies also include provisions that address situations where the potential for conflicts exist. These include:

- Reporting of all gifts and entertainment exchanged between employees and external business partners, including clients, consultants, brokers, and vendors.
- Limits on the type, frequency, and value of business gifts and entertainment given or received by our employees.
- Pre-clearance and reporting of all political contributions made by employees.
- Reporting of all outside business activities that may be in conflict with an employee’s job responsibilities and/or duty to clients.

#### *Employee Reporting and Certification*

All employees are required to report their personal securities accounts, transactions and holdings to the Legg Mason Compliance Department upon employment and to certify to the completeness of the information and their compliance with the Code of Ethics on an annual basis.

#### *How to Obtain a Copy of the Code of Ethics*

Existing and prospective clients of Financial Guard may obtain copies of the Code of Ethics by emailing Financial Guard at [support@financialguard.com](mailto:support@financialguard.com).

## **Item 12. Brokerage Practices**

Financial Guard: (i) does not recommend or select brokers or dealers to be used to execute transactions on behalf of client accounts; and (ii) has no best execution obligations with respect to transactions in client accounts. Financial Guard does not have any formal or informal soft-dollar arrangements and does not receive any soft-dollar benefits from any brokers or dealers.

Clients are required to hold assets in Discretionary Accounts set up with a “qualified custodian”, as defined in the Advisers Act Rule 206(4)-2 (the “Custodian”). The Custodian must be an entity with which Financial Guard has an established operational connectivity for purposes of facilitating the management of the Discretionary Accounts, including the execution of trades on behalf of Discretionary Accounts, in which case the Custodian also acts as the clients’ designated broker (“Designated Broker”). As part of the account opening process, Financial Guard provides clients with information about the Designated Broker and clients direct Financial Guard to execute all investment trades with respect to their Discretionary Accounts with such Designated Broker. ***Not all advisers require their clients to direct brokerage. By having clients direct brokerage in this manner, Financial Guard may be unable to achieve most favorable execution of transactions and this practice may cost clients more money.*** Clients should note that: (i) Financial Guard does not recommend the Designated Broker; (ii) Financial Guard does not evaluate the Designated Broker on any criteria except its willingness to establish operational connectivity with Financial Guard and its general ability to provide low or no cost trades to clients; and (iii) clients are responsible for independently evaluating and selecting the Designated Broker as part of their decision to retain Financial Guard to provide discretionary investment advisory services.

As part of the process of establishing a Discretionary Account with the Designated Broker, a client is responsible for: (i) reviewing and agreeing to the account maintenance, transaction-related and other fees that are charged by the Designated Broker; and (ii) for reviewing and completing the documentation or questionnaires needed to establish such account.

Due to the client’s direction to execute all trades through the client’s Designated Broker, Financial Guard has no ability to execute trades with broker-dealers other than the Designated Broker and has no responsibility for monitoring transactions that it executes on behalf of the client with the Designated Broker for best execution.

When a trade error has been identified, Financial Guard will correct the error as soon as reasonably practical following discovery, consistent with the orderly disposition (and/or acquisition, as applicable) of the funds and/or ETFs in question, with the goal of restoring the Discretionary Account back to the same condition that would have resulted if the error had not occurred. Losses associated with trade errors that are not caused by the client will be borne by Financial Guard or another party (other than the client), as applicable. Under some circumstances, the correction of an error by Financial Guard could result in a gain to the client. If an erroneous trade was placed in a client’s Discretionary Account, Financial Guard will proceed to correct such error by placing correcting trades in an error account maintained at the Designated Broker. To the extent such correcting trades in the error account result in a gain, the Designated Broker and not the client will retain the gain. If an error involves multiple fund or ETF positions, Financial Guard may calculate the net loss caused by the error (if any) by aggregating such

positions (for a client account) and offsetting any gains that resulted from the error against the gross losses that resulted from the error.

### **Item 13. Review of Accounts**

Under the algorithms and methodologies continuously monitored and updated by Financial Guard's Investment Committee, our proprietary technological platform monitors the investment holdings in client accounts and performs reviews of such account holdings for all clients after the expiration of the lock period, as described in Item 8, above. Accounts are reviewed in the context of the investment objectives and guidelines of the recommended asset allocation model portfolio, as well as any reasonable investment restrictions imposed by a client on the management of his/her Discretionary Account.

Clients receive monthly/quarterly statements and confirmations of transactions from the Designated Broker/Custodian. Financial Guard also provides weekly investment updates via email to all clients.

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

As of the date of this Brochure, Financial Guard does not receive any compensation or economic benefit from anyone who is not a client in connection with the provision of investment advisory services to clients. In addition, neither Financial Guard nor any of its affiliates directly or indirectly compensates any person who is not a "supervised person" of Financial Guard for client referrals to Financial Guard. Supervised persons of Financial Guard include Financial Guard's officers, partners, directors and employees, and other persons subject to Financial Guard's supervision or direction.

### **Item 15. Custody**

Financial Guard does not maintain physical custody of client assets. Each client's assets are physically held under custody of the Custodian/Designated Broker, as described in Item 12. Financial Guard may be deemed under SEC rules to have custody of client assets due to its ability, pursuant to client authorization, to deduct client Advisory Fees directly from a client's Discretionary Account by directly invoicing the Custodian/Designated Broker for the Advisory Fees due and owing.

Clients will receive account statements with respect to their Discretionary Accounts from the Custodian/Designated Broker and should carefully review them. In addition, clients should compare such Discretionary Account information received from the Custodian/Designated Broker with the account reports and information they receive from Financial Guard.

### **Item 16. Investment Discretion**

Financial Guard acts as a discretionary adviser with respect to clients' Discretionary Accounts held at the Designated Broker. In order to grant investment discretion to Financial Guard, each

client must complete certain documentation required by the Designated Broker as part of the enrollment process and must also enter into a Discretionary Account Agreement with Financial Guard pursuant to which the client authorizes Financial Guard to execute trades on behalf of the client in order to implement investment advice generated by the Financial Guard's system.

Clients are able to impose reasonable investment restrictions on the purchase of specific mutual funds or ETFs for their Discretionary Accounts. However, clients are not able to restrict specific asset classes included in the overall asset allocation model recommended by Financial Guard. If a particular fund or ETF is restricted from purchase, Financial Guard will determine an alternative fund to be purchased for the Discretionary Account in lieu of the restricted fund. With respect to certain asset classes, Financial Guard may have a limited universe of funds to choose from in order to fill those asset classes in accordance with the recommended asset allocation model and, therefore, a client may not be able to exclude or restrict funds or ETFs recommended with respect to such asset classes as part of the asset allocation model as the imposition of such restrictions would be considered unreasonable and inconsistent with Financial Guard's investment strategy.

### **Item 17. Voting Client Securities**

As a matter of policy, Financial Guard does not vote proxies on behalf of clients nor does it offer any consulting or assistance to clients with respect to proxies. Clients will receive their proxies and other issuer solicitations and communications directly from the Custodian/Designated Broker or applicable transfer agents, and retain responsibility for placing votes with respect to such proxies or delegate such responsibility to the Custodian/Designated Broker itself. Financial Guard does not advise or act on behalf of clients in legal proceedings involving companies or issuers whose securities are held in the clients' account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements.

### **Item 18. Financial Information**

Financial Guard does not require prepayment of more than \$1,200 in fees from any client six months or more in advance.

At this time, there are no financial conditions that would impair Financial Guard's ability to meet all contractual commitments to its clients.

## **Appendix A**

By owning shares or units of funds, including mutual funds and ETFs, investors are exposed and subject to the investment risks associated with the types of securities and instruments in which the funds may invest and techniques they may pursue in seeking to achieve their investment objectives. This Appendix explains some of the common risks of loss associated with investing in mutual funds and ETFs but is not a complete, detailed or comprehensive summary or listing of all risks that might be relevant to a particular fund or ETF. ***Clients are strongly encouraged to review each fund's prospectus and statement of additional information ("SAI") or other types of disclosure documents for more complete information and discussion regarding the fund's investment practices and related risks. Copies of such prospectus, SAI or other disclosure documents for each fund may be obtained from the Designated Broker.***

***Fund Objectives May Not be Met.*** The ability of a client to meet his/her investment objective is directly related to the ability of each of the funds in which he/she invests to meet its objective as well as the allocation of client's assets among those funds. The performance of funds, in turn, depends on the performance of the stock, bond, and money markets in the U.S. and abroad. There can be no assurance that the investment objectives of any fund will be achieved. Also, funds are not deposits or obligations of, or guaranteed by or endorsed by, any bank and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other U.S. governmental agency.

***Active Management Risk.*** Clients may invest in funds that are actively managed and, therefore, are not designed to simply mirror the composition and performance of their applicable asset category benchmark. The success of each fund's investment strategy depends significantly on the skill and judgment of such fund's portfolio managers in investing the fund's assets and is subject to the risk that the portfolio manager's usage of investment techniques and risk analyses to make investment decisions fails to perform as expected, which may cause the fund to lose value or underperform investments with similar objectives and strategies or the market in general. There may be significant variations between the performance of the funds and their respective benchmarks.

***Passive Management Risk.*** Some of the funds in which clients may invest are not actively managed, and their portfolio managers do not attempt to manage volatility or take defensive positions in declining markets. This passive management strategy may subject the investment to greater losses during general market declines than actively managed investments.

***Stock Market and Equity Securities Risk.*** The stock markets are volatile and the market prices of a fund's equity securities may decline generally. Equity securities may have greater price volatility than other asset classes, such as fixed income securities, and may fluctuate in price based on actual or perceived changes in a company's financial condition and overall market and economic conditions and perceptions. If the market prices of the equity securities owned by funds in which clients invest fall, the value of the clients' investments in such funds will decline. Furthermore, if a fund holds equity securities in a company that becomes insolvent, the fund's interests in the company will be subordinated to the interests of debtholders and general creditors of the company. In addition, if a fund invests in a small number of issuers or significantly overweighs certain companies, industries, market sectors, countries or asset classes, such fund's

performance may be more sensitive to developments affecting those companies, industries, sectors, countries or asset classes and, therefore, may be subject to greater risk of loss compared to a more broadly diversified asset allocation.

**Fixed Income Securities Risk.** Fixed income securities are subject to a number of risks, including market risk, issuer risk, interest rate risk, credit risk, prepayment risk and extension risk. Market risk is the risk that the fixed income markets may become volatile and less liquid, or behave in unexpected ways, and the market value of an investment may move up or down, sometimes quickly or unpredictably. Issuer risk is the risk that the value of a particular fixed income security can go down more than the market as a whole due to an issuer-specific event. If a fund invests in a small number of issuers or significantly overweighs certain issuers, industries, market sectors, countries or asset classes, such fund's performance may be more sensitive to developments affecting those issuers, industries, sectors, countries or asset classes and, therefore, may be subject to greater risk of loss compared to a more broadly diversified asset allocation.

Interest rate risk is the risk that the value of fixed income securities generally falls when interest rates go up. Generally, the longer the maturity or duration of a fixed income security, the greater the impact of a rise in interest rates on the security's value compared to securities with shorter maturities, which have lower yields but greater price stability. Interest rates have been historically low but have begun to rise, so funds face a heightened risk that interest rates may continue to rise. A general rise in interest rates may cause investors to move out of fixed income securities on a large scale, which could adversely affect the price and liquidity of fixed income securities. Credit risk is the risk that the value of a fixed income security will decline if the issuer or obligor with respect to such security will not make timely payments of principal and interest. Changes in an issuer's or obligor's credit rating or the market's perception of an issuer's or obligor's creditworthiness may also affect the value of a fund's investment in that issuer. A fund is subject to greater levels of credit risk to the extent it holds below investment grade debt securities or "junk" bonds. Market risk is the risk that the fixed income markets may become volatile and less liquid or behave in unexpected ways, and the market value of an investment may move up or down, sometimes quickly or unpredictably.

Prepayment risk is the risk that an issuer of fixed income securities exercises a right to prepay the securities as interest rates fall, which would force a fund to reinvest in lower yielding securities. Extension risk is the risk that repayments of fixed income securities may occur more slowly than expected as interest rates rise. This may reduce the value of such securities because their interest rates are lower than current interest rates and they remain outstanding longer.

**Market Events Risk.** In the past decade financial markets throughout the world have experienced increased volatility, depressed valuations, decreased liquidity and heightened uncertainty. Governmental and non-governmental issuers have defaulted on, or been forced to restructure, their debts. These conditions may continue, recur, worsen or spread. Events that have contributed to these market conditions include, but are not limited to, major cybersecurity events; geopolitical events (including wars and terror attacks); measures to address budget deficits; downgrading of sovereign debt; declines in oil and commodity prices; dramatic changes in currency exchange rates; and public sentiment.



U.S. and non-U.S. governments and central banks have provided significant support to financial markets, including by keeping interest rates at historically low levels. The U.S. Federal Reserve is reducing its market support activities and has begun raising interest rates. Certain non-U.S. governments and central banks have implemented or may implement so-called negative interest rates (e.g., charging depositors who keep their cash at a bank) to spur economic growth. Further Federal Reserve or other U.S. or non-U.S. governmental or central bank actions, including interest rate increases or contrary actions by different governments, could negatively affect financial markets generally, increase market volatility and reduce the value and liquidity of securities in which the funds held by clients invest.

Policy and legislative changes in the United States and in other countries and other events affecting global markets, such as the United Kingdom's expected exit from the European Union (or Brexit), are affecting many aspects of financial regulation and may in some instances contribute to decreased liquidity and increased volatility in the financial markets. The impact of these changes on the markets, and the practical implications for market participants, may not be fully known for some time.

Economies and financial markets throughout the world are increasingly interconnected. Economic, financial or political events, trading and tariff arrangements, terrorism, natural disasters and other circumstances in one country or region could have profound impacts on global economies or markets. As a result, whether or not a fund invests in securities of issuers located in or with significant exposure to the countries directly affected, the value and liquidity of the fund's investments may be negatively affected.

**Issuer Risk.** The market price of a security can go up or down more than the market as a whole and can perform differently from the value of the market as a whole, due to factors specifically relating to the security's issuer, such as disappointing earnings reports by the issuer, unsuccessful products or services, loss of major customers, changes in management, corporate actions, negative perception in the marketplace, major litigation against the issuer or changes in government regulations affecting the issuer or the competitive environment. A fund may experience a substantial or complete loss on an individual security. As described below, historically, the prices of securities of small and medium capitalization companies have generally been more volatile than those of large capitalization companies, although even large capitalization companies may fall out of favor with investors.

**Credit Risk.** The value of a client's investment in a fund could decline if the issuer of a security held by the fund or another obligor for that security (such as a party offering credit enhancement) fails to pay, otherwise defaults, is perceived to be less creditworthy, becomes insolvent or files for bankruptcy. The value of a client's investment in a fund could also decline if the credit rating of a security held by the fund is downgraded or the credit quality or value of any assets underlying the security declines. If a fund enters into financial contracts (such as certain derivatives, repurchase agreements, reverse repurchase agreements, and when-issued, delayed delivery and forward commitment transactions), the fund will be subject to the credit risk presented by the counterparty. In addition, the fund may incur expenses in an effort to protect the fund's interests or to enforce its rights. Credit risk is broadly gauged by the credit ratings of the securities in which funds may invest. However, ratings are only the opinions of the nationally recognized statistical rating organizations (NRSROs) issuing them and are not absolute guarantees as to quality.

Fixed income securities rated BBB-/Baa3 or better by an NRSRO, and unrated securities considered to be of equivalent quality, are considered investment grade. Securities rated in the lowest category of investment grade (BBB/Baa) may possess certain speculative characteristics. Changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of such securities to make principal and interest payments than is the case for higher grade debt securities. Credit risk is typically greatest for a fund's high yield debt securities, which are rated below the BBB/Baa categories or unrated securities of comparable quality ("junk" bonds).

A fund could invest in securities which are subordinated to more senior securities of the issuer, or which represent interests in pools of such subordinated securities. A fund is more likely to suffer a credit loss on subordinated securities than on on-subordinated securities of the same issuer. If there is a default, bankruptcy or liquidation of the issuer, most subordinated securities are paid only if sufficient assets remain after payment of the issuer's non-subordinated securities. In addition, any recovery of interest or principal may take more time. As a result, even a perceived decline in creditworthiness of the issuer is likely to have a greater adverse impact on subordinated securities.

***Small and Medium Capitalization Company Risk.*** A fund will be exposed to additional risks as a result of its investments in the securities of small and medium capitalization companies. Small and medium capitalization companies may fall out of favor with investors; may have limited product lines, operating histories, markets or financial resources; or may be dependent upon a limited management group. The prices of securities of small and medium capitalization companies generally are more volatile than those of large capitalization companies and are more likely to be adversely affected than large capitalization companies by changes in earnings results and investor expectations or poor economic or market conditions, including those experienced during a recession. Securities of small and medium capitalization companies may underperform large capitalization companies, may be harder to sell at times and at prices a fund's adviser believes appropriate and may offer greater potential for losses.

***Derivatives Risk.*** Derivatives involve special risks and costs and may result in losses to a fund, even when used for hedging purposes. Funds may use derivative contracts (which may include, but are not limited to, futures and options on securities, securities indices or currencies; options on these futures; forward currency contracts; interest rate or currency swaps and credit default swaps) to hedge against the economic impact of adverse changes in the market value of its securities, or because of changes in stock market prices, currency exchange rates or interest rates. Derivatives may also be used as a substitute for buying or selling securities and in an attempt to enhance returns.

A derivative contract will obligate or entitle a fund to deliver or receive an asset or cash payment based on the change in value of one or more securities, currencies or indices. Even a small investment in derivative contracts can have a big impact on a fund's stock market, currency and interest rate exposure. Therefore, using derivatives can increase losses and reduce opportunities for gains when market prices, currencies, interest rates, or the derivatives themselves behave in a way not anticipated by a fund, especially in abnormal market conditions. Using derivatives also can have a leveraging effect which may increase investment losses and increase a fund's

volatility, which is the degree to which the fund's share price may fluctuate within a short time period. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. The other parties to certain derivatives transactions present the same types of credit risk as issuers of fixed income securities. Derivatives also tend to involve greater liquidity risk and they may be difficult to value. A fund may be unable to terminate or sell its derivative positions. In fact, many over-the-counter derivatives will not have liquidity except through the counterparty to the instrument. Derivatives are generally subject to the risks applicable to the assets, rates, indices or other indicators underlying the derivative. The value of a derivative may fluctuate more than the underlying assets, rates, indices, or other indicators to which it relates. Use of derivatives or similar instruments may have different tax consequences for the fund than an investment in the underlying security, and those differences may affect the amount, timing and character of income distributed to shareholders. A fund's use of derivatives may also increase the amount of taxes payable to shareholders. The U.S. government and foreign governments are in the process of adopting and implementing regulations governing derivatives markets, including mandatory clearing of certain derivatives, margin, and reporting requirements. The ultimate impact of the regulations remains unclear. Additional regulation of derivatives may make derivatives more costly, limit their availability or utility, otherwise adversely affect their performance or disrupt markets. The extent and impact of the additional regulations are not yet fully known and may not be for some time.

Investments by a fund in structured securities, a type of derivative, raise certain tax, legal, regulatory and accounting issues that may not be presented by direct investments in securities. These issues could be resolved in a manner that could hurt the performance of the fund.

Swap agreements tend to shift a fund's investment exposure from one type of investment to another. For example, a fund may enter into interest rate swaps, which involve the exchange of interest payments by the fund with another party, such as an exchange of floating rate payments for fixed interest rate payments with respect to a notional amount of principal. If an interest rate swap intended to be used as a hedge negates a favorable interest rate movement, the investment performance of the fund would be less than what it would have been if the fund had not entered into the interest rate swap.

Credit default swap contracts, a type of derivative instrument, involve heightened risks and may result in losses to a fund that invests in such instruments. Credit default swaps may be illiquid and difficult to value. If a fund sells a credit default swap contract, the fund generally would be required to pay the par (or other agreed upon) value of a referenced debt obligation to the counterparty in the event of a default by a third party on the debt obligation. In return, the fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the fund would keep the stream of payments and would have no payment obligations. As the seller, the fund would be subject to investment exposure on the notional amount of the swap, which may be significantly larger than the fund's cost to enter into the credit default swap.

A fund may purchase credit default swap contracts in order to hedge against the risk of default of debt securities held in its portfolio, in which case the fund would function as the counterparty referenced in the preceding paragraph. This would involve the risk that the investment may expire worthless and would only generate income in the event of an actual default by the issuer of the

underlying obligation (or, as applicable, a credit downgrade or other indication of financial instability). It would also involve credit risk—that the seller may fail to satisfy its payment obligations to the fund in the event of a default.

The absence of a central exchange or market for swap transactions may lead, in some instances, to difficulties in trading and valuation, especially in the event of market disruptions. Recent legislation requires certain swaps to be executed through a centralized exchange or regulated facility and be cleared through a regulated clearinghouse. Although this clearing mechanism is generally expected to reduce counterparty credit risk, it may disrupt or limit the swap market and may not result in swaps being easier to trade or value. As swaps become more standardized, funds may not be able to enter into swaps that meet their investment needs. Funds also may not be able to find a clearinghouse willing to accept a swap for clearing. In a cleared swap, a central clearing organization will be the counterparty to the transaction. A fund will assume the risk that the clearinghouse may be unable to perform its obligations.

A fund engaging in certain derivatives transactions may be required to maintain its positions with a clearing organization through one or more clearing brokers. The clearing organization will require the fund to post margin and the broker may require the fund to post additional margin to secure the fund's obligations. The amount of margin required may change from time to time. In addition, cleared transactions may be more expensive to maintain than over-the-counter transactions and may require the fund to deposit larger amounts of margin. The fund may not be able to recover margin amounts if the broker has financial difficulties. Also, the broker may require the fund to terminate a derivatives position under certain circumstances. This may cause the fund to lose money. [...](#)

Futures are standardized, exchange-traded contracts that obligate a purchaser to take delivery, and a seller to make delivery, of a specific amount of an asset at a specified future date at a specified price. The primary risks associated with the use of futures contracts are: (a) the imperfect correlation between the change in market value of the instruments held by a fund and the price of the futures contract; (b) the possible lack of a liquid secondary market for a futures contract and the resulting inability to close a futures contract when desired; (c) losses caused by unanticipated market movements, which are potentially unlimited; (d) the inability of a fund's adviser to predict correctly the direction of securities prices, interest rates, currency exchange rates and other economic factors; and (e) the possibility that the counterparty will default in the performance of its obligations.

An option is an agreement that, for a premium payment or fee, gives the option holder (the purchaser) the right but not the obligation to buy (a "call option") or sell (a "put option") the underlying asset (or settle for cash in an amount based on an underlying asset, rate, or index) at a specified price (the "exercise price") during a period of time or on a specified date. A fund may write a call or put option where it (i) owns or is short the underlying security in the case of a call or put option, respectively (sometimes referred to as a "covered option"), or (ii) does not own or is not short such security (sometimes referred to as a "naked option"). When a fund purchases an option, it may lose the total premium paid for it if the price of the underlying security or other assets decreased, remained the same or failed to increase to a level at or beyond the exercise price (in the case of a call option) or increased, remained the same or failed to decrease to a level at or below the exercise price (in the case of a put option). If a put or call option purchased by a fund were permitted to expire without being sold or exercised, its premium would represent a loss to the fund. To the extent that a fund writes or sells an option, in particular a naked option, if the

decline or increase in the underlying asset is significantly below or above the exercise price of the written option, the fund could experience a substantial loss.

Risks associated with the use of derivatives are magnified to the extent that an increased portion of a fund's assets is committed to derivatives in general or is invested in just one or a few types of derivatives.

***Liquidity Risk.*** Liquidity risk exists when particular investments are impossible or difficult to sell. Even though a fund's investments may be liquid at the time of investment, investments may become illiquid after purchase by the fund, particularly during periods of market turmoil. Markets may become illiquid when, for instance, there are few, if any, interested buyers or sellers or when dealers are unwilling or unable to make a market for certain securities. As a general matter, dealers recently have been less willing to make markets for fixed income securities. When a fund holds illiquid investments, the portfolio may be harder to value, especially in changing markets, and if a fund is forced to sell these investments to meet redemption requests or for other cash needs, such fund may suffer a loss. A fund may experience heavy redemptions that could cause it to liquidate its assets at inopportune times or at a loss or depressed value, which could cause the value of a client's investment in such fund to decline. In addition, when there is illiquidity in the market for certain investments, a fund that is subject to limitations on illiquid investments may be unable to achieve its desired level of exposure to a certain sector.

***Over-the-Counter ("OTC") Risk.*** Investments traded and privately negotiated in the OTC market, including securities and derivatives, may be subject to greater price volatility and liquidity risk than transactions made on organized exchanges. Because the OTC market is less regulated, OTC transactions may be subject to increased credit and counterparty risk.

***Growth and Value Investing Risk.*** Growth or value securities as a group may be out of favor and underperform the overall equity market while the market concentrates on other types of securities. Growth securities typically are very sensitive to market movements because their market prices tend to reflect future expectations. When it appears those expectations will not be met, the prices of growth securities typically fall. Value securities may be subject to the risk that these securities cannot overcome the adverse factors a fund's manager believes are responsible for their low price or that the market may not recognize their fundamental value as the fund's manager predicted. Value securities are not expected to experience significant earnings growth and may underperform growth stocks in certain markets. A fund may, like many growth or value funds, weight its investments toward certain industries, sectors or countries, thus increasing its exposure to factors adversely affecting issuers within those industries, sectors or countries and, indirectly, the fund's exposure to those factors compared to a more diversified portfolio of securities.

***Foreign Investments and Emerging Markets Risk.*** A fund's Investments in securities of foreign issuers or issuers with significant exposure to foreign markets (including those denominated in U.S. dollars) involve additional risk. Foreign countries in which a fund may invest may have markets that are less liquid, less regulated and more volatile than U.S. market. The value of a fund's investments may decline because of factors affecting the particular issuer as well as foreign markets and issuers generally, such as unfavorable or unsuccessful government actions, reduction of government or central bank support and political or financial instability. Lack of information may also affect the value of these securities. To the extent a fund focuses its investments in a single country or only a few countries in a particular geographic region,

economic, political, regulatory or other conditions affecting such country or region may have a greater impact on fund performance relative to a more geographically diversified fund.

The value of a fund's foreign investments may also be affected by foreign tax laws, special U.S. tax considerations and restrictions on receiving the investment proceeds from a foreign country. Dividends or interest on, or proceeds from the sale or disposition of, foreign securities may be subject to non-U.S. withholding or other taxes. Foreign investments may also be adversely affected by U.S. government or international economic sanctions, which could eliminate the value of an investment.

In some foreign countries, less information is available about issuers and markets because of less rigorous accounting and regulatory standards than in the United States. It may be difficult for a fund to pursue claims against a foreign issuer in the courts of a foreign country. Some securities issued by non-U.S. governments or their subdivisions, agencies and instrumentalities may not be backed by the full faith and credit of such governments. Even where a security is backed by the full faith and credit of a government, it may be difficult for a fund to pursue its rights against the government. Some non-U.S. governments have defaulted on principal and interest payments, and more may do so. In certain foreign markets, settlement and clearance procedures may result in delays in payment for or delivery of securities not typically associated with settlement and clearance of U.S. investments.

The risks of foreign investments are heightened when investing in issuers in emerging market countries. Emerging market countries tend to have economic, political and legal systems that are less fully developed and are less stable than those of more developed countries. They are often particularly sensitive to market movements because their market prices tend to reflect speculative expectations. Low trading volumes may result in a lack of liquidity and in extreme price volatility. Clients who invest in funds with investments in emerging markets should be able to tolerate sudden, sometimes substantial, fluctuations in the value of their fund investments. Emerging market countries may have policies that restrict investment by foreigners or that prevent foreign investors from withdrawing their money at will. An investment in any fund that invests in emerging market securities should be considered speculative.

**Currency Risk.** The value of investments in securities denominated in foreign currencies increases or decreases as the rates of exchange between those currencies and U.S. dollar change. Currency conversion costs and currency fluctuations could erase investment gains or add to investment losses. Currency exchange rates can be volatile and are affected by factors such as general economic conditions, the actions of the U.S. and foreign governments or central banks, the imposition of currency controls and speculation. Because a fund may not hedge its foreign currency exposure, the strength or weakness of the U.S. dollar against certain foreign currencies may negatively affect the fund's investment performance more so than another fund that hedges its foreign currency exposure.

**Sovereign Debt Risk.** Sovereign government and supranational debt involve many of the risks of foreign and emerging markets investments as well as the risk of debt moratorium, repudiation or renegotiation and funds may be unable to enforce their rights against the issuers.

**Inflation/Deflation Risk.** A change of asset value may occur because of inflation or deflation, causing a fund's portfolio to underperform. Inflation may cause the present value of future payments to decrease, causing a decline in the future value of assets or income. Deflation causes

prices to decline throughout the economy over time, impacting issuers' creditworthiness and increasing their risk for default, which may reduce the value of a fund's portfolio.

***Inflation-Indexed Securities Risk.*** The value of inflation-indexed fixed income securities generally fluctuates in response to changes in real interest rates, which are in turn tied to the relationship between nominal interest rates and the rate of inflation. Therefore, if inflation were to rise at a faster rate than nominal interest rates, real interest rates might decline, leading to an increase in value of inflation-indexed securities. In contrast, if nominal interest rates increased at a faster rate than inflation, real interest rates might rise, leading to a decrease in value of inflation-indexed securities. The principal value of inflation-indexed securities declines in periods of deflation, and holders of such securities may experience a loss. Although the holders of U.S. TIPS receive no less than the par value of the security at maturity, if a fund purchases U.S. TIPS in the secondary market whose principal values have been adjusted upward due to inflation since issuance, it may experience a loss if there is a subsequent period of deflation. If inflation is lower than expected during the period a fund holds an inflation-indexed security, such fund may earn less on the security than on a conventional bond.

Any increase in principal value caused by an increase in the index the inflation-indexed securities are tied to is taxable in the year the increase occurs, even though a fund will not receive cash representing the increase at that time. As a result, a fund that is a registered investment company (i.e., a mutual fund) could be required at times to liquidate other investments, including when it is not advantageous to do so, in order to satisfy its distribution requirements as a regulated investment company under the Internal Revenue Code of 1986, as amended.

If real interest rates rise (i.e., if interest rates rise for reasons other than inflation, for example, due to changes in currency exchange rates), the value of inflation-indexed securities held by a fund will decline. Moreover, because the principal amount of inflation-indexed securities would be adjusted downward during a period of deflation, a fund will be subject to deflation risk with respect to its investments in these securities. Inflation-indexed securities are tied to indices that are calculated based on rates of inflation for prior periods. There can be no assurance that such indices will accurately measure the actual rate of inflation in the prices of goods and services.

***High Yield ("Junk") Bonds Risk.*** High yield bonds, often called 'junk' bonds, have a higher risk of issuer default or may be in default and are considered speculative. Changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of such securities to make principal and interest payments than is the case for higher grade debt securities. The value of lower-quality debt securities often fluctuates in response to company, political, or economic developments and can decline significantly over short as well as long periods of time or during periods of general or regional economic difficulty. High yield bonds may also be less liquid than higher-rated securities, which means the fund may have difficulty selling them at times, and it may have to apply a greater degree of judgment in establishing a price for purposes of valuing fund shares. High yield bonds generally are issued by less creditworthy issuers. Issuers of high yield bonds may have a larger amount of outstanding debt relative to their assets than issuers of investment grade bonds. In the event of an issuer's bankruptcy, claims of other creditors may have priority over the claims of high yield bond holders, leaving few or no assets available to repay high yield bond holders. A fund may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting

issuer. High yield bonds frequently have redemption features that permit an issuer to repurchase the security from a fund before it matures. If the issuer redeems high yield bonds, a fund may have to invest the proceeds in bonds with lower yields and may lose income.

***Real Estate Investment Trusts (REITs) Risk.*** Investments in REITs expose a fund to risks similar to investing directly in real estate. The value of these underlying investments may be affected by changes in the value of the underlying real estate, the quality of the property management, the creditworthiness of the issuer of the investments, and changes in property taxes, interest rates and the real estate regulatory environment. Investments in REITs are also affected by general economic conditions. REITs are also subject to heavy cash flow dependency, defaults by borrowers and self-liquidation. REITs usually charge management fees, which may result in layering the fees paid by a fund. REITs may be leveraged, which increases risk. In addition, REITs could possibly fail to (i) qualify for favorable tax treatment under applicable tax law, or (ii) maintain their exemptions from registration under the Investment Company Act of 1940, as amended. The above factors may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments.

***Commodities Risk.*** Commodity prices can be extremely volatile and are affected by many factors. Exposure to commodities can cause the value of a fund's shares to decline or fluctuate in a rapid and unpredictable manner. Investments in commodity-linked instruments may subject a fund to greater volatility than investments in traditional securities or the commodity, commodities or commodity index to which they relate. The value of commodity-linked instruments may be affected, for example, by changes in overall market movements, commodity index volatility, prolonged or intense speculation by investors, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, other weather phenomena, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. A fund's ability to gain exposure to commodities using derivatives, or other means, may be limited by tax considerations. No active trading market may exist for certain commodities investments.

The prices of commodities can also fluctuate widely due to supply and demand disruptions in major producing or consuming regions. Certain commodities may be produced in a limited number of countries and may be controlled by a small number of producers. As a result, political, economic and supply related events in such countries could have a disproportionate impact on the prices of such commodities. Because the performance of certain funds may be linked to the performance of highly volatile commodities, clients should be willing to assume the risks of potentially significant fluctuations in the value of shares of such funds.

***Exchange-Traded Funds (ETFs) Risk.*** Investing in ETFs will give a client or a fund exposure to the securities and other assets comprising the index on which the ETF is based and will expose the client or the fund to risks similar to those of investing directly in those securities or other assets. A client or a fund may invest in "short ETFs," which carry additional risks because they may invest in a variety of derivatives and may engage in short sales.

Unlike shares of typical mutual funds, shares of ETFs are generally traded on an exchange throughout a trading day and bought and sold based on market values and not at net asset value. For this reason, shares could trade at either a premium or discount to net asset value, which may



be substantial during periods of market stress. The trading price of an index-based ETF is expected to (but may not) closely track the net asset value of the ETF, and a client or a fund will generally gain or lose value consistent with the performance of the ETF's portfolio securities. A client or a fund will pay brokerage commissions in connection with the purchase and sale of shares of ETFs. In addition, a client or a fund will indirectly bear its pro rata share of the fees and expenses incurred by an ETF in which it invests, including advisory fees. These expenses are in addition to the advisory and other expenses that a fund that invests in an ETF bears directly in connection with its own operations. An index-based ETF may not replicate exactly the performance of the benchmark index it seeks to track for a number of reasons, including transaction costs incurred by the ETF, the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or the number of securities held. Investments in ETFs are subject to the risk that the listing exchange may halt trading of an ETF's shares, in which case a client or a fund would be unable to sell its ETF shares unless and until trading is resumed.

ETFs that invest in commodities may be, or may become, subject to regulatory trading limits that could hurt the value of their securities. Some commodity ETFs also invest in commodity futures, which can lose money even when commodity prices are rising.

***Index Investing Risk.*** Some of the funds are designed to track the performance of underlying indices. Since the underlying indices are not subject to the diversification requirements, the funds may be required to deviate their investments from the securities and relative weightings of the underlying indices in order to satisfy regulatory and other diversification requirements to which they may be subject. They also may not be able to invest in certain securities included in the underlying indices due to liquidity constraints. Liquidity constraints may delay the funds' purchase or sale of securities included in the underlying indices. For tax efficiency purposes, the funds may sell certain securities to realize losses, causing them to deviate from the underlying indices. A fund may not be fully invested at times, either as a result of cash flows into the fund or reserves of cash held by the fund to meet redemptions and expenses. If a fund utilizes a sampling approach or futures or other derivative positions, its return may not correlate as well with the return on its underlying index, as would be the case if it purchased all of the stocks in its underlying index with the same weightings as the underlying index.

A fund that follows an indexing strategy is not actively managed and it does not attempt to manage market volatility, use defensive strategies or reduce the effects of any long-term periods of poor stock performance. A fund's expenses, changes in securities markets, changes in the composition of the Index, the performance of a fund's futures positions, if any, and the timing of purchases and redemptions of fund shares may affect the correlation between fund and Index performance. A fund also may underperform the Index when Index stock prices rise after the close of the stock market and before a fund can invest cash from fund share purchases in these stocks. A fund may not perform as well as other investments if, among other things, the Index declines or performs poorly relative to other related indexes or individual securities or the securities issued by companies that comprise the Index fall out of favor with investors.

In addition, the underlying indices may not be successful in replicating the performance of their target strategies. With respect to indices designed to track the returns of hedge funds, there is a risk that hedge fund return data provided by third party hedge fund data providers may be inaccurate or may not accurately reflect hedge fund returns due to survivorship bias, self-reporting bias or other biases. In constructing the underlying strategies of the underlying indices, index providers may not be successful in replicating the target returns.

**Replication Management Risk.** Unlike many investment companies, some of the funds that are designed to track the performance of a specified underlying index are not “actively” managed. Therefore, they would not necessarily sell a stock or bond because the stock’s or bond’s issuer was in financial trouble unless that stock or bond is removed from its underlying index.

**Tracking Error Risk.** A fund may hold long or short positions through investments in instruments, such as ETNs, whose investment objectives are to track (positively or negatively) the performance of a particular market or benchmark index. Performance of a fund designed to track the performance of a specified underlying index may not match its underlying index during any period of time. Although each such fund attempts to track the performance of its underlying index, the fund may not be able to duplicate its exact composition or return for any number of reasons. Factors such as expenses, imperfect correlation between an instrument’s investments and those of its underlying index, rounding of share prices, changes to the composition of the underlying index, regulatory policies, high portfolio turnover rate, the use of leverage, market volatility or other unusual market conditions all contribute to tracking error. Additionally, the historical performance data of each underlying index is not predictive of future results.

**Risk of Investing in Listed Private Equity Companies.** Some funds may invest in private equity companies, including business development companies (BDCs), master limited partnerships (MLPs) and other vehicles whose principal business is to invest in, lend capital to or provide services to privately held companies (collectively, listed private equity companies). Investments made by listed private equity companies are generally subject to legal and other restrictions on resale and are less liquid than publicly traded securities. If a listed private equity company in which a fund invests needs to liquidate its portfolio quickly, it may realize a loss. Furthermore, little public information generally exists for thinly traded companies and investors may not be able to make a fully informed investment decision.

BDCs are not redeemable at the option of the shareholder and they may trade in the market at a discount to their net asset value. BDCs may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage may increase the yield of a BDC, this leverage also subjects a BDC to increased risks, including the likelihood of increased volatility and the possibility that a BDC’s common share income will fall if the dividend rate of the preferred shares or the interest rate on any borrowings rises.

There are certain risks inherent in investing in BDCs. The Investment Company Act of 1940, as amended (the “1940 Act”), imposes certain restraints upon the operations of a BDC. Generally, little public information exists for private and thinly traded companies and there is a risk that investors may not be able to make a fully informed investment decision. With investments in debt instruments, there is a risk that the issuer may default on its payments or declare bankruptcy. Additionally, a BDC may only incur indebtedness in amounts such that the BDC’s asset coverage equals at least 200% after such incurrence. These limitations on asset mix and leverage may prohibit the way that the BDC raises capital. BDCs generally invest in less mature private companies, which involve greater risk than well-established publicly-traded companies. To the extent that a fund invests a portion of its assets in BDCs, a client that invests in such fund will bear not only its proportionate share of the expenses of the fund, but also, indirectly, the expenses of the BDCs.

An MLP is an entity receiving partnership taxation treatment under the U.S. Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), and whose partnership interests or “units” are traded on securities exchanges like shares of corporate stock. An investment in MLP units involves certain risks which differ from an investment in the securities of a corporation. Holders of MLP units have the rights typically afforded to limited partners in a limited partnership. Additionally, conflicts of interest may exist between common unit holders and the general partner of an MLP; for example, a conflict may arise as a result of incentive distribution payments. The amount of cash that any MLP has available to pay its unit holders in the form of distributions/dividends depends on the amount of cash flow generated from such company’s operations. Cash flow from operations will vary from quarter to quarter and is largely dependent on factors affecting the MLP’s operations and factors affecting the energy, natural resources or real estate sectors in general. Investing in MLPs involves certain risks related to investing in the underlying assets of the MLPs. MLPs may be adversely affected by fluctuations in the prices of commodities and may be impacted by the levels of supply and demand for commodities. The performance of MLPs operating in the real estate sector may be linked to the performance of the real estate markets, including the risk of falling property values and declining rents, and from changes in interest rates or inflation. The performance of MLPs operating in the asset management industry may be linked to the performance of the financial markets generally. Much of the benefit that a fund may derive from its investment in equity securities of MLPs is a result of MLPs generally being treated as partnerships for U.S. federal income tax purposes. A change in current tax law, or a change in the business of a given MLP, could result in an MLP being treated as a corporation for U.S. federal income tax purposes and subject to corporate level tax on its income, and could reduce the amount of cash available for distribution by the MLP to its unit holders, such as a fund. If an MLP in which a fund invests were classified as a corporation for federal income tax purposes, the MLP may incur significant federal and state tax liability, likely causing a reduction in the value of the fund’s shares.

Many listed private equity companies invest in subordinated and/or unsecured securities of privately held companies and may not be rated by a credit rating agency. With investments in debt instruments, there is a risk that the issuer may default on its payments or declare bankruptcy.

Listed private equity companies may have investment portfolios with a relatively small number of holdings.

**Short Sales Risk.** If the price of the security sold short increases between the time of the short sale and the time a fund replaces the borrowed security, the fund will realize a loss, which may be substantial. A fund that engages in a short sale or short position may lose more money than the actual cost of the short sale or short position and its potential losses may be unlimited if the fund does not own the security sold short or the reference instrument and it is unable to close out of the short sale or short position. Short sales increase fund expenses. A fund that engages in short sales incurs expenses in paying to securities lenders the value of dividends paid on securities sold short. The fund also incurs interest expenses from the use of the proceeds on short sales to invest in additional securities or other instruments.

**High Portfolio Turnover Risk.** Some of the funds’ strategies may result in high portfolio turnover, which, in turn, may result in increased transaction costs to the funds and shareholders’ tax liability, which could detract from fund performance.

**Leverage Risk.** The value of a client's investment in a fund may be more volatile if the fund borrows or uses derivatives or other investments that have a leveraging effect on the fund's portfolio. Other risks also will be compounded. This is because leverage generally magnifies the effect of a change in the value of an asset and creates a risk of loss of value on a larger pool of assets than a fund would otherwise have had. A fund may also have to sell assets at inopportune times to satisfy its obligations. The use of leverage is considered to be a speculative investment practice and may result in the loss of a substantial amount, and possibly all, of a fund's assets.

The use of traditional borrowing (including to meet redemption requests), reverse repurchase agreements and derivatives creates leverage (i.e., a fund's investment exposures exceed its net asset value). Leverage increases a fund's losses when the value of its investments (including derivatives) declines. Because many derivatives have a leverage component (i.e., a notional value in excess of the assets needed to establish or maintain the derivative position), adverse changes in the value or level of the underlying asset, rate, or index may result in a loss substantially greater than the amount invested in the derivative itself. In the case of swaps, the risk of loss generally is related to a notional principal amount, even if the parties have not made any initial investment. Some derivatives, similar to short sales, have the potential for unlimited loss, regardless of the size of the initial investment. Similarly, a fund's portfolio will be leveraged and can incur losses if the value of the fund's assets declines between the time a redemption request is received or deemed to be received by the fund (which in some cases may be the business day prior to actual receipt of the transaction activity by the fund) and the time at which the fund liquidates assets to meet redemption requests. Such a decline in the value of a fund's assets is more likely in the case of funds managed from non-U.S. offices for which the time period between the NAV determination and corresponding liquidation of assets could be longer due to time zone differences and market schedules. In the case of redemptions representing a significant portion of a fund's portfolio, the leverage effects described above can be significant and could expose the fund and non-redeeming shareholders to material losses.

A fund may manage some of its derivative positions by offsetting derivative positions against one another or against other assets. To the extent offsetting positions do not behave in relation to one another as expected, the fund may perform as if it were leveraged.

Some funds are permitted to purchase securities on margin or to sell securities short, either of which creates leverage. To the extent the market prices of securities pledged to counterparties to secure a fund's margin account or short sale decline, the fund may be required to deposit additional funds with the counterparty to avoid having the pledged securities liquidated to compensate for the decline.

**Mortgage-Backed and Asset-Backed Securities Risk.** Some of the funds may invest a portion of their assets in mortgage-backed and asset-backed securities. Mortgage-backed securities represent an interest in a pool of mortgages. Asset-backed securities represent an interest in a pool of installment sales or loan contracts, leases, credit card receivables or other types of receivables.

When market interest rates increase, the market values of mortgage-backed securities decline. At the same time, mortgage refinancings and prepayments slow, which lengthens the effective duration of these securities. As a result, the negative effect of the interest rate increase on the market value of mortgage-backed securities is usually more pronounced than it is for other types of fixed income securities, potentially increasing the volatility of the fund that invests in them. Conversely, when market interest rates decline, while the value of mortgage-backed securities

may increase, the rate of prepayment of the underlying mortgages also tends to increase, which shortens the effective duration of these securities. Mortgage-backed securities are also subject to the risk that underlying borrowers will be unable to meet their obligations and the value of property that secures the mortgage may decline in value and be insufficient, upon foreclosure, to repay the associated loan.

At times, some of the mortgage-backed securities in which a fund may invest will have higher than market interest rates and therefore will be purchased at a premium above their par value. Prepayments may cause losses on securities purchased at a premium.

The value of mortgage-backed securities may be affected by changes in credit quality or value of the mortgage loans or other assets that support the securities. In addition, for mortgage-backed securities, when market conditions result in an increase in the default rates on the underlying mortgages and the foreclosure values of the underlying real estate are below the outstanding amount of the underlying mortgages, collection of the full amount of accrued interest and principal on these investments may be doubtful. For mortgage derivatives and structured securities that have embedded leverage features, small changes in interest or prepayment rates may cause large and sudden price movements. Mortgage derivatives can also become illiquid and hard to value in declining markets.

Asset-backed securities are structured like mortgage-backed securities and are subject to many of the same risks. The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets or to otherwise recover from the underlying obligor may be limited. Certain asset-backed securities present a heightened level of risk because, in the event of default, the liquidation value of the underlying assets may be inadequate to pay any unpaid principal or interest.

**Convertible Securities Risk.** A convertible security is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive the interest paid or accrued on debt or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion or exchange, such securities ordinarily provide a stream of income with generally higher yields than common stocks of the same or similar issuers, but lower than the yield on non-convertible debt. The value of a convertible security is usually a function of (1) its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege and (2) its worth, at market value, if converted into or exchanged for the underlying common stock. Convertible securities are typically issued by smaller capitalized companies whose stock prices may be volatile.

Convertible securities are subject to both stock market risk associated with equity securities and the credit and interest rate risks associated with fixed income securities. Credit risk is the risk that the issuer or obligor will not make timely payments of principal or interest or that its credit may be downgraded or perceived to be less creditworthy. Interest rate risk is the risk that the value of a fixed income security will fall when interest rates rise. A rise in rates tends to have a greater impact on the prices of longer term or duration securities. Interest rates have been historically low but have begun to rise, so a fund that invests in convertible securities faces a heightened risk that interest rates may continue to rise. A general rise in interest rates may cause investors to move out of fixed income securities on a large scale, which could adversely affect the price and liquidity of fixed income securities. As the market price of the equity security underlying a convertible security falls, the convertible security tends to trade on the basis of its yield and other fixed income

characteristics. As the market price of the equity security underlying a convertible security rises, the convertible security tends to trade on the basis of its equity conversion features.

**Repurchase Agreements Risk.** Repurchase agreements could involve certain risks in the event of default or insolvency of the seller, including losses and possible delays or restrictions upon a fund's ability to dispose of the underlying securities. To the extent that, in the meantime, the value of the securities that the fund has purchased has decreased, the fund could experience a loss.

**Dollar Rolls Risk.** Dollar rolls transactions may be subject to the risk that the market value of securities sold to the counterparty declines below the repurchase price, the counterparty defaults on its obligations, or the portfolio turnover rate increases because of these transactions. In addition, any investments purchased with the proceeds of a security sold in a dollar rolls transaction may lose value.

**Mortgage Dollar Rolls Risk.** Mortgage dollar rolls are transactions in which a fund sells mortgage-backed securities to a dealer and simultaneously agrees to repurchase similar securities in the future at a predetermined price. A fund's mortgage dollar rolls could lose money if the price of the mortgage-backed securities sold falls below the agreed upon repurchase price, or if the counterparty is unable to honor the agreement. Mortgage dollar roll transactions may have a leveraging effect on the fund engaging in them, making the value of an investment in the fund more volatile, requiring the fund to liquidate portfolio securities when it may not be advantageous to do so and magnifying any change in the fund's net asset value.

**Income (Variable Dividend) Risk.** An investment's income payments may decline depending on fluctuations in interest rates and the dividend payments of its underlying securities. In this event, some investments may attempt to pay the same dividend amount by returning capital.

**Segregated Assets Risk.** In connection with certain transactions that may give rise to future payment obligations, including borrowings and many types of derivatives, a fund may maintain a segregated amount of cash or liquid securities to cover the position. Segregated securities generally cannot be sold while the position they are covering is outstanding, unless they are replaced with other securities of equal value. As a result, there is the possibility that segregation of a large percentage of a fund's assets may, in some circumstances, limit the fund's adviser's flexibility.

**Valuation Risk.** Many factors may influence the price at which a fund could sell any particular portfolio investment. The sales price may well differ—higher or lower—from the fund's last valuation, and such differences could be significant, particularly for illiquid securities and securities that trade in relatively thin markets and/or markets that experience extreme volatility. If market conditions make it difficult to value some investments, a fund may value these investments using more subjective methods, such as fair value methodologies. Investors who purchase or redeem fund shares on days when the fund is holding fair-valued securities may receive fewer or more shares, or lower or higher redemption proceeds, than they would have received if the fund had not fair-valued securities or had used a different valuation methodology. The value of non-U.S. securities, certain fixed income securities and currencies, as applicable, may be materially affected by events after the close of the markets in which they are traded, but before a fund determines its net asset value. A fund's ability to value its investments may also be impacted by technological issues and/or errors by pricing services or other third party service providers.

***Portfolio Selection and Model Risk.*** The value of a client's investment in a fund may decrease if such fund's manager's judgment about the quality, relative yield, value or market trends affecting a particular security, industry, sector, country or region, or about interest rates is incorrect, or if there are imperfections, errors or limitations in the tools and data used by the fund's manager. In addition, a fund's investment strategies or policies may change from time to time. Those changes may not lead to the results intended by the fund's manager and could have an adverse effect on the value or performance of the fund.

Furthermore, a fund's manager's proprietary investment models may not adequately take into account certain factors and may result in the fund having a lower return than if the fund were managed using another model or investment strategy. In addition, the investment models used by a fund's manager to evaluate securities or securities markets are based on certain assumptions concerning the interplay of market factors. The markets or the prices of individual securities may be affected by factors not foreseen in developing such models.

***There can be no assurance that a fund's investment strategy will be successful or that its investment objective will be achieved. Clients could lose money by investing in any funds.***



# Financial Guard

## **FINANCIAL GUARD, LLC**

1952 East Fort Union Blvd., Suite 200

Salt Lake City, UT 84121

(614) 973-6999

[support@financialguard.com](mailto:support@financialguard.com)

[www.financialguard.com](http://www.financialguard.com)

## **Form ADV Brochure Supplements**

June 24, 2019

The Brochure Supplements that follow provide information about the members of Financial Guard's Investment Committee that supplement the Form ADV Disclosure Brochure of Financial Guard. You should have received a copy of that Brochure. Please contact Financial Guard at (614) 973-6999 or [support@financialguard.com](mailto:support@financialguard.com) if you did not received Financial Guard's Brochure or if you have any questions about the contents of these Brochure Supplements.

**Financial Guard's investment advisory services are provided by an Investment Committee, which is responsible for making all decisions regarding Financial Guard's investment algorithms, asset allocation model portfolios and investment fund selections and recommendations. The Investment Committee consists of four voting members and the Brochure Supplements that follow provide information about those members.**



## **Craig Grimm**

Craig Grimm is a Vice President of Platform Analytics and a member of the Investment Committee of Financial Guard, LLC ("Financial Guard"). He can be contacted at the business address and telephone number shown on the cover page.

### ***Educational Background and Business Experience***

Mr. Grimm, born in 1960, joined Financial Guard in 2010. Prior to his current role, Mr. Grimm was a Chief Operating Officer of Financial Guard from May 2010 until December 2018. In addition to his roles with Financial Guard, Mr. Grimm also has been an Adjunct Professor of Mathematics at LDS Business College in Salt Lake City, Utah focusing on statistics and data analysis since 2001. He holds a B.S. in Electrical Engineering from the University of Utah.

### ***Disciplinary Information***

Mr. Grimm has no reportable legal or disciplinary events.

### ***Other Business Activities***

None.

### ***Additional Compensation***

None.

### ***Supervision***

Roger Paradiso, as the Chairman of the Board of Directors ("Board") and as the Board-nominated executive and head of the Investment Committee of Financial Guard, oversees Mr. Grimm's performance of investment advisory services and responsibilities as a member of the Investment Committee. Mr. Paradiso can be contacted at (203) 703-6000.

## **Cary Jenkins**

Cary Jenkins is a Chief Innovation Officer and a member of the Investment Committee of Financial Guard, LLC ("Financial Guard"). He can be contacted at the business address and telephone number shown on the cover page.

### ***Educational Background and Business Experience***

Mr. Jenkins, born in 1967, joined Financial Guard in 2015. During the period from January 2015 until June 2016, he also was an Executive Vice President, Strategy with Visible Equity, a data firm that provides analytics to banks and credit unions. Previously, he was an Associate Vice President, Business Development with MassMutual (2013-2014) and Associate Vice President, Business Development with The Hartford (2008-2012). Both MassMutual and The Hartford were successors to the business of TopNoggin, a technology-driven actuarial firm that was founded by Mr. Jenkins and acquired by The Hartford in 2008 and then again by MassMutual in 2013. Mr. Jenkins holds a B.S. degree in Mechanical Engineering from the University of Utah.

### ***Disciplinary Information***

Mr. Jenkins has no reportable legal or disciplinary events.

### ***Other Business Activities***

None.

### ***Additional Compensation***

None.

### ***Supervision***

Roger Paradiso, as the Chairman of the Board of Directors ("Board") and as the Board-nominated executive and head of the Investment Committee of Financial Guard, oversees Mr. Jenkins' performance of investment advisory services and responsibilities as a member of the Investment Committee. Mr. Paradiso can be contacted at (203) 703-6000.

## **Laura Lawson, CFA, CAIA**

Laura Lawson is Head of Investment Program Management for Alternative Distribution Strategies (ADS) Group at Legg Mason Global Asset Management (“Legg Mason”) and is a member of the Investment Committee of Financial Guard, LLC (“Financial Guard”), which is affiliated with Legg Mason. She can be contacted at the following business address and telephone number: Legg Mason Global Asset Management, 620 Eighth Avenue, New York, NY 10018, (212) 805-6000.

### ***Educational Background and Business Experience***

Ms. Lawson, born in 1976, joined the Investment Committee of Financial Guard in March 2019. She joined Legg Mason in February 2019 and leads the development and maintenance of the investment programs for the ADS fintech offerings including asset allocation structure, investment model mapping, investment selection and re-balancing and strategic and tactical asset allocation updates. She also manages a team responsible for in-depth knowledge of Legg Mason and competitor products and how those products are incorporated into portfolios.

Prior to Legg Mason, Laura was a Senior Client Portfolio manager for the Global Multi-Asset Group at Oppenheimer Funds from October of 2013 until February 2019. While there, she was a voting member of the team who oversaw the design, implementation, and active management of Multi-Asset and Alternative Strategies. Prior to joining Oppenheimer, Laura was a senior product specialist with Brandywine Global, an affiliate of Legg Mason Investor Services specializing in Global Fixed Income and Alternative Credit from June 2012 until September 2013.

Laura holds a B.S. in Business Administration from Indiana University and also holds the following designations:

- *Chartered Financial Analyst (“CFA”)*, which requires the charter holder to pass three separate examinations testing knowledge of finance, accounting, economics, business ethics and related topics, as well as a minimum of four years of investment experience.
- *Chartered Alternative Investment Analyst (“CAIA”)*, which requires the charter holder to pass two separate examinations assessing understanding of various alternative asset classes and knowledge of the tools and techniques used to evaluate the risk-return attributes of each and how to use such knowledge and analytics within a portfolio management context. Both exams also include segments on ethics and professional conduct.

### ***Disciplinary Information***

Ms. Lawson has no reportable legal or disciplinary events.

### ***Other Business Activities***

Ms. Lawson is registered with Legg Mason Investor Services, LLC (“LMIS”), a registered limited purpose broker-dealer affiliated through common ownership with Financial Guard. LMIS acts as a primary distributor for and promotes certain investment products of Legg Mason and its advisory affiliates (“Legg Mason Products”). Ms. Lawson’s registered status enables her to assist LMIS with promotion activities. Ms. Lawson does not receive commissions or other sales-based compensation from LMIS. Financial Guard has policies and procedures in place to mitigate any potential conflicts of interest that may exist in connection with Financial Guard’s investment recommendations involving Legg Mason Products.

***Additional Compensation***

None.

***Supervision***

Roger Paradiso, as the Chairman of the Board of Directors ("Board") and as the Board-nominated executive and head of the Investment Committee of Financial Guard, oversees Ms. Lawson's performance of investment advisory services and responsibilities as a member of the Investment Committee. Mr. Paradiso can be contacted at (203) 703-6000).

## **Roger Paradiso**

Roger Paradiso is Managing Director, Head of Alternative Distribution Strategies at Legg Mason Global Asset Management (“Legg Mason”) and is the board-nominated executive and the head of Investment Committee of Financial Guard, LLC (“Financial Guard”), which is affiliated with Legg Mason. He can be contacted at the following business address and telephone number: Legg Mason Global Asset Management, 100 First Stamford Place, Stamford, CT 06902, (203) 703-6000.

### ***Educational Background and Business Experience***

Mr. Paradiso, born in 1966, became the board-nominated executive and the head of the Investment Committee of Financial Guard in August 2016. Prior to joining Legg Mason as Managing Director, Head of Alternative Distribution Strategies in 2016, he held various roles within Morgan Stanley Smith Barney, LLC and its predecessor firms, most recently as the Managing Director of Investment Solutions and Portfolio Development for Morgan Stanley’s advisory business in New York from 1988 until 2016. Mr. Paradiso holds a B.S. degree in Business from Long Island University.

### ***Disciplinary Information***

Mr. Paradiso has no reportable legal or disciplinary events.

### ***Other Business Activities***

Mr. Paradiso is registered with Legg Mason Investor Services, LLC (“LMIS”), a registered limited purpose broker-dealer affiliated through common ownership with Financial Guard. LMIS acts as a primary distributor for and promotes certain investment products of Legg Mason and its advisory affiliates (“Legg Mason Products”). Mr. Paradiso’s registered representative status enables him to assist LMIS with promotion activities. Mr. Paradiso does not receive commissions or other sales-based compensation from LMIS. Financial Guard has policies and procedures in place to mitigate any potential conflicts of interest that may exist in connection with Financial Guard’s investment recommendations involving Legg Mason Products.

### ***Additional Compensation***

None.

### ***Supervision***

As an executive nominated by Financial Guard’s Board of Directors (the “Board”) and the head of the Investment Committee of Financial Guard, Mr. Paradiso is responsible to and supervised by the Board and is not subject to any additional supervision.