



SEC File No. 801-41722

## ESI Financial Advisors

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## ESI Illuminations Form ADV, Part 2A - Appendix 1

March 29, 2024

This wrap fee program brochure ("Brochure") provides information about the qualifications and business practices of Equity Services, Inc. doing business as ESI Financial Advisors. If you have any questions about the contents of this Brochure, please contact us at 1-800-344-7437 and/or [ESCompliance@nationallife.com](mailto:ESCompliance@nationallife.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 ESI Financial Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with ESI Financial Advisors who are registered as investment adviser representatives of ESI Financial Advisors.

ESI Financial Advisors is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

## **Item 2 – Material Changes**

ESI Financial Advisors has not made any material changes to this Brochure since its last annual filing on March 31, 2023.

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## Item 4 – Services, Fees and Compensation

Equity Services, Inc. (“ESI”) is a registered broker/dealer, as well as a federally-registered investment adviser, doing business as ESI Financial Advisors (“EFA” or “the Firm”). ESI was founded in 1968 as an affiliate of National Life Insurance Company (“National Life”), which began doing business in 1848. NLV Financial Corporation is the sole shareholder of ESI, and the National Life Group companies, which includes National Life and Life Insurance Company of the Southwest (“LSW”). EFA provides financial planning/consulting services and asset management services to individuals, corporations, trusts, estates, charitable organizations, and retirement plans including pension and profit sharing plans. EFA has been registered with the SEC since 1992. As of 12/31/2023, the Firm managed approximately \$1.5 billion in non-discretionary assets and approximately \$637 million in discretionary assets across its advisory programs.

Before investing in an advisory program, clients should decide if they are comfortable delegating the day-to-day management of their account(s). Investors in advisory programs typically:

- Desire advice and guidance when making investment decisions;
- When working with a discretionary manager, are at ease with a financial professional making their day-to-day investment decisions;
- Are willing to follow a disciplined investment strategy;
- Are comfortable paying quarterly, asset-based (percentage) fees for investments and advice rather than individual commissions or sales charges.

EFA, through its Investment Adviser Representatives (“IAR” or “advisory representative”), makes asset management services available to its clients. Some are managed by third-party asset managers (“TPAMs”) with discretionary trading authority, and others require the client’s authorization for trading activity in their account. The Flagship Select program reflects a hybrid approach in which EFA and its representatives may exercise discretion within the limited parameters described below, but must otherwise obtain client authorization for trading activity. **In each case, clients should ensure they understand the nature of their advisory agreement with EFA and any other TPAM they engage to provide asset management and/or financial planning services.**

Third-party asset managers can, and often do, use proprietary funds in their model portfolios. Clients should refer to the appropriate third-party manager’s Form ADV Part 2A disclosure brochure for additional information on fund and share class selection specific to their selected model portfolio.

Within its Flagship Select program, clients instruct EFA to exercise discretion (as described under “*Discretion*” below) to rebalance accounts when the performance of various account holdings causes, or has the potential to cause, the account to vary outside the acceptable risk range tolerance for the client’s chosen investment objective.

EFA’s asset management programs are intended to meet an individual’s needs and goals based on an analysis of the client’s liquidity, time frame, and income and tax bracket, as well as an evaluation of the client’s risk tolerance and investment objective. The client’s advisory representative will seek to review and update this information at least annually, or at the client’s request. Asset managers select mutual funds and exchange-traded funds (ETFs) to create portfolios that align with clients’ investment objectives and risk tolerance.

Recommended investment strategies are primarily long-term. Clients whose investment objectives are better suited to short-term trading strategies may be better served by a different program. In all instances, clients, in partnership with the advisory representative, should ensure that the recommended strategy is aligned with their investment objectives and risk tolerance. Additionally, clients have the ability to impose restrictions on investing in certain securities or types of securities.

EFA offers investment advisory services through the following asset management programs:

### **ESI Illuminations**

Working with Envestnet|PMC, Inc. ("Envestnet"), EFA has developed a customized investment management platform called ESI Illuminations. EFA offers the following Envestnet asset management programs on the ESI Illuminations Platform: Third-Party Strategist, Advisor as Portfolio Manager, Multi-Manager Accounts, Unified Managed Accounts, and Separately Managed Accounts. Clients complete a profile questionnaire which assists in determining which of up to fourteen possible investment models is appropriate based on indicated objectives, risk tolerance, and overall financial goals. Based on this information, an investment strategy is developed and documented.

EFA and its advisory representatives do not have authority to implement investment transactions on a discretionary basis, except as noted below (see "*Discretion*"). Unless Envestnet, a third-party Strategist, other separate account managers, or the advisory representative have been given discretionary authority by the client, all transactions must be expressly approved by the client.

Custody of client assets is maintained by National Financial Services, LLC ("NFS") with accounts registered in the client's name. A copy of this Brochure and of Envestnet's Form ADV Part 2A is given to ESI Illuminations clients. In addition, clients choosing a third-party manager on the ESI Illuminations platform will receive a Form ADV Part 2A for the chosen manager.

Clients have the ability to place reasonable restrictions on the investments within the ESI Illuminations programs. This also includes the ability to place restrictions on the investments purchased through separate account manager(s). Contact your advisory representative for assistance with facilitating these restrictions.

### **ESI Illuminations - Third-Party Strategist Programs**

In the Third-Party Strategist program offered by Envestnet, EFA selects various asset management firms ("Strategists") to offer actively managed portfolios, comprised of mutual funds or exchange-traded funds. These Strategists manage the accounts on a discretionary basis. Envestnet manages the programs pursuant to trade and rebalancing instructions provided by the Strategist. Each Strategist establishes their own minimum investment requirement(s), but reserves the right to, at their discretion, permit initial investments below the stated minimum.

### **ESI Illuminations - Advisor as Portfolio Manager**

The Advisor as Portfolio Manager program is branded Flagship Select. This program offers access to portfolios comprised of securities recommended to clients by the advisor, using the tools and technology available from Envestnet. For discretionary accounts (described under "*Disclosure*" below), model portfolios are constructed and rebalanced by EFA and its advisory representatives in accordance with the client's Advisory Agreement. For non-discretionary accounts, the client must provide consent, prior to execution, for any transactions in their account. EFA reserves the right to waive minimum investment requirements for accounts in the Envestnet/PMC-managed programs.

Flagship Select is an asset allocation program where the advisory representative will recommend appropriate mutual funds, exchange-traded funds (“ETFs”), and/or money market funds to build the portfolios, and the client may choose to purchase the recommended securities. The program also includes load mutual funds (for example, transfers of existing positions into the program). The Firm retains the option to waive advisory fees on load mutual fund positions for certain periods of time depending on the holding period of the transferred position.

### **ESI Illuminations – Unified Managed Accounts (“UMA”)**

The ESI Illuminations UMA program gives clients the ability to utilize the services and strategies of multiple managers within one brokerage account. ESI, through its IARs, builds and recommends UMA portfolios, which provide diversification among strategies and/or third-party managers, as well as Separate Account Managers. As the administrator, Envestnet executes trading activity, as instructed by the various third-party managers, and maintains the allocation in accordance with the client’s Statement of Investment Selection (“SIS”). The platform technology provides the ability to unify multiple strategies and apply ongoing re-balancing within one account.

Strategist Managed UMA programs give clients the ability to select a Strategist, available on the Envestnet platform, to build and manage diversified UMA portfolios, which can incorporate general securities, as well as investment models managed by other third-party Strategists. As the overlay manager, Envestnet executes trading activity, as instructed by the Strategist, who builds and manages the account on a discretionary basis, in accordance with the client’s SIS. These programs are designed for high-net worth clients, and have minimum investments starting at \$500,000.

Separately Managed Accounts (“SMA”) are available under the UMA program. SMAs give clients the ability to invest in specific sectors and/or asset classes. The SMA manager is the discretionary manager and often uses general securities, but also has the option of utilizing mutual funds or ETFs. Clients utilizing a SMA in their UMA portfolio have the ability to use additional overlay services, at an additional cost, such as tax management and Impact Overlay (which allows the investor to incorporate certain policies, such as Environmental and Social Governance (ESG), into their portfolio).

### **Discretion**

Flagship Select accounts established prior to March 30, 2016 did not grant the Firm nor its advisory representatives the authority to exercise investment discretion. However, the owner(s) of such accounts have the ability to grant discretion, under the parameters listed below, by providing written authorization in a form acceptable to the Firm.

Flagship Select accounts established after March 30, 2016 grant the Firm discretionary trading authority, which acts as an instruction from the client to the advisory representative and the Firm to trade securities in the account, under the parameters listed below:

The discretionary investment and trading authority given to EFA, meaning the authority to rebalance the existing holdings in a client’s account through purchasing and selling securities without first obtaining the client’s express permission for each transaction, is permitted in the circumstances described below:

- Executing transactions in the account for the purpose of rebalancing the portfolio back to within the client’s risk tolerance, as determined by the latest Investor Profile Questionnaire on file with the Firm;

- Executing transactions when concerned that a variance may result because an account's risk score has changed;
- Using discretion as to the time the Firm will make a trade in the account and the price paid for securities in accordance with the Firm's obligation to seek best execution.

In no instance do either EFA or the IAR have authority to choose or change the client's investment objective. Additionally, neither EFA nor the IAR are permitted to introduce new holdings to the portfolio without the client's express permission.

The discretionary investment and trading authority given to EFA can be exercised by the Firm and/or the client's IAR at any time and without prior notice to the client of each specific transaction. All clients (discretionary and non-discretionary) receive quarterly statements from National Financial Services, LLC ("NFS"), detailing activity in their account(s). Clients should carefully review their statements upon receipt. Questions regarding trading activity should be directed to their IAR.

### **Services**

Advisory representatives recommend securities to clients on the basis of the client's individual financial situation. Each client selects the account's investment objective and has the opportunity to impose reasonable restrictions on the recommendations the advisory representative makes to the client. Additionally, clients are offered an investment review by the advisory representative, at least annually. On a quarterly basis, they are reminded to confirm the accuracy of their information, and to determine if there are any changes to their investment objectives or restrictions. The advisory representative is available to answer any questions, and to implement any changes the client requests as a result of changes in their finances, personal circumstances, or the financial markets.

The ESI Illuminations platform provides clients with a range of investment advisory services. EFA, the advisory representative, and Envestnet each provide certain services to the program (Envestnet and EFA are not affiliated). These services include:

- Assessment of the client's investment needs and objectives;
- Recommendation of an investment model;
- Development and recommendation of an asset allocation model designed to meet the client's objectives;
- Evaluation of securities meeting the investment model and allocation criteria;
- Periodic reviews to ensure accounts adhere to policy guidelines and asset allocation;
- Recommendations for account rebalancing, if necessary;
- Online and paper reporting of account performance; and
- Custody services, trade execution, and confirmation and statement generation, through NFS.

Though all of the above-referenced services may be offered, the client can select one or more of the services. EFA does not require the client to utilize all services offered above. However, all assets on the ESI Illuminations platform are custodied at NFS.

### **What Clients Should Know About Advisory Accounts**

When making the determination of whether an ESI Illuminations account is appropriate for their needs, clients should bear in mind that fee-based accounts (commonly referred to as "advisory" accounts), when compared with commission-based accounts (such as brokerage accounts), often

result in lower transaction costs during periods when trading activity is heavier, such as the year an account is established. However, during periods when trading activity is lower, fee-based accounts may result in a higher annual cost to the client than a traditional brokerage account. Thus, depending on a number of factors, the total cost under a fee-based account, versus a commission-based account, can vary significantly. Factors which affect the cost of maintaining an account include account size, amount of turnover within the account, type and quantities of securities purchased or sold, commission rates, and the client's tax situation.

In a wrap fee program, such as those available through the ESI Illuminations platform, internal expenses, trading costs, and other administrative expenses are included in the total fee paid by the client. As such, the advisory fee you negotiate with your IAR may be higher for an account in a wrap fee program than it might be for accounts in other advisory programs that offer similar services, but which do not offer a bundled approach to pricing. Clients should ensure they understand the services and product features being provided for the fee they agree to pay, and are free to accept or decline any program offered by EFA and/or the advisor.

Clients should discuss the program with their advisory representative and read this Brochure carefully, as it explains these programs in detail.

### **Asset-Based Pricing ("ABP")**

Under ESI's clearing agreement with NFS, ESI pays NFS a fee, based on the amount of assets on the platform for custodial and brokerage services. This fee decreases as more assets are placed on the platform. Therefore, ESI has a financial incentive to place more assets with NFS, and to move existing accounts on the Envestnet platform opened prior to February 15, 2021, to the ABP structure to reduce its costs and increase its profit.

Because ESI pays this asset-based fee to NFS, NFS does not charge ESI fees commonly called "transaction fees", which are fees typically charged each time there is a purchase or sale of most mutual funds, bonds, equities or options. Therefore ESI will not charge transaction fees to accounts using ABP. However, ESI will still charge ABP accounts certain service fees each time a service is provided. For a comprehensive list of transaction and service fees, please consult your brokerage agreement, or ESI's website.

NFS does not charge ESI the asset-based fee on NTF<sup>1</sup> funds, Fidelity retail funds, cash and cash equivalents, and non-standard assets (which include: foreign securities, alternative investments, and non-marketable securities). However, when these funds or programs are used in our programs, ESI's platform fee under ABP remains the same. Therefore, ESI has an incentive to use these funds or programs, because ESI will make more profit when they are used.

### **Fees and Expenses: 12b-1 Fees**

Certain funds available in the ESI Illuminations platform pay additional compensation to ESI, such as 12b-1 (trail) fees. Other funds available on the ESI Illuminations platform do not pay ESI 12b-1 fees. This creates a conflict of interest, because it creates a financial incentive, specifically the receipt of additional compensation, for ESI to recommend mutual funds with greater expenses.

To eliminate this conflict, 12b-1 fees charged to accounts on the ESI Illuminations platform are credited back to the customer by the custodian (i.e. NFS). Therefore, ESI does not receive 12b-1 revenue from accounts on its ESI Illuminations platform.

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<sup>1</sup> No Transaction Fee ("NTF") funds do not charge a transaction fee for trading activity.



NFS provides access to NTF funds on the “NTF For Managed” platform, which results in the payment of 12b-1 fees to ESI (if the fund assesses 12b-1 fees), which are credited back to client accounts. Clients should consult with their IAR to determine whether a recommended Mutual Fund, or one actually purchased for them, is on the NTF For Managed platform at NFS.

### **Program Fees**

ESI Illuminations programs (Third-Party Strategist, Advisor as Portfolio Manager, Unified Managed Accounts (“UMA”), Separately Managed Accounts (“SMA”)) charge a quarterly asset management fee based on the average daily balance for the billable quarter. Accounts are billed in advance (with the exception of accounts with a DAP prefix, as discussed below). In each instance, billing is based on the corresponding fee schedule below. Should a client close his/her ESI Illuminations account before the end of a quarter, the final fee will be refunded, on a prorated basis, based on the number of days in the quarter that asset management services will not be provided.

Because billing is in advance, new accounts opened during the first or second month of the quarter are billed initially for the days from inception to the end of the quarter, based on the initial value. New accounts opened during the last month of the quarter are initially billed for the days from inception to the end of the month, plus the next full quarter. The initial payment will become due in full on the date the account is accepted, and will be based on the account asset value as of that date. Subsequent quarterly program fees will be calculated based upon the account’s average daily balance over the quarter that just ended.

Accounts opened in Third-Party Strategist and UMA programs are charged a platform fee between 0.26-0.45%<sup>2</sup>, based on account size, in addition to both the fee charged by the managing Strategist, which can range from 0.02%-1.00%, and the fee for service charged by EFA, which generally ranges between 0-2.00%. The total client fee is provided to the client via the SIS, which is provided to and signed by the client at the time the account is opened.

### **Active/Passive Accounts with DAP Prefix**

Accounts in the Active/Passive program with an account number that begins with “DAP” (e.g. DAP-123456) are subject to the Platform Pricing model, which is comprised of several components. Under Platform Pricing, the total fee paid by the client is comprised of:

- 1) a platform fee;
- 2) the third-party asset manager’s fee; and
- 3) EFA’s fee for service, as negotiated between the client and the IAR.

Each quarter, accounts with a DAP prefix bill in arrears, based on the average daily value of the account over the most recently completed calendar quarter.

In addition to the total fee paid by the client, accounts under the Platform Pricing model are subject to transaction fees when securities are traded in the account, unless the trade involves an NTF fund, which does not incur transaction fees, as discussed above. Transaction fees are typically borne by the accountholder. However, transaction fees in accounts with a DAP prefix are borne by EFA and are not passed on to the client.

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<sup>2</sup> A minimum platform fee of \$75.00 applies to accounts that have an average daily balance below the program’s minimum investment requirement. Depending on the account’s average daily balance at the end of the quarter, this minimum platform fee may represent more than 0.45% of the assets.

### **Advisor as Portfolio Manager**

Accounts in the Advisor as Portfolio Manager program (i.e. Flagship Select) are subject to a platform fee between 0.14-0.38%, based on account size, in addition to the fee for service charged by EFA, which generally ranges from 0–2.00%. The total client fee is provided to the client via the SIS, which is provided to and signed by the client at the time the account is opened. The quarterly asset management fee is billed in advance and is based on the average daily balance for the previous quarter. Should a client close their Flagship Select account before the end of the quarter, they will be reimbursed for those days in the quarter for which asset management services will not be provided.

### **Strategist UMA Programs (includes SMAs)**

In addition to the billing schedule described above, accounts in the Strategist UMA programs are subject to the separate managers' portion of fees. The separate manager's fee will vary based on the risk objectives and asset class(es) used in your portfolio. Pricing is at the discretion of the separate manager, and is not necessarily consistent between managers. Generally, this portion of the fee is 0.02-0.03% more expensive than managers' fees in other Illuminations programs. This portion of your overall fee pays the separate manager for their services, and is not shared with EFA nor your representative. If you choose to utilize a Strategist UMA program, you should discuss these differences in manager's fees with your advisor to ensure you understand the composition of your total fee.

On a quarterly basis, a portion of the fee for service (typically between 50%-85%) is paid to the IAR according to their compensation agreement with EFA. The fee for service charged may not exceed the schedule provided in this Brochure. The fee for service is negotiable and assessed on an individual basis according to methods disclosed to and agreed upon in advance with the client via the Statement of Investment Selection ("SIS"). When determining the fee charged for services provided, the advisory representative considers, among other factors, the complexity of the work performed, time involved, degree of responsibility of the advisory representative, special needs and characteristics of the client, and the types of investments. Program fees are payable quarterly in advance.

EFA retains the platform fee. Annually, eligible IARs receive a portion of the platform fee that was paid to the Firm, based on the average monthly amount of total client assets they had on the Illuminations platform over the previous year. Specifically, IARs receive payments according to the following schedule:

Average Monthly Balance on ESI Illuminations Platform	Credit
\$0 – \$4,999,999	0%
\$5,000,000 - \$25,000,000	0.01%
\$25,000,001 - \$50,000,000	0.015%
\$50,000,001 - \$100,000,000	0.02%
\$100,000,001 +	0.03%

For illustrative purposes, under this model, an advisor whose average monthly AUM is \$10 million would receive \$1,000 (or 0.01%) from ESI. This income is paid to the advisor out of the revenue that would otherwise be retained by the Firm, and does not result in an increased fee to your account. However, this incentive creates a conflict of interest in that the advisor receives more compensation for placing assets on the Illuminations platform than they might otherwise receive

by using another asset management provider. If you are not comfortable with this, you can select another advisory program offered by ESI that is not on the Illuminations platform.

Program fees charged may be more or less than if a client paid separately for investment advice, brokerage and other services, or when compared to other available programs, subject to a number of factors, such as the level of trading in a client's account, and the cost of services, if provided separately. The advisory representative receives a portion of the fee for service charged to the client, and this compensation may be more or less than the compensation the advisory representative would have received if the client had participated in other programs or paid separately for advice, brokerage, and other services. The remaining portion of the fee for service is retained by EFA and/or the IAR's supervisor, depending on the IAR's compensation schedule. The IAR could have a financial incentive to recommend a wrap fee program over other programs or services.

Fee adjustments for withdrawal of funds in one quarter will be made in the following quarter. If NFS is the custodian of the client's account, cash balances in taxable accounts will be held in Fidelity Government Money Market Fund (SPAXX) and cash balances in retirement accounts will be held in Fidelity Cash Reserves (FDRXX), unless a different election is made by the client.

Any fee owed pursuant to the terms of the SIS will be deducted, by the custodian, from the client's account. All fees paid will be reported to the client on the quarterly statements.

The program fee does not cover certain charges associated with securities transactions in clients' accounts, including: (i) costs relating to trading in certain foreign securities; (ii) the fees and expenses imposed by mutual funds and closed-end funds, unit investment trusts, exchange-traded funds or real estate investment trusts (such as operating expenses, management fees, redemption fees, 12b-1 fees and other fees and expenses as stated in the fund's prospectus or offering document); (iii) the charge to carry tax lot information on transferred mutual funds or other pooled funds, postage and handling charges, returned check charges, transfer taxes; stock exchange fees or other fees mandated by law, and (iv) any brokerage commissions or other charges, including contingent deferred sales charges ("CDSC"), imposed upon the liquidation of "in-kind assets" that are transferred into the program. Liquidation of in-kind assets can result in tax consequences. Clients should consult their tax advisor accordingly.

The program fee does not cover certain fees that are charged to clients by the custodian. Clients generally also pay for specific account services, such as ACAT transfers, electronic fund and wire transfer charges, and for other optional services elected by clients. The program fee does not cover certain non-brokerage-related fees such as individual retirement account ("IRA") trustee or custodian fees, tax-qualified retirement plan account fees, and annual or termination fees for retirement accounts (such as IRAs).

Clients often incur redemption fees when the advisory representative and the client determine to sell shares of a security before the expiration of the security's minimum holding period. Depending on the length of the redemption period, the particular investment strategy, and/or market circumstances, the advisory representative and the client may be able to minimize any redemption fees when it is reasonable to allow a client to remain invested in a security until the minimum holding period expires. Please see the specific mutual fund's prospectus for detailed information regarding such fees. Certain applicable fees can be avoided through the selection of mutual fund share classes which are not subject to such applicable fees, if clients are eligible for such reduced fee share classes.

## Item 5 – Account Requirements and Types of Clients

EFA provides portfolio management services to individuals, corporations, trusts, estates, charitable organizations, and retirement plans including pension and profit sharing plans. Most asset management programs offered by EFA have minimum account sizes to open/maintain an account ranging from \$10,000 to \$750,000. Details on these minimums are explained by the various asset managers' program description materials.

The Firm reserves the right to prohibit anyone or any account type from investing in any of its advisory programs if it believes the recommended program is not an appropriate investment strategy for the client.

The minimum account sizes for the Strategist and UMA programs vary depending on the selected manager's requirement. The minimum account size for the Flagship Select program is generally \$50,000. EFA retains the right, at its discretion, to review the minimum account size for participating in the Flagship Select program, based upon the circumstances of each client.

Clients include individuals, corporations, trusts, estates and charitable organizations. The Firm reserves the right to prohibit anyone or any account type from investing in any of its advisory programs if it believes the recommended program is not an appropriate investment strategy for the client.

## Item 6 – Portfolio Manager Selection and Evaluation

EFA has contracted with Envestnet to provide performance reporting, fee calculation and billing, and to generate suggested rebalancing trades for the client's account. Envestnet generates a Time Weighted Rate of Return ("TWRR"), calculated net of all fees, for each account. This information is included on the client's Quarterly Performance Report. EFA does not calculate investment performance on a uniform basis. EFA does not monitor or review performance data provided from Envestnet for accuracy.

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

EFA does not charge any performance-based fees (fees based on a share of capital gains or capital appreciation of the assets of a client).

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

EFA's advisory representatives generally use technical and/or fundamental analysis when analyzing securities. Technical analysis generally involves studying trends and movements in a security's price, trading volume, and other market-related factors in an attempt to discern patterns. Fundamental analysis generally involves assessing a company's or security's value based on factors such as sales, assets, markets, management, products and services, earnings, and financial structure. Sources of information for analysis include research material acquired from outside vendors, financial newspapers and magazines, annual reports, prospectuses, filings with the SEC and company press releases.

Investment strategies used in the ESI Illuminations programs generally apply to long-term investment goals. Clients whose investment objectives involve short-term goals should consider using a different program.

The IAR will utilize certain asset allocation tools and investment research materials prepared by third-party investment advisers in constructing an appropriate asset allocation for a client and in monitoring the performance of the investment portfolio selected.

Investing in securities involves several risks of which clients should be informed, and prepared to bear, prior to investing. The list below explains the various forms of risk associated with investing in securities:

*Common stocks* may decline significantly in price over short or extended periods of time. Price changes may occur in the market as a whole, or they may occur in only a particular country, company, industry, or sector of the market. In addition, the types of stocks in which a particular fund invests, such as value stocks, growth stocks, large-capitalization stocks, mid-capitalization stocks, small-capitalization stocks and/or micro-capitalization stocks, may underperform the market as a whole. In addition, growth stocks can be more volatile than other types of stocks. Value stocks can continue to be undervalued by the market for long periods of time. Additionally, dividends paid on common stocks can vary significantly over the short-term and long-term. Dividends on common stocks are not fixed, but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of common stocks in which a portfolio invests will declare dividends in the future or that if declared they will remain at current levels or increase over time.

*Fixed income* risks include credit risk, interest rate risk, and high yield risk.

*Credit risk* is the risk that an issuer of a debt security will be unable to make interest and principal payments when due and the related risk that the value of a security may decline because of concerns about the issuer's ability to make such payments. Credit risk may be heightened for portfolios that invest in "high yield" securities.

*Interest rate risk* is the risk that the value of a portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter-term investments and higher for longer-term investments. Duration is a common measure of interest rate risk. Duration measures a bond's expected life on a present value basis, taking into account the bond's yield, interest payments and final maturity. The longer the duration of a bond, the greater the bond's price sensitivity to changes in interest rates.

*High yield, or below investment grade securities* may be more susceptible to real or perceived adviser economic conditions than investment grade securities. In addition, the secondary trading market for below investment grade securities may be less liquid. High yield securities generally have more volatile prices and carry more risk to principal than investment grade securities.

*International Investing Risk* is the risk associated with investing in securities or issuers in markets other than the United States. Foreign issuers may be subject to risks not typically associated with U.S. companies, such as: currency risk, risks of trading in foreign securities markets, and political and economic risks.

*Currency Risk* is associated with the trading of securities in currencies other than the U.S. dollar. Because foreign securities generally trade in currencies other than the U.S. dollar, changes in currency exchange rates will affect an account's value, the value of dividends and interest earned, and gains and losses realized on the sale of securities. A strong U.S. dollar relative to these other currencies will adversely affect the value of account.

*Foreign Securities Market Risk* is the risk that securities of many non-U.S. companies, or U.S. companies with significant non-U.S. operations, may be less liquid, and their prices more volatile, than securities of comparable U.S. companies. Securities of companies traded in many countries outside the U.S., particularly emerging markets countries, may be subject to further risks due to the inexperience of local investment professionals and financial institutions, the possibility of permanent or temporary termination of trading, and greater spreads between bid and asked prices for securities. In addition, non-U.S. stock exchanges and investment professionals are subject to less governmental regulation, and commissions may be higher than in the U. S. Also, there may be delays in the settlement of non-U.S. stock exchange transactions.

*Political and Economic Risks* are a factor when investing in international companies due to varying levels of stability in political, social, or economic factors in the country of the issuer of a security, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, and nationalization of assets.

Additionally, income from foreign issuers may be subject to non-U.S. withholding taxes. Non-U.S. companies generally are not subject to uniform accounting, auditing, and financial reporting standards or to other regulatory requirements that apply to U.S. companies; therefore, less information may be available to investors about non-U.S. issuers. In addition, some countries restrict foreign investment in their securities markets, which may limit or preclude investment in certain countries or may increase the cost of investing.

The above risks may be particularly significant in emerging markets countries. To the extent an account invests in depositary receipts, it will be subject to the same risks as when investing directly in foreign securities.

#### **Voting Client Securities**

As a matter of firm policy and practice, EFA does not have authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Upon request of the client, EFA may provide advice to clients regarding the clients' voting of proxies.

### **Item 7 – Client Information Provided to Portfolio Managers**

EFA does not separately communicate information about our clients to portfolio managers.

### **Item 8 – Client Contact with Portfolio Managers**

There are no restrictions placed on a client's ability to contact their advisory representative.

### **Item 9 – Additional Information**

#### **Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of EFA or the integrity of EFA's management. ESI is a registered broker/dealer as well as a federally-registered investment adviser doing business as EFA.

- Pursuant to the Securities Exchange Commission's ("SEC") Share Class Selection Disclosure initiative, Equity Services, Inc. ("ESI") self-reported its use of mutual funds that paid fees to ESI pursuant to Rule 12b-1 of the Investment Company Act of 1940, in several of its advisory programs. Subsequently, the SEC alleged that, during the period of January 1, 2014 to July 7, 2017, ESI did not adequately disclose to its clients its receipt of, nor the conflict of interest created by, 12b-1 fee revenue and/or its selection of mutual fund share classes that resulted in 12b-1 revenue to ESI.

Without admitting or denying the findings, ESI agreed to an order from the SEC which imposed the following terms: (1) cease and desist from committing or causing any further violations of Section 206(2) of the Advisors Act of 1940; (2) censure by the SEC; and (3) disgorgement of fees and prejudgment interest to affected clients totaling \$587,017.22. The settlement was accepted by the SEC on September 30, 2019.

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

ESI is registered as a broker-dealer with the SEC, FINRA and all fifty states. ESI devotes a substantial portion of its time and derives a substantial portion of its revenue from its operations as a broker-dealer. As a broker-dealer, ESI offers the following investment and insurance products: mutual funds, unit investment trusts, variable annuities and variable life products, indexed annuity products, direct participation programs, real estate investment trusts, and structured CDs. ESI also acts as the distributor of variable insurance products underwritten and issued by National Life.

EFA is under common control with NLG Capital, Inc., a registered investment adviser.

EFA is an affiliate of National Life. Most of EFA's advisory representatives are also life insurance agents of National Life. National Life provides space and certain other services to EFA.

LSW is an affiliated insurance company that offers fixed annuity products. Many of EFA's advisory representatives are appointed with LSW to sell fixed products.

EFA and its affiliates receive, in the aggregate, more revenue in connection with the sale of affiliated products than with unaffiliated products. This additional revenue often comes in the form of shared revenue based on assets under management, administrative, distribution, and/or other fees for services provided by affiliates of EFA in support of affiliated products. Thus, EFA has an incentive to offer affiliated products over unaffiliated products. As a result, the Firm faces a conflict of interest to the extent that it has an incentive to promote certain programs which use affiliated products over other programs which don't use affiliated products (or use affiliated products to a lesser extent).

EFA has a selling agreement with Brinker Capital Management ("Brinker") through which EFA solicits and recommends accounts held directly with and managed by Brinker. EFA also offers Brinker's management services as a third-party Strategist on the Illuminations platform. Brinker accounts established through the Illuminations platform enjoy certain benefits, including consolidated account statements and reporting (beneficial to those using more than one Strategist), as well as added flexibility in changing and allocating assets amongst Strategists on the platform, but are subject to the platform fee that comes with utilizing the Illuminations platform. Accounts that are established directly with Brinker, through EFA's solicitor relationship, are not subject to a separate platform fee. Accordingly, an IAR can retain more of your fee if paying a platform fee is not required, so directly held Brinker accounts generally experience a lower overall management fee than those that are established on the Illuminations platform (subject to the

billing practices of each IAR). This also creates a conflict for EFA in that regardless of your total advisory fee, it receives more revenue from accounts established on the Illuminations platform than it does from those established directly with Brinker. If you are considering Brinker as a third-party manager, we encourage you to consult with your advisor regarding which program (i.e. Third-Party Strategist through Illuminations or Solicitor) best suits your needs.

EFA receives payments from firms or persons that offer asset management or separate account products or services which are included in a preferred list of product providers (referred to as "Strategic Partners"). These payments take the form of conference, program, or event attendance; participation or exhibition fees; educational and training fees; or fees linked to program participation or specific marketing initiatives within an existing program. None of these additional payments are paid or directed to any advisory representative who sells these products. Nonetheless, when recommending an asset management program to their clients these marketing payments and educational opportunities present a conflict of interest to the extent that such payments incentivize advisory representatives to recommend Strategic Partners, as opposed to other advisers that do not make such payments. Among its advisory programs, EFA's Strategic Partners are: 3D Asset Management, Assetmark, Brinker Capital, Envestnet Portfolio Solutions, Maple Capital Management, SEI, and Touchstone Advisors.

ESI in its capacity as a broker-dealer often executes securities transactions for its advisory clients, including, but not limited to, transactions in securities distributed or underwritten by an affiliate. ESI has a fully disclosed clearing relationship with NFS (an affiliate of Fidelity) for the purpose of offering stock, bond and option trading.

Service fees and IRA fees in brokerage accounts associated with the ESI Illuminations platform include a markup, by EFA, to the actual fee charged by NFS. ESI's brokerage fee schedule can be viewed on its public website ([www.equity-services.com](http://www.equity-services.com))

#### **NFS Business Development Credit**

ESI's fully disclosed clearing agreement with NFS includes the payment of a Business Development Credit, which is solely reliant on ESI's compliance with the terms and conditions of the clearing agreement and is not shared with IARs. The Business Development Credit is an annual credit, paid to ESI in five installments over the course of a 12-month period, and is not related to the sale or offer of products or services, nor is it dependent upon assets under management.

#### **NFS Net Flows Credit**

NFS pays additional compensation to ESI based upon whether it has added more assets (exclusive of increases based on market performance) to the NFS platform, as compared to withdrawals from the platform, over a 12-month period. This creates an incentive for ESI to recommend its Illuminations platform versus other advisory programs that are not on the NFS platform. Additionally, this creates an incentive to recommend that clients maintain their ESI Illuminations account instead of using another advisory program not on the NFS platform. This credit is not shared with the advisory representative.

Many IARs own and operate their own independent companies separate from EFA. Such IARs provide one or more services through these unaffiliated companies including, but not limited to, accounting/tax services, business consulting, and insurance brokerage services. If a client engages an IAR to provide any such services, these services are offered and performed solely in the IAR's private and/or professional capacity, and not as a representative of the Firm.



For additional discussion of how the Firm identifies and addresses potential conflicts of interest, please refer to *“Code of Ethics, Participation or Interest in Client Transactions and Personal Trading”*.

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

EFA has adopted a Code of Ethics (“the Code”) that mandates high standards of business conduct and professionalism. EFA, through its advisers, will provide a copy of its Code of Ethics to any client or prospective client upon request.

In general, the Code addresses certain groups of persons: Supervised Persons and Access Persons. The term “Supervised Persons” refers to any partner, officer, director, employee, or IAR of the Firm. “Access Persons” represent a subset of this population, and refers specifically to those individuals who have access to (1) nonpublic information regarding any clients’ trading activity, (2) nonpublic information regarding the portfolio holdings of any reportable fund, or (3) those who are involved in making securities recommendations to clients or who have access to such recommendations that are nonpublic.

The Code prohibits EFA’s Supervised Persons from purchasing initial public offerings (“IPOs”) or trading on material non-public information. Additionally, the Firm’s Access Persons are required to report their securities holdings upon initial hire, and again annually. Quarterly reporting of personal securities transactions is also required for Access Persons. EFA’s Supervised Persons must acknowledge the terms of the Code annually.

The Code requires that advisory representatives render disinterested and impartial advice and make appropriate recommendations to clients based on an analysis of their needs. Conflicts of interest arise when a recommendation could result in additional compensation to the Firm and/or the advisory representative through the Firm’s business relationships or through the execution of commissionable transactions. Such conflicts are a consideration for the Firm’s Senior Business Risk Analysts in their review of new accounts and transactions. The Firm addresses conflicts of interest and potential conflicts of interest by periodically reviewing them during EFA’s senior management meetings, and through disclosure to its clients, such as that contained in this Brochure.

The Firm and the advisory representative can face conflicts of interest when providing services to retirement accounts. This occurs when an advisory representative recommends that a client transfer their retirement account from a different financial institution to our firm, because doing so will result in the Firm and the advisory representative receiving compensation that we would not otherwise receive. Conflicts of interest can also arise with existing customers, when an advisor recommends a new type of account that has a different compensation structure that will increase compensation. For example, this could occur if an advisory representative recommends transferring assets in a brokerage account (which generates compensation when a transaction is made) to an advisory account (which charges an annual fee for ongoing management). These conflicts can arise when an advisory representative recommends taking money from a qualified plan and doing an IRA rollover; recommends that a client transfer assets from an IRA to a qualified plan; recommends the transfer of an IRA account to a new IRA; recommends that a qualified plan transfer assets to a new investment provider; or recommends that an IRA change the type of account being used (such as recommending that a commission-based account be changed to a fee-based account).

All Supervised Persons whose activities could encompass the solicitation of government clients are required to pre-clear political contributions to local or state candidates, or candidates for federal office who currently hold a state or municipal office, to state and local political parties, or to political action committees.

Advisory representatives occasionally buy, hold, or sell securities for their own accounts that are also recommended to, or bought or sold for, their clients at the same time or at different times as clients are trading in these securities. However, neither EFA nor any employee may receive preferential treatment over clients.

It is EFA's policy that the Firm will not effect any principal or agency cross transactions for client accounts. EFA will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser (that is, an advisory firm), acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions arise when an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. Cross trades occur where an adviser causes a client account to sell a security to another client account, whether or not a commission is charged in the transaction.

EFA and its affiliates also contribute amounts to various non-cash and cash incentives paid to EFA's advisory representatives based on the achievement of specified sales goals for certain securities, as described in "*Client Referrals and Other Compensation*". Incentive programs are reviewed by the Compliance Department. The review of such programs seeks to ensure that all such incentives adhere to applicable rules. Conflicts of interest are managed through public disclosure to clients and prospective clients, and on the Firm's public website.

Unaffiliated TPAMs occasionally pay travel, meal and other expenses for IARs and others who visit the TPAM's offices or other locations (including hotels and conference centers) to learn about its products and services. This creates a conflict of interest for IARs who may be incented to favor doing business with certain TPAMs over others on the basis of benefits received in conjunction with such visits.

EFA's advisory representatives have an incentive to choose certain programs based on the maximum fee that can be charged given the asset value of the account, as well as whether the advisory representative bears additional program charges. This creates a conflict of interest for the IAR, as they generally retain more of the revenue generated by fees in programs that do not include platform fees, transaction charges, or other administrative fees as part of the overall advisory fee.

The Firm reviews potential conflicts of interest as part of its due diligence review of new and existing programs. The Firm provides disclosure to clients and potential clients of its fee structure and revenue agreements in this Brochure, as well as through the revenue sharing disclosure documents posted on its public website ([www.equity-services.com](http://www.equity-services.com)).

### **Review of Accounts**

Each IAR and his/her client will individually determine the frequency of reviews for the account(s) governed by an investment advisory agreement between the client and EFA. However, advisory representatives will offer their clients a review on at least an annual basis. Factors triggering such

a review will include, but are not limited to: changing circumstances in the client's financial and personal life; the performance of the portfolio in both absolute terms, and relative to the client's goals, objectives and risk tolerance; and at the request of the client. In most cases, the review will be conducted by the advisory representative who performed the initial investment advisory services.

EFA utilizes software tools and/or review either exception reports or statements for accounts on which EFA is adviser, to detect and make recommendations to correct variations from client mandates that are beyond variance tolerances established by the Firm. For discretionary accounts, the Firm and/or the IARs are authorized to rebalance the accounts to address variances that are beyond the Firm's tolerances and the IARs are authorized to do the same if they are concerned that a variance will result because an account's risk score has changed. In addition to review by advisory representatives, client accounts are reviewed by EFA Senior Business Risk Analysts and/or other home office staff members.

Quarterly performance reports are generated and made available to clients with accounts in the ESI Directions program. Also, at least quarterly, NFS provides brokerage statements for ESI Directions program accounts.

#### **Client Referrals and Other Compensation**

EFA pays individuals or entities, acting as bona fide solicitors, a portion of the fee for service paid to EFA by the client if the client is referred to EFA by the solicitor. All such solicitor arrangements will conform to the requirements set forth in Rule 206(4)-1 of the Investment Advisers Act of 1940. ESI (acting in its capacity as broker/dealer) receives additional compensation for the sales of securities issued and or distributed by members of its Strategic Partners program. 3D Asset Management, Brinker Capital, Envestnet Portfolio Solutions and Touchstone Advisors are the only Strategic Partner product distributors in the ESI Illuminations program. Certain other fund sponsors and/or TPAMs that do not participate in the Strategic Partners program, but whose funds may be used in ESI Illuminations accounts, make marketing payments to ESI to sponsor certain meetings or events. These include American Funds, BlackRock Funds, Symmetry, and Vanguard. As such, the Firm has an incentive to promote use of these funds, over other available funds, in programs in which the IAR acts as the portfolio manager, such as Flagship Select.

Certain funds available on the Illuminations platform pay additional compensation to ESI, such as 12b-1 (trail) fees. Other funds available on the Illuminations platform do not pay ESI 12b-1 fees. This creates a conflict of interest, because ESI has a financial incentive to recommend mutual funds that generate 12b-1 revenue to the Firm. To eliminate this conflict, 12b-1 fees charged to accounts in the ESI Illuminations platform are credited back to the customer by the custodian (i.e. NFS). Therefore, ESI does not receive 12b-1 revenue from accounts on its ESI Illuminations platform.

Certain product sponsors may make other payments to EFA intended to reimburse the firm's representatives for marketing expenses, such as client seminars, marketing materials, etc. Marketing reimbursements from sponsors are directed to EFA and subsequently paid by EFA to the representative. Certain product sponsors and investment advisers may incur expense and/or provide reimbursement for educational and training programs. Compensation From Securities and Other Investments

#### **Compensation From Securities and Other Investments**

ESI, acting in its capacity as a broker-dealer, sells various securities and investment products from a number of different product sponsors, including ESI's affiliates, National Life and LSW.

These products include mutual funds, variable annuities, Real Estate Investment Trusts (REITs), structured CDs, variable universal life insurance, options, municipal bonds & 529 college savings plans, and fixed indexed annuities. Fixed indexed annuities are not securities products, and ESI sells these products through Registered Representatives, who may be dually registered as IARs, in their capacity as insurance agents. Through its Strategic Partner program, ESI has established additional relationships with various participating product providers which pay additional compensation to ESI based on sales of their products. When your IAR sells one of these products to you ESI and your IAR can receive additional compensation from the transaction.

This creates a conflict of interest in that there is an incentive to sell products for which the Firm and the registered representative receives more compensation. The Firm reviews potential conflicts of interest as part of its due diligence review of new and existing programs and product offerings. For a detailed description of fees, expenses, and revenue from the sale of these products, please see ESI's Regulation Best Interest disclosure document at [www.Equity-Services.com](http://www.Equity-Services.com). To mitigate this conflict, ESI has policies and procedures to ensure that recommendations are in our clients' best interest, which includes pre-transaction and post-transaction reviews of recommendations.

### **Marketing and Training Support**

Training and education expenses and reimbursements are paid out of the adviser or affiliate's assets, not from the account assets, and are made to EFAI in addition to annual service fees, and other fees and expenses disclosed in the adviser's Form ADV Part 2A, which is available on request from the investment adviser firm.

EFA and its affiliates also contribute amounts to various non-cash and cash incentives paid to EFA's advisory representatives based on the achievement of specified sales goals for certain securities, including (1) sponsoring sales contests and/or promotions in which participants receive awards or incentives such as travel, merchandise, computer hardware and/or software; (2) paying for occasional meals, lodging and/or entertainment; (3) making cash payments in lieu of business expense reimbursements; (4) making and forgiving business-related loans; (5) cash bonuses and/or; (6) employee benefits, such as health insurance, Social Security contributions, etc.

Current information regarding EFA's Strategic Partners program may be found at [www.Equity-Services.com](http://www.Equity-Services.com) or by calling (800) 344-7437.

### **Financial Information**

EFA is not aware of any financial condition that is reasonably likely to impair its ability meet its contractual commitments to clients, nor has EFA been the subject of a bankruptcy petition at any time during the past ten years.