

# ARMSTRONG, FLEMING & MOORE, INC.

## Part 2A of Form ADV Brochure

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This brochure provides information about the qualifications and business practices of Armstrong, Fleming & Moore, Inc. (“AFM”). If you have any questions about the contents of this brochure, please contact us at 202-887-8135. 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 AFM is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). AFM is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

## Material Changes

This brochure updates AFM’s brochure as filed with the SEC in March 2024. There have been no material changes to AFM’s business, services provided, or conflicts of interest with clients in the last 12 months.

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## **Advisory Business**

AFM was founded in 1983 and is principally owned by Ryan Fleming and Mary Moore. Other owners include Chris Rivers and Carl Holubowich. As of December 31, 2023, AFM managed \$897,608,211 million on a discretionary basis and \$141,862,670 million on a non-discretionary basis on behalf of approximately 447 household Clients.

### Portfolio Management Services

AFM offers Clients investment management services as covered in the Portfolio Management Agreement where each Client's investment account and portfolio is managed on a regular and continuous basis. AFM will assist the Client in determining, among other things, suitability, investment objectives, goals, time horizons, and risk tolerances. The Client's personal investment allocation will be developed from these goals and objectives, and AFM will manage the Client's portfolio based on that allocation. Account supervision is guided by stated objectives of the Client (i.e., maximum capital appreciation, growth, income, or growth and income).

AFM believes that to the extent possible, the firm must tailor portfolio investment strategies to the needs of the individual Client. In general, the firm's investment philosophy is to seek to achieve capital appreciation and/or current income within the constraints of prudent risk-taking in accordance with the Client's ability and willingness to accept risk. However, individual portfolio strategies will vary according to the Client's stated objectives. Portfolios are structured to meet current investment objectives of the Client and to anticipate future needs and changes in the Client's longer-term goals.

AFM manages advisory accounts on a discretionary or a non-discretionary basis. Within its non-discretionary capacity, AFM may, with Client consent, purchase or sell securities to meet the cash needs of the Client on an as needed basis. These purchases and sales will be executed in a manner such that the resulting allocations will generally match the allocation in the account prior to the purchase or sale. However, in situations where consent to a transaction is required, non-discretionary Clients will forgo trading until such time as AFM can contact the Client and receive authorization for the transaction. The unavailability of a client to authorize a transaction may have a materially negative impact on performance of the Client's account; accordingly, Client assumes all risk.

Commonwealth Equity Services, Inc. is a FINRA-registered broker/dealer and SEC-registered investment advisor. Commonwealth Equity Services, Inc. has adopted the "doing business as" name of Commonwealth Financial Network (hereinafter referred to as "Commonwealth").

AFM has entered into an agreement with Commonwealth to offer AFM Clients access to Commonwealth's Advisory Services Program, PPS Custom Account Program, PPS Select Account Program, PPS Direct Account Program and Retirement Plan Consulting Program. In the case of the PPS Custom Account Program, AFM will assist Clients in the development of personalized asset allocation programs. In the case of the PPS Select Account Program, portfolio management is provided by Commonwealth's Asset Management team. In the case of the PPS Direct Account Program, AFM offers the services of approved money management firms referred to as "Sub-Advisors" to assist in managing Client portfolios. In the case of the

Retirement Plan Consulting Program, AFM provides a fee-for-service consulting program whereby advisors offer one-time or ongoing advisory services to qualified retirement plans. Clients may engage AFM for Retirement Plan Consulting services on a negotiated hourly, flat, fixed, or asset-based fee basis. The maximum annual account consulting fee, when stated as a percentage of assets, is 1.50%, and is negotiable. Fees may be paid at the time of service, in advance of service, or after service has been rendered. If fees are being charged on an hourly basis, they may not exceed \$500 per hour. Through the Retirement Plan Consulting Program, AFM may assist plan sponsors with their fiduciary duties and provide individualized advice based upon the needs of the plan and/or plan participants regarding investment management matters, such as:

- Investment policy statement support
- Investment selection and monitoring
- Overall portfolio composition
- Participant advice programs

Clients who participate in one or more of Commonwealth's PPS Programs will receive Commonwealth's Form ADV Part 2A and/or Wrap Fee Brochure, in addition to AFM's Form ADV Part 2. Clients should refer to Commonwealth's Form ADV Part 2 or Wrap Fee Brochure for detailed information about Commonwealth and Commonwealth's PPS Programs.

Clients utilizing AFM's portfolio management services must utilize the brokerage services of Commonwealth, of which advisory personnel of AFM are registered representatives (See Other Financial Industry Activities and Affiliations for more information). Fees for brokerage/execution will be charged pursuant to Commonwealth's then current transaction schedule, which will be provided separately upon request. Accounts held at Commonwealth are also subject to custodial and account servicing fees. AFM has no revenue or profit interest in such fees.

#### Financial Planning Services

AFM offers financial planning services, including comprehensive or segmented (limited) financial plans, investment plans, and/or individual consultations regarding a Client's financial affairs as covered in the Financial Planning Agreement. The design and implementation of a financial plan may begin with the process of gathering data regarding income, expenses, taxes, insurance coverage, retirement plans, wills, trusts, investments and/or other relevant information pertaining to a Client's overall financial situation. This information is carefully analyzed taking into account a Client's goals and stated objectives, and a series of recommendations and/or alternative strategies will be developed which are designed to achieve optimum overall results.

Financial planning Clients are under no obligation to implement any recommendations through AFM. However, AFM will be available to help the Client implement the recommendations, including by providing securities (through Commonwealth) and insurance brokerage where representatives of AFM have a profit interest in such transactions. Transaction and account fees

will generally follow the summary schedule included in the Portfolio Management section above. AFM has a conflict of interest in recommending implementation of financial planning recommendations through our advisors as our advisors will receive additional compensation should you choose to implement the plan.

#### Hourly Consultation Services

In addition to offering portfolio management and financial planning services, AFM may also offer specific administrative and consulting services on an hourly basis. This hourly consultation service may take the form of general investment advice or other forms of consulting arrangements. For consultation services provided by AFM, Client shall agree to pay AFM hourly fees at the rates set forth in the schedule included in the Financial Planning section above. Investment recommendations and advice offered by AFM and its advisors do not constitute legal, tax, or accounting advice. Clients should coordinate and discuss the impact of the financial advice they receive from their advisor with their attorney and accountant. Clients should also inform their advisor promptly of any changes in their financial situation, investment goals, needs, or objectives. Failure to notify the advisor of any material changes could result in investment advice not meeting the changing needs of the client.

#### **IRA Rollover Considerations**

As part of AFM's financial planning and advisory services, AFM may provide the Client with recommendations and advice concerning Client's employer retirement plan or other qualified retirement account. When appropriate, AFM may recommend that Client withdraw assets from Client's employer-sponsored retirement plan or other qualified retirement account and roll the assets over to an individual retirement account ("IRA") or other retirement savings account to be managed by AFM or a Third-Party Manager that AFM recommends. If the Client elects to roll the assets to an IRA under AFM's management, AFM will charge the Client an asset-based fee as described in Item 5. This practice presents a conflict of interest because AFM's Advisory Representative has an incentive to recommend a rollover to the Client for the purpose of generating fee-based compensation rather than solely based on the Client's needs. Client is under no obligation, contractually or otherwise, to complete the rollover. Furthermore, if the Client does complete the rollover, Client is under no obligation to have the Client's IRA assets managed under AFM's or a Third-Party Managed Program. Client has the right to decide whether to complete the rollover and the right to consult with other financial professionals.

Some employers permit former employees to keep their retirement assets in their company plan. Also, current employees can sometimes move assets out of their company plan before they retire or change jobs. In determining whether to complete the rollover to an IRA, and to the extent the following options are available, the Client should consider the costs and benefits of each.

An employee will typically have four options:

1. Leave the funds in current employer's (former employer's) plan.
2. Roll over the funds to a new employer's retirement plan.
3. Cash out and take a taxable distribution from the plan.
4. Roll the funds into an IRA or other Retirement plan account.

Each of these options has advantages and disadvantages. Before making a change, AFM encourages Client to speak with a financial advisor, CPA and/or tax attorney.

Before rolling over the Client's retirement funds to an IRA for AFM to manage or to a Third-Party Managed Program, carefully consider the following. NOTE: This list is not exhaustive.

1. Determine whether the investment options in the Client's employer's retirement plan address the Client's needs or whether other types of investments are needed.
  - a. Employer retirement plans generally have a more limited investment menu than IRAs.
  - b. Employer retirement plans may have unique investment options not available to the public, such as employer securities or previously closed funds.
2. Client's current plan may have lower fees than AFM's fee and/or the Third-Party Manager's fee combined.
  - a. If Client is interested in investing only in mutual funds, Client should understand the cost structure of the share classes available in your employer's retirement plan and how the costs of those share classes compare with those available in an IRA.
  - b. Client should understand the various products and services available through an IRA provider and their costs.
  - c. It is likely Client will not be charged a management fee and will not receive ongoing asset management services unless Client elects to have such services if such services are offered. If Client's plan offers management services, the fee associated with the service may be more or less than our fee and/or the Third-Party Manager's fee combined.
3. The Third-Party Manager's or AFM's management strategy may have higher risk than the options provided to Client in Client's plan.
4. Client's current plan may offer financial advice, guidance, management and/or portfolio options at no additional cost.
5. If Client keeps assets titled in a 401(k) or retirement account, Client could potentially delay Client's required minimum distribution beyond age 72.
6. Client's 401(k) may offer more liability protection than an IRA; each state varies. Generally, Federal law protects assets in qualified plans from creditors. Since 2005, IRA assets have been generally protected from creditors in bankruptcies; however, there can be exceptions. Client should consult an attorney if Client is concerned about protecting Client's retirement plan assets from creditors.
7. Client may be able to take out a loan on Client's 401(k), but not from an IRA.
8. IRA assets can be accessed any time; however, distributions are subject to ordinary income tax and may also be subject to a 10% early distribution penalty unless they qualify for an exception such as disability, higher education expenses or a home purchase.
9. If Client owns company stock in Client's retirement plan, Client may be able to liquidate those shares at a lower capital gains tax rate if Client rolls Client's account to an IRA.
10. Client's plan may allow Client to hire AFM or another firm as the manager and keep the assets titled in the plan name.

It is important that you understand your options, their features and their differences, and decide whether a rollover is best for you. If you have questions, contact us at our main number listed on the cover page of this brochure.

## **Program Choices and Conflicts of Interest**

Clients should be aware that the compensation to AFM and Client's advisor will differ according to the specific advisory program chosen. This compensation to AFM and Client's advisor may be more than the amounts we would otherwise receive if you participated in another program or paid for investment advice, brokerage, and/or other relevant services separately. As a result of the differences in fee schedules and other sources of compensation that exist among the various advisory programs and services offered by AFM and Client's advisor, AFM and Client's advisor have a financial incentive to recommend a particular program or service over other programs or services.

As discussed in detail in Item 10 (Financial Industry Activities and Affiliations), AFM has chosen to partner with Commonwealth to provide certain services, including but not limited to fee billing and account performance reporting, to AFM and its clients. For the services it provides, Commonwealth charges financial advisors an administrative fee at the same time clients are charged asset-based fees. The administrative fee is charged to and paid by the financial advisor rather than the advisor's clients and is calculated as a percentage of the total account assets, including cash and money market positions, held by the advisor's clients. The administrative fee covers Commonwealth's maintenance costs associated with performance reporting, account reconciliation, auditing, and quarterly statements. In the same manner as many advisors offer asset management fee discounts to their larger clients, Commonwealth offers its advisors administrative fee discounts based on their total assets under management. As advisors grow their fee-based business on which Commonwealth provides administrative services, Commonwealth's economies of scale are shared with its advisors by reducing the percentage amount of administrative fees that would otherwise be charged to the advisors. Advisors are offered discounts on the administrative fee when they reach specified asset levels, starting at \$10 million. As the amount of advisors' client assets in either their own asset management program(s) and/or Commonwealth's PPS programs grows above certain levels, advisors receive larger percentage discounts to the administrative fees than they would otherwise receive with fewer assets in their own asset management program(s) and/or Commonwealth's PPS programs.

Additionally, advisors with assets under management of at least \$25 million qualify for an increased payout percentage on advisors' clients' account management fees, starting at 90.00% and rising to a maximum of 98.00% as their assets under management grow.

These discounts in administrative fees and higher payouts for reaching various AUM levels present a conflict of interest because they provide a financial incentive for Client's advisor to recommend either their own asset management programs or Commonwealth's PPS programs over other available managed or wrap account programs that do not offer such discounts or higher payouts to Client's advisor.

## **Fees and Compensation**

Clients paying asset based fees will be billed at the end of their specified quarterly schedule based on the ending balance. Clients will be billed pro-rata for any partial calendar quarters. Payment is due no later than 30 days after receipt of the portfolio report.

Payments of fees may be made directly by the Client, or by the custodian holding the Client's funds and securities. However, two criteria must be met when payment is made by the custodian: (1) the Client provides written authorization permitting the fees to be paid directly from the Client's account held by the independent custodian; (2) the custodian agrees to send to the Client a statement, at least quarterly, indicating all amounts disbursed from the account including the amount of advisory fees paid directly to AFM.

AFM's standard fee schedule is as follows:

<u>Assets under management</u>	<u>Maximum Annual Fee</u>
First \$10 Million	1.25%
Amounts in excess of \$10 Million & up to \$15 Million	1.00%
Amounts in excess of \$15 Million	0.75%

Portfolio management services provided to assets held in employer retirement plans are charged an annual fee related to assets and complexity of the relationship up to 0.75%.

Note: The above-referenced fee schedule reflects the standard fees charged by AFM, however, fees are negotiable at the discretion of AFM. AFM will aggregate related Client accounts under management for purposes of application of the fees noted above.

All fees paid to AFM for portfolio management services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may also pay an initial or deferred sales charge. A Client could invest in a mutual fund directly, without the services of AFM. In that case, the Client would not pay an investment advisory fee to AFM. However, the Client also would not receive the services provided by AFM, which are designed, among other things, to assist the Client in determining which mutual fund or funds are most appropriate to each Client's financial condition and objectives. Accordingly, the Client should review both the fees charged by the funds and the fees charged by AFM to fully understand the total amount of fees to be paid by the Client in order to evaluate the advisory services being received.

The fees charged by AFM will never be based on the capital gains or the capital appreciation of any client portfolio except as described above.

A Client's Investment Advisory Agreement may be cancelled at any time, by either party, for any reason upon receipt of written notice to the other party. Upon termination, any unpaid fees will be due for an amount that is pro-rated based on the number of days that the account was managed.



In consideration of financial planning services provided by AFM, the Client shall agree to pay AFM hourly fees as follows:

Principals	\$450 per hour
Financial Planners & Financial Advisors	\$200 per hour
Paraplanners	\$150 per hour

These hourly fees are negotiable at the discretion of AFM.

#### General Information on Fees

Fees for financial planning and consultation services that are charged on an hourly basis may require fifty percent (50%) of total fee due in advance based on an estimated number of hours of services to be provided. The Client agrees that the remainder of the fee is due upon completion of the services. If it appears that the quoted fees will exceed the estimated amount of time as stated above, AFM will contact the Client to obtain written approval prior to continuing such services. Such hourly fees may be negotiable at the discretion of AFM. Prepayment of fees will not exceed \$1200 per client, 6 months in advance. Any balance of prepaid fees shall be refunded to the Client.

While AFM makes every effort to obtain account balances directly from the custodian of Client assets, for certain accounts AFM may request that the client regularly provide copies of account statements.

Commonwealth passes on to Clients the securities clearance and settlement fees charged by its clearing broker dealer with a substantial markup that is retained by Commonwealth.

Commonwealth adds a markup to the transaction fees assessed by its clearing firm and paid by clients or clients' advisors to compensate Commonwealth for the cost of its resources utilized in processing the transaction(s) and to generate additional revenue for Commonwealth. AFM typically passes on the securities clearance and settlement fees charged by Commonwealth and its clearing broker/dealer. The maximum charges are as follows:

## Brokerage/Client Service Account

Equities, ETFs, and Closed-End Funds	\$19.95 <sub>1</sub>	\$7.95 <sub>1</sub>
Options	\$15 + \$1 per contract <sub>1</sub>	\$12 + \$1 per contract <sub>1</sub>
Equities, ETFs, and Closed-End Funds	\$251,2	\$7.951
Options	\$20 + \$1.25 per contract <sub>1,2</sub>	\$12 + \$1 per contract <sub>1</sub>
Fixed Income	\$30 <sub>1</sub>	
Structured Products	\$30 <sub>1</sub>	
Precious Metals	\$50 <sub>1</sub>	
UITs	\$20 <sub>1</sub>	
Alternative Investments	\$50	

## Preferred Portfolio Services® (PPS) Custom/Advisory Services

Equities, ETFs, and Closed-End Funds	\$4.95 <sub>1</sub> /\$7.95 <sub>2</sub>	\$4.95 <sub>1</sub> /\$7.95 <sub>2</sub>	\$0
Options	\$15 + \$1 per contract <sub>2</sub>	\$12 + \$1 per contract <sub>2</sub>	\$1 per contract
Equities, ETFs, and Closed-End Funds	\$252,3	\$4.951/\$7.952	\$5
Options	\$20 + \$1.25 per contract <sub>2,3</sub>	\$12 + \$1 per contract <sub>2</sub>	\$5 + \$1 per contract
Fixed Income	\$30 <sub>2</sub>		\$0
Structured Products	\$30 <sub>2</sub>		\$0
Precious Metals	\$50 <sub>2</sub>		\$0
UITs	\$20 <sub>2</sub>		\$0
Alternative Investments	\$50		\$0 <sub>3</sub>

Commonwealth adds a markup to the confirmation fees assessed by its clearing firm and paid by clients to cover the costs of client mailings, electronic delivery, account verification, and other costs assessed to Commonwealth by its clearing firm and to generate additional revenue for Commonwealth.

In addition to the charges noted above, clients incur certain charges in connection with certain investments, transactions, and services in your account. In many cases, Commonwealth will receive a portion of these fees and charges or add a markup to the charges clients would otherwise pay to generate additional revenue for Commonwealth. The actual fees and charges that clients will incur are dependent upon the type of account and the nature and quantity of the transactions that occur, the services that are provided, or the positions that are held in the account. Additional fees and charges that clients will typically pay include, but are not limited to:

- Mutual fund or money market 12b-1 fees, subtransfer agent fees, and distributor fees

- Mutual fund and money market management fees and administrative expenses
- Mutual fund transaction and redemption fees
- Certain deferred sales charges on mutual funds purchased or transferred into the account
- Other transaction charges and service fees
- IRA and qualified retirement plan fees
- Other charges that may be required by law
- Brokerage account fees and charges

Information describing the brokerage fees and charges that are applicable to a Commonwealth brokerage or AFM managed account is provided on Commonwealth's Schedule of Miscellaneous Account and Service Fees, which is available on Commonwealth's website at [www.commonwealth.com/clients/media/Commonwealth\\_Brokerage\\_Fee\\_Schedule.pdf](http://www.commonwealth.com/clients/media/Commonwealth_Brokerage_Fee_Schedule.pdf).

AFM advisors may select share classes of mutual funds that pay advisors 12b-1, subtransfer agent, distributor, transaction, and/or revenue-sharing fees when lower-cost institutional or advisory share classes of the same mutual fund exist that do not pay AFM or Client's advisor additional fees. As a matter of policy, Commonwealth (on AFM's behalf) credits the mutual fund 12b-1 fees it receives from mutual funds purchased or held in AFM managed accounts back to the client accounts paying such 12b-1 fees.

In most cases, mutual fund companies offer multiple share classes of the same mutual fund. Some share classes of a fund charge higher internal expenses, whereas other share classes of a fund charge lower internal expenses. Institutional and advisory share classes typically have lower expense ratios and are less costly for a client to hold than Class A shares or other share classes that are eligible for purchase in an advisory account. Mutual funds that offer institutional share classes, advisory share classes, and other share classes with lower expense ratios are available to investors who meet specific eligibility requirements that are described in the mutual fund's prospectus or its statement of additional information. These eligibility requirements include, but may not be limited to, investments meeting certain minimum dollar amounts and accounts that the fund considers qualified fee-based programs. The lowest-cost mutual fund share class for a fund may not be offered through our clearing firm or made available by AFM for purchase within our managed accounts. Clients should never assume that they will be invested in the share class with the lowest possible expense ratio or cost.

AFM urges clients to discuss with their advisor whether lower-cost share classes are available in their program account. Clients should also ask their advisor why the funds or other investments that will be purchased or held in their managed account are appropriate for them in consideration of their expected holding period, investment objective, risk tolerance, time horizon, financial condition, amount invested, trading frequency, the amount of the advisory fee charged, whether the Client will pay transaction charges for fund purchases and sales, whether clients will pay higher internal fund expenses in lieu of transaction charges that could adversely affect long-term performance, and relevant tax considerations. Client's advisor may recommend, select, or continue to hold a fund share class that charges you higher internal expenses than other available share classes for the same fund.

The purchase or sale of transaction-fee ("TF") funds available for investment through AFM will result in the assessment of transaction charges to you, Client's advisor, or

Commonwealth. Although no-transaction-fee (“NTF”) funds do not assess transaction charges, most NTF funds have higher internal expenses than funds that do not participate in an NTF program. These higher internal fund expenses are assessed to investors who purchase or hold NTF funds. Depending upon the frequency of trading and hold periods, NTF funds may cost you more, or may cost Commonwealth or Client’s advisor less, than mutual funds that assess transaction

charges but have lower internal expenses. In addition, the higher internal expenses charged to clients who hold NTF funds will adversely affect the long-term performance of their accounts when compared to share classes of the same fund that assess lower internal expenses.

The existence of various fund share classes with lower internal expenses that AFM may not make available for purchase in its managed account programs present a conflict of interest between clients and AFM or its advisors. A conflict of interest exists because AFM and Client’s advisor have a greater incentive to make available, recommend, or make investment decisions regarding investments that provide additional compensation to AFM that cost clients more than other available share classes in the same fund that cost you less. For those advisory programs that assess transaction charges to clients or to AFM or the advisor, a conflict of interest exists because AFM and Client’s advisor have a financial incentive to recommend or select NTF funds that do not assess transaction charges but cost you more in internal expenses than funds that do assess transaction charges but cost you less in internal expenses.

#### **Other Forms of Compensation**

Clients should be aware that, when assets are invested in shares of mutual funds or variable insurance products, clients will pay investment advisory fees to AFM for their advisory services in connection with the investments. In addition to the payments received by AFM and the advisor, clients will also typically pay management fees and other fees charged by the investment company, alternative investment, or insurance product sponsor themselves. Clients may be able to invest directly in the investment company, alternative investment, or insurance product without incurring the investment advisory fees charged by AFM. If a client’s assets are invested in a fee-based annuity, the client will pay both the direct management fee to AFM and his or her advisor for the advisory services provided by AFM and the advisor in connection with that investment and, indirectly, the management and other fees charged by the underlying annuity investment options, as well as the charges assessed by the insurance company for the product. Of course, clients should also be aware of the tax implications of investing, as well as of the existence of deferred sales charges or redemption fees charged by some product sponsors for positions the client subsequently sells in AFM managed accounts.

AFM and Client’s advisor receive service fees and other compensation from investment product sponsors and distributors when they make recommendations or investment decisions for you. These fees and compensation include, but are not limited to, mutual fund and money market 12b-1 and subtransfer agent fees, mutual fund transaction fees, due diligence fees, marketing reimbursements or reallowances, or other transaction or service fees. This additional compensation presents a conflict of interest because AFM and Client’s advisor have a greater incentive to make available, recommend, or make investment decisions regarding investments for your account that provide additional compensation to Client’s advisor or AFM over other investments that do not provide additional compensation to Client’s advisor or AFM. Clients are urged to read and consider the contents of this Brochure carefully and to inquire about AFM’s

and the advisor's various sources of compensation and conflicts of interest in making a fair and reasonable assessment of the fees and charges clients will pay for the services rendered by AFM and their advisor. Further information about AFM's and Client's advisor's sources of compensation and conflicts of interest is provided in this Brochure. Information regarding fees and charges assessed to you by the investment products you purchase is available in the appropriate

**For District of Columbia Residents:** Section 1811.1 Subsection (j) of the D.C. Rules requires AFM to disclose that lower fees for comparable services may be available from other sources. Subsection (k) requires AFM to indicate that all material conflicts of interest that relate to the advisor or to any of its employees, and that would cause AFM not to render unbiased and objective advice, have been disclosed to the Client in writing via the disclosure provided in this Form ADV Part 2.

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

AFM does not charge any performance fees. Some investment advisers experience conflicts of interest in connection with the side-by-side management of accounts with different fee structures. However, these conflicts of interest are not applicable to AFM.

## **Types of Clients**

AFM provides financial planning and portfolio management services. These services are designed to be most beneficial to high income, high net worth individuals. The typical financial planning Client who benefits most from the comprehensive financial planning services the advisory personnel provide is an individual or family whose net worth is in excess of \$3,000,000.

A minimum of \$1,000,000 under management is recommended for portfolio management services. In certain unusual circumstances, fees and account minimums may be negotiable at the sole discretion of AFM.

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

AFM's principals and paraplanners work together to conduct fundamental analysis on all securities recommended for client accounts. This analysis varies depending on the security in question. *For stocks and bonds the analysis generally includes a review of:*

- The issuer's management;
- The amount and volatility of past profits or losses;
- The issuer's assets and liabilities, as well as any material changes from historical norms;
- Prospects for the issuer's industry, as well as the issuer's competitive position within that industry; and

- Any other factors considered relevant.

For mutual funds and the analysis generally includes a review of:

- The fund's management team;
- The fund's historical risk and return characteristics;
- The fund's exposure to sectors and individual issuers;
- The fund's fee structure; and
- Any other factors considered relevant.

AFM's Investment Committee is led by its principals. The Investment Committee generally meets monthly to discuss existing and prospective investments. Investments are evaluated independently, as well as in the context of clients' existing holdings and sector exposures.

AFM primarily invests for relatively long time horizons, often for several years or more. However, market developments could cause AFM to sell securities more quickly.

#### Risk of Loss – General:

All investing involves a risk of loss and the investment strategy offered by AFM could lose money over short or long periods. Performance could be negatively impacted by a number of different market risks including, but not limited to, portfolio management techniques used by AFM may not produce the desired results. This could cause accounts to decline in value. In addition, AFM may rely on information that turns out to be wrong. AFM selects investments based, in part, on information provided by issuers to regulators or made directly available to AFM by the issuers or other sources. AFM is not always able to confirm the completeness or accuracy of such information, and in some cases, complete and accurate information is not available. Incorrect or incomplete information increases risk and can result in losses.

#### Potential Risks of Investing in Securities Purchased in Mutual Funds, ETFs, and by Investment Managers:

**Stock Market Risk** - Stock market risk is the possibility that stock prices overall will decline over short or extended periods. Markets tend to move in cycles, with periods of rising prices and periods of falling prices.

Investing in small- and medium-sized companies involves greater risk than is customarily associated with more established companies. Stocks of such companies may be subject to more volatility in price than larger company securities.

**Foreign Securities Risk** - Foreign securities are subject to the same market risks as U.S. securities, such as general economic conditions and company and industry prospects. However, foreign securities involve the additional risk of loss due to political, economic, legal, regulatory, and operational uncertainties; differing accounting and financial reporting standards; limited

availability of information; currency conversion; and pricing factors affecting investment in the securities of foreign businesses or governments.

**Interest Rate Risk** - Bonds also experience market risk as a result of changes in interest rates. The general rule is that if interest rates rise, bond prices will fall. The reverse is also true: if interest rates fall, bond prices will generally rise. A bond with a longer maturity (or a bond fund with a longer average maturity) will typically fluctuate more in price than a shorter term bond. Because of their very short-term nature, money market instruments carry less interest rate risk.

**Credit Risk** - Bonds and bond mutual funds are also exposed to credit risk, which is the possibility that the issuer of a bond will default on its obligation to pay interest and/or principal. U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Government, have limited credit risk, while securities issued or guaranteed by U.S. Government agencies or government-sponsored enterprises that are not backed by the full faith and credit of the U.S. Government may be subject to varying degrees of credit risk. Corporate bonds rated BBB or above by Standard & Poor's are generally considered to carry moderate credit risk. Corporate bonds rated lower than BBB are considered to have significant credit risk. Of course, bonds with lower credit ratings generally pay a higher level of income to investors.

**Liquidity Risk** - Liquidity risk exists when a particular security is difficult to trade. A mutual fund's investment in illiquid securities may reduce the returns of the mutual fund because the mutual fund may not be able to sell the assets at the time desired for an acceptable price, or might not be able to sell the assets at all.

**Call Risk** - Many fixed income securities have a provision allowing the issuer to repay the debt early, otherwise known as a "call feature." Issuers often exercise this right when interest rates are low. Accordingly, holders of such callable securities may not benefit fully from the increase in value that other fixed income securities experience when rates decline. Furthermore, after a callable security is repaid early, a mutual fund would reinvest the proceeds of the payoff at current interest rates, which would likely be lower than those paid on the security that was called.

**Objective/Style Risk** - All of the mutual funds and investment managers are subject, in varying degrees, to objective/style risk, which is the possibility that returns from a specific type of security in which a mutual fund or manager invests will trail the returns of the overall market.

**U.S. Government Agency Securities Risk** - Securities issued by U.S. Government agencies or government-sponsored entities may not be guaranteed by the U.S. Treasury. If a government-sponsored entity is unable to meet its obligations, the securities of the entity will be adversely impacted.

#### **Risk of Investing Real Estate Investment Trusts (REITs):**

When profits, revenues, or the value of real estate property owned by REITs decline or fail to meet market expectations, REIT stock prices may decline as well. Therefore, a Fund is subject to the risks associated with investing in real estate (any of which could cause the value of a REIT's stock price to decline), which include, without limitation: possible declines in the value of real estate; adverse general and local economic conditions; possible lack of availability of, or high cost of, financing; overbuilding in a given market; changes in interest rates; and environmental

problems. In addition to risks related to investments in real estate generally, investing in REITs involves certain other risks related to their structure and focus including, without limitation, the following: dependency upon management skills; limited diversification; the risks of locating and managing financing for projects; possible default by borrowers; the costs and potential losses of self-liquidation of one or more holdings; and, in many cases, relatively small market capitalization, which may result in less market liquidity and greater price volatility. Investing in REITs also involves risks related to the heavy cash flow dependency of REITs and the possibility that a REIT may fail to maintain applicable exemptions under U.S. and foreign securities and tax laws.

#### Cybersecurity:

AFM and its service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyber-attacks and hacking by other computer users as well as unintentional damage or interruption that, in either case, can result in damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals. A cybersecurity breach could expose both AFM and its clients to substantial costs. While AFM has established policies and procedures as well as other controls that seek to prevent cybersecurity breaches, there are inherent limitations in such controls and policies and procedures, including the possibility that certain risks have not been identified. Furthermore, AFM cannot control the cybersecurity plans, strategies, systems, policies and procedures put in place by other service providers.

#### Business, Terrorism and Catastrophe Risks:

Clients will be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events such as a pandemic. These catastrophic risks of loss can be substantial and could have a material adverse effect on AFM's business as well as investments recommended by AFM.

#### Work-From-Home Arrangements:

In response to the spread of COVID-19, many businesses, including AFM, have encouraged or mandated that their personnel work from home, at least part time, in an effort to help slow the spread of the coronavirus pandemic. Notwithstanding such precautionary measures, AFM may still experience a significant increase in illness of their respective personnel. Work-from-home arrangements could also lead to employee fatigue, reduced collaboration and less optimal communication and supervision relative to traditional office structures which could severely impair our and/or such service providers' operational capabilities, potentially having a detrimental impact on our business and operations. Though we have implemented cybersecurity infrastructure, to the extent personnel, as a result of working remotely, rely more heavily on external sources for information and technology systems for their business-related communications and information sharing, that business will likely be more vulnerable to cybersecurity incidents and cyberattacks and could have more difficulty resuming normal operations in the event it is the target of such incident or attack.



## **Disciplinary Information**

AFM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

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

Advisory representatives of AFM are Registered Representatives of Commonwealth, member FINRA, SIPC. Portfolio management Clients must utilize the services of Commonwealth.

All prospective and existing Clients are advised of this affiliation. Financial planning and hourly consultation Clients are under no obligation to purchase or sell securities through these related persons; however, if they choose to implement a financial plan, commissions and/or additional investment advisory fees will be earned in addition to any fees paid for financial planning services. These commissions may be higher or lower at Commonwealth than at other broker-dealers, and investment advisory fees may be higher or lower at AFM than at other investment advisers. AFM advisory personnel have a conflict of interest in recommending that clients purchase securities and/or insurance related products through Commonwealth in that the higher their production with Commonwealth the greater potential for obtaining a higher pay-out on commissions earned. Further, advisory personnel are restricted to only offering those products and services that have been reviewed and approved for offering to the public through Commonwealth.

Advisory personnel of the firm are also licensed with various insurance companies as life, health, and accident insurance brokers with all appropriate state insurance regulators and will receive customary commissions may be earned if a financial plan is implemented using insurance sold by advisory personnel. In such instance, there is no advisory fee associated with these insurance products.

AFM's Chairman Emeritus, Alexandra Armstrong, owns and operates a book publishing company named "On Your Own Publishing Company LLC." The Company has published Ms. Armstrong's books, "On Your Own, A Widow's Guide to Emotional and Financial Well-Being, 6th Edition." and "Your Next Chapter: A Woman's Guide to A Successful Retirement". This activity does not conflict with Ms. Armstrong's role at AFM.

AFM has approved a number of advisory programs for its Clients. Each program may involve different custodial accounts, administrative and fee arrangements. As described in Item 4, AFM offers clients the investment advisory programs and/or services of Commonwealth Financial Network. Should clients be offered one or more of these programs, clients are advised that AFM, Client's advisor and Commonwealth will receive compensation pursuant to your participation in Commonwealth's programs. The advisory fees associated with these programs may be higher or lower than advisory fees for similar programs with other investment advisers. AFM, Client's advisor and Commonwealth have a conflict of interest in recommending that you participate in these programs given the compensation that will be received. AFM performs reasonable due diligence on Commonwealth on both an initial and ongoing basis. AFM attempts to mitigate this

conflict by providing Client with this disclosure document and noting that Client may be able to receive similar services for less cost from other providers.

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

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, AFM has adopted a Code of Ethics (“COE”) that governs a number of conflicts of interest AFM has when providing our advisory services to Client. AFM’s Code of Ethics is designed to ensure that AFM meets its fiduciary obligations to Client and to foster a culture of compliance throughout AFM.

This Code of Ethics is comprehensive and is designed to help AFM detect and prevent violations of securities laws and to help ensure that AFM always keep Client’s interests first. AFM distributes its Code of Ethics to each supervised person at AFM at the time of his or her initial affiliation with AFM; AFM makes sure it remains available to each supervised person for as long as he or she remains associated with AFM; and AFM ensures that updates to its Code of Ethics are communicated to each supervised person as changes are made.

AFM’s Code of Ethics sets forth certain standards of conduct and addresses conflicts of interest between AFM, and its employees, agents, advisors, and advisory clients.

AFM and its employees may also buy and sell the same securities that may be recommended to Clients. If the possibility of a conflict or interest occurs, the Client's interest will prevail. It is the policy of AFM that priority will always be given to the Client's orders over the orders of an employee of AFM. However, when executing bunched trades, AFM or its employees can contemporaneously participate in these types of trades.

To avoid any potential conflicts of interest involving personal trades, AFM has adopted a Code of Ethics (“COE”), which includes personal trading reporting and review policies and procedures and insider trading policies and procedures. AFM’s COE requires, among other things, that employees:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, Clients, prospective Clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets;
- Place the integrity of the investment profession, the interests of Clients, and the interests of Advisor above one’s own personal interests;
- Adhere to the fundamental standard that you should not take inappropriate advantage of your position;
- Avoid or disclose any actual or potential conflict of interest;
- Conduct all personal securities transactions in a manner consistent with this policy;
- Use reasonable care and exercise independent professional judgment when

- conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities;
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on yourself and the profession;
  - Promote the integrity of, and uphold the rules governing, capital markets;
  - Maintain and improve your professional competence and strive to maintain and improve the competence of other investment professionals.
  - Comply with applicable provisions of the federal securities laws.

AFM's COE also requires employees to: 1) pre-clear certain personal securities transactions, 2) report personal securities transactions on at least a quarterly basis, and 3) provide AFM with a detailed summary of certain holdings and securities accounts (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

A copy of AFM's code of ethics is available upon request.

## **Brokerage Practices**

When deemed appropriate, AFM will seek to aggregate transactions for multiple Clients such that all participating clients receive an average price. Non-discretionary Clients may forgo the ability to participate in such block trades if they are unavailable to consent to the transaction.

### Investment or Brokerage Discretion

When portfolio management Clients agree to utilize the brokerage services of Commonwealth or its representatives, including AFM advisory personnel, discretion may be used by a related person with regard to commissions paid. The commissions paid by AFM's Client for stock and bond transactions may be more or less than commissions charged by other brokers. However, in all such cases, AFM will cause the client to pay only fair and reasonable commissions. AFM personnel do not earn a profit on the commissions charged to portfolio management clients by Commonwealth or any other broker-dealer.

As noted above, the advisory personnel of AFM are also registered representatives of Commonwealth. Accordingly, AFM recommends Commonwealth and executes Client transactions through Commonwealth. AFM is not in a position to, and will not, seek to negotiate commission rates with Commonwealth because AFM advisory personnel are registered representatives of Commonwealth and receive certain economic benefits for Client transactions executed through Commonwealth.

Financial planning clients should be aware that brokerage commissions and commission equivalent rates may, from time to time, be individually negotiated with the firm's employees acting as the registered representatives of Commonwealth. Thus, Clients may be charged different commissions and commission equivalents than those charged other Clients for identical transactions.

Commissions paid by Client may be higher than those of a discount broker. However, it is believed that the executions and service rendered through Commonwealth will be competitive

with that of most stock brokerage firms.

Financial planning and hourly consultation Clients are free to execute securities transactions through any broker-dealer. However, if the Client elects to implement the investment advice using the services of the AFM, then the broker-dealer used must be Commonwealth.

Commonwealth offers our firm and our firm's advisory representatives one or more forms of financial benefits based on our advisory representatives' total AUM held at Commonwealth or financial assistance for advisory representatives transitioning from another firm to Commonwealth. The types of financial benefits that our advisory representatives may receive from Commonwealth include, but are not limited to, forgivable or unforgivable loans, enhanced payouts, and discounts or waivers on transaction, platform, and account fees; technology fees; research package fees; financial planning software fees; administrative fees; brokerage account fees; account transfer fees; and the cost of attending conferences and events. The enhanced payouts, discounts, and other forms of financial benefits that advisory representatives may receive from Commonwealth are a conflict of interest, and provide a financial incentive for advisory representatives to select Commonwealth as broker/dealer for your accounts over other broker/dealers from which they may not receive similar financial benefits. We attempt to mitigate this conflict of interest by disclosing the conflict in this brochure and engaging in a regular review of our relationship with Commonwealth to ensure the relationship continues to be appropriate in all respects for our firm's clients.

#### Best Execution

Advisor always attempts to achieve best execution for its Clients. The best net price is an important factor in brokerage decisions, but other judgmental factors may also enter into this decision. These include: AFM's knowledge of negotiated commission rates currently available, as well as other transaction costs; the nature of the security being traded; the size of the transaction; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality; execution, clearance, and settlement capabilities and costs; and other information available at the time of execution.

Research for AFM is provided in part from Commonwealth and in part from the AFM's choice of other sources, including, but not limited to: Argus Research, Morningstar, Standard & Poor's, and Value Line. Information gained from these sources is used to advise all the firm's accounts, including those not traded through Commonwealth, despite the fact that AFM is able to pay reduced fees for these services because of its relationship with Commonwealth.

#### **Core Account Sweep Programs ("CASPs")**

Our relationship with Commonwealth provides us access to two core account sweep programs ("Programs"). These Programs are the core account investment vehicles used to hold your cash balances while awaiting reinvestment for eligible accounts. The two Programs, the Bank Deposit Sweep Program ("BDSP") and the Advisory Retirement Sweep Retirement ("ARSP"), are available for different types of client accounts. The BDSP is the core account investment vehicle for eligible brokerage accounts. The ARSP is the core account investment vehicle for eligible

advisory individual retirement accounts. The cash balance in your eligible accounts will be deposited automatically or “swept” into interest-bearing FDIC-insurance eligible Program deposit accounts (“Deposit Accounts”) at one or more FDIC-insured financial institutions (each a “Program Bank” or collectively, “Program Banks”).

**BDSP.** The Program creates financial benefits for Commonwealth and NFS. Commonwealth will receive a fee from each Program Bank in connection with the Program (equal to a percentage of all participants’ average daily deposits at the Program Banks). Amounts will vary but in no event will they be more than 2.50% on an annualized basis as applied across all Deposit Accounts. At Commonwealth’s discretion, they may reduce or raise their fee and may vary the amount of the reductions between clients. The fee will typically vary from Program Bank to Program Bank. The amount of fee received will affect the interest rate paid to customers by the Program Bank. Commonwealth will also pay a fee to NFS. Commonwealth reserves the right to modify the fees they receive from Program Banks. From time to time, if the fee increases, you will receive notification of any such change. In addition to Commonwealth’s fee, other service providers with respect to the Program will receive fees from each Program Bank (collectively, with the fees paid to us and/or NFS, “Program Fees”). In addition to the Program Fees referenced above, your account will be charged additional fees that apply to the securities accounts maintained by you. The Program Banks use Program Deposits to fund current and new lending and for investment activities. The Program Banks earn net income from the difference between the interest they pay on Program Deposits and the fees paid to Commonwealth and the income they earn on loans, investments, and other assets. As noted above, the Program Banks may pay rates of interest on Program Deposits that are lower than prevailing market interest rates that have been paid on accounts otherwise opened directly with the Program Bank. Program Banks do not have a duty to provide the highest rates available and may instead seek to pay a low rate. Lower rates will be more financially beneficial to a Program Bank. There is no necessary linkage between bank rates of interest and the highest rates available in the market, including any money market mutual fund rates. By comparison, a money market mutual fund generally seeks to achieve the highest rate of return (less fees and expenses) consistent with the money market mutual fund’s investment objective, which can be found in the fund’s prospectus. The revenue generated by Commonwealth may be greater than revenues generated by sweep options at other brokerage firms and may be greater than other core account investment vehicles currently available to you or possible core account investment vehicles that Commonwealth has used in the past or may consider using in the future. In addition, Commonwealth will make compensation payments to NFS, their clearing agent, for recordkeeping and other services with respect to amounts invested in the Program, which will be no more than 70 basis points (0.70%). NFS may receive more revenue with respect to amounts in the Program than with respect to other sweep products. Because of the fees and benefits described above, the Program may be more profitable to Commonwealth than other available sweep options, if any. Commonwealth and/or NFS will benefit from the possession and temporary investment of cash balances prior to the deposit of such balances in the Program.

**ARSP.** The Program provides financial benefits for Commonwealth and NFS. For their services in connection with maintaining and administering the Program, Commonwealth and NFS will receive fees, including a per-account fee if certain independent market triggers are satisfied. It is expected that these fees will be covered by income generated by the cash balances in the

Program, with the remaining economics flowing to you. Both your and Commonwealth's fees are based on a fixed formula and vary based on factors such as the Federal Funds Effective Rate ("FFER"), total AUM, and number of accounts in the program. Commonwealth's fee will be the sum of two fees: (i) a variable rate that is a subset of the total rate applied to a portion of the cash balances in the Program ("Variable Fee"), and (ii) a per-account fee ("Account Fee").

The account interest received will be the net of the gross fee paid by the Program Banks less the fees paid to the administering party, NFS, and Commonwealth. When the FFER is 1.00%, Commonwealth will receive 95 basis points (0.95%). As the FFER increases above 1.00%, most of the incremental economics will generally flow to you, as the program shares 70.00% of the change in the underlying market interest rates as measured by the FFER with you, with the remaining 30.00% flowing to Commonwealth, establishing Commonwealth's Variable Fee. When the FFER declines below 1.00%, Commonwealth will absorb 100.00% of the variance in the fee, and you will continue to be paid the net remaining interest. Commonwealth's Account Fee will be \$1.00 per account each month and applied when the average monthly FFER from the prior month exceeds 1.10%. Both of Commonwealth's fees are expected to be received directly from the proceeds paid by the participating Program Banks and not directly from your account, although if the proceeds paid from the Program Banks are insufficient, we may charge your account directly to cover the fees. While your yield will be available on your account statement, these fees will not generally be seen on your statement unless there is a need to charge your account directly. Financial advisors do not receive any of the fees received by Commonwealth or NFS. Other than these stated fees, there will be no charges, fees, or commissions imposed on your account with respect to the Program.

The total ARSP economics are based on and, therefore, vary due to three primary factors: (i) the amount of cash balances in the Program, (ii) the number of accounts in the Program, and (iii) market interest rates, which are typically represented by the FFER. Commonwealth's compensation under the Program is not affected by the actual amounts held in the Deposit Accounts but will vary with the FFER. The Variable Fee rate will be applied to a fixed representation of cash balances, defined as 4.00% of total assets within accounts related to the ARSP Program under administration by Commonwealth. Amounts will vary, but in no event will Commonwealth's compensation be more than 250 basis points (2.50%) on an annualized basis across all Deposit Accounts.

Commonwealth can change the applicable fee schedule upon thirty (30) days' advance notice to you. The current FFER can be found at [www.federalreserve.gov/monetarypolicy/openmarket.htm](http://www.federalreserve.gov/monetarypolicy/openmarket.htm).

Applicable law governing retirement accounts, such as qualified plans under ERISA and individual retirement accounts under the Internal Revenue Code, necessitates that interest rates paid by the Program Banks for deposits in the Deposit Accounts, our fee, and other service fees were negotiated at arm's length, are believed to be fair and reasonable, and are designed to approximate the value for the services involved and in the context of customers' Eligible Assets.

Although it is anticipated that our fees under the Program will be covered by amounts paid by the Program Banks, and you direct NFS to collect such fees from the amounts collected from

Program Banks, we reserve the right to withdraw (or direct NFS to withdraw) the monthly account fee, or a portion thereof, from your account in the unlikely event or to the extent that the amount received from the Program Banks for the period is less than our fee for the same period.

The revenue generated by us will vary compared to revenues generated by sweep options at other brokerage firms or possible core account investment vehicles that we have used in the past or may consider using in the future. In addition, we will make compensation payments to NFS, our clearing agent, for recordkeeping services with respect to amounts invested in the Program, which will be no more than 70 basis points (0.70%). NFS or the program administrator may, from time to time, temporarily reduce its fees during certain periods, such as when necessary to help ensure that the interest rates paid by the Program Banks during the period equal the applicable disclosed customer rate for the period. Under such circumstances, NFS or the program administrator may recover any such reduced fees, subject to its targeted compensation rate, from future periods. NFS may receive more revenue with respect to amounts in the Program than with respect to other sweep products.

Specific program features and account eligibility of the CASP are further explained in the Disclosure Document provided to all Commonwealth brokerage clients. A current version of Commonwealth's CASP Disclosure Document is available at [www.commonwealth.com/clients/media/BankSweepDisclosureDocument.pdf](http://www.commonwealth.com/clients/media/BankSweepDisclosureDocument.pdf).

### **Money Market Accounts**

For client assets awaiting reinvestment in money market funds rather than the CASP, the Fidelity Government Money Market Capital Reserves is available to clients in accounts held at NFS. This fund pays Commonwealth up to 0.45% (45 basis points). Clients may instruct their advisor to manually select a Money Class money fund rather than the default Reserve Class money fund at any time.

### **NTF Program**

Additionally, NFS offers an NTF program composed of no-load mutual funds which AFM does not participate in. Participating mutual fund sponsors pay a fee to NFS to participate in this program, and a portion of this fee is shared with Commonwealth. None of these additional payments is paid to AFM or any advisors who sell these funds. NTF mutual funds may be purchased within an investment advisory account at no charge to the client. Clients, however, should be aware that funds available through the NTF program often contain higher internal expenses than mutual funds that do not participate in the NTF program. Commonwealth's receipt of a portion of the fees associated with the NTF program creates a conflict of interest because Commonwealth has an incentive to make available those products that provide such compensation to NFS and Commonwealth over those mutual fund sponsors that do not make such payments to NFS and Commonwealth. While AFM does not receive additional compensation from NFS or Commonwealth based on the particular investment (potentially including one or more NTF funds), AFM's menu of investment options is limited to investments made available by Commonwealth. Thus, clients may be impacted by the conflict of interest previously described in this paragraph. As stated previously, AFM regularly evaluates our relationship with Commonwealth to ensure it remains appropriate for the firm and our clients.

The investment advisory services provided by AFM may cost the client more or less than purchasing similar services separately. Clients should consider whether the appointment of Commonwealth as the sole broker/dealer may result in certain costs or disadvantages to the client as a result of possibly less favorable executions. Factors to consider include the type and size of the account and the client's historical and expected account size or number of trades.

## **Review of Accounts**

Accounts are formally reviewed quarterly, semi-annually or annually as specified by contract. A special review of a Client's account may be triggered by changes in tax law, economic climate, or market conditions. A review may be initiated by a Client inquiry due to personal changes in his/her financial affairs. Each account is reviewed on a regular basis by the person supervising the account. There are five reviewers, each of whom is responsible for his/her own Client's accounts.

Reports to clients are individualized, therefore the nature and frequency are determined by client need and the services offered. However, most of the portfolio management clients of AFM will receive quarterly reports summarizing the investment performance of their account(s), in addition to annual reports containing tax-related information. Clients will also receive monthly, quarterly, and/or annual statements from investment companies, product sponsors, broker-dealers, and custodians, as applicable. Financial planning clients receive no reports other than the financial plan and any other mutually agreed upon reports.

## **Client Referrals and Other Compensation**

AFM from time to time enters into written solicitor agreements with employees of AFM and pays a portion of the fees to the employee based upon fees received by AFM from the referred client relationship. AFM does not charge clients referred by an employee a fee higher or lower than it charges to other similarly situated clients who were not referred by a solicitor.

Other than the previously described products and services that AFM receives from CFN, AFM does not receive any other economic benefits from non-clients in connection with the provision of investment advice to clients.

As noted above, AFM may recommend that clients purchase investments including but not limited to various mutual funds, REITs and other equities. These companies can pay for advisors of AFM to attend conferences or meeting which they sponsor. The purpose of attending these events are research related, although there may be an entertainment component to these events. AFM maintains internal procedures, such as oversight by its investment committee, to ensure that this conflict does not impact the recommendations provided to clients.

## **Custody**

All portfolio managed clients' accounts are held in custody by CFN. AFM can access many clients' accounts though its ability to debit advisory fees. For this reason, AFM is considered to have custody of client assets. Account custodians send statements directly to the account owners on at



least a quarterly basis. Clients should carefully review these statements, and should compare these statements to any account information provided by AFM.

## **Investment Discretion**

AFM renders investment advice to the vast majority of its managed account clients on a discretionary basis, pursuant to written authorization granted by the client to AFM and Client's advisor. This authorization grants to AFM and Client's advisor the discretion to buy, sell, exchange, convert, or otherwise trade in securities and/or insurance products, and to execute orders for such securities and/or insurance products with or through any distributor, issuer, or broker/dealer as AFM or Client's advisor may select. Client's advisor may, without obtaining your consent, determine which products to purchase or sell for your managed account, as well as when to purchase or sell such products, and the prices to be paid. Neither AFM nor Client's advisor, however, is granted authority to take possession of your assets or direct the delivery of your assets to anywhere other than your address of record. You may terminate this discretionary authorization at any time by providing written notice to us.

Clients may impose reasonable restrictions on their managed account, including, but not limited to, the type, nature, or specific names of securities to be bought, sold, or held in their managed account, as well as the type, nature, or specific names of securities that may not be bought, sold, or held in their managed account. Clients generally grant AFM and their advisor discretionary trading authority over their managed accounts. If not specifically requested otherwise by the client, discretionary authority will be established at the time the account is first opened. Our managed account program does, however, permit the client to choose to have AFM and the advisor provide investment advice and recommendations to the client on a nondiscretionary basis. Clients who wish to receive advice with respect to their managed account on a nondiscretionary basis would need to execute an amendment to modify the client agreement to be nondiscretionary. Clients may request a copy of the nondiscretionary amendment form from their advisor if they desire to exercise this option.

In performing any of its services, AFM shall not be required to verify any information received from Client or from Client's other professionals and is expressly authorized to rely thereon.

If requested by Client, AFM may recommend the services of other professionals for implementation purposes. Client is under no obligation to engage the services of any such recommended professional. Client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from AFM.

Client is advised that it remains Client's responsibility to promptly notify AFM if there is ever any change in Client's financial situation or investment objectives for the purpose of reviewing/evaluating/ revising AFM's previous recommendations and/or services.

AFM is not obligated to recommend for any account any security that AFM or its related persons may acquire for its or their own accounts or for the account of any Client, if in the absolute discretion of AFM, it is not practical or desirable to recommend a position in such security.

Because AFM engages in an investment advisory business and manages more than one account, there may be conflicts of interest over the AFM's time devoted to managing any one account and the allocation of investment opportunities among all accounts managed by AFM. AFM will attempt to resolve all such conflicts in a manner that is generally fair to all of its Clients. AFM may give advice and take action with respect to any of its Clients that may differ from advice given or the timing or nature of action taken with respect to any particular Client so long as it is AFM's policy, to the extent practicable, to allocate investment opportunities over a period of time on a fair and equitable basis relative to other Clients.

Any trade errors will be rectified to make the Client whole as if the error did not occur.

## **Voting Client Securities**

AFM will not exercise proxy voting authority over Client securities. The obligation to vote Client proxies shall at all times rest with Clients. Clients shall in no way be precluded from contacting AFM for advice or information about a particular proxy vote. However, AFM shall not be deemed to have proxy voting authority solely as a result of providing such advice to Clients.

With regard to all matters for which shareholder action is required or solicited with respect to securities beneficially held by a Client's account, such as (i) all matters relating to class actions, including without limitation, matters relating to opting in or opting out of a class and approval of class settlements and (ii) bankruptcies or reorganizations, AFM affirmatively disclaims responsibility for voting (by proxies or otherwise) on such matters and will not take any action with regard to such matters.

Upon Client's authorized instructions, AFM may act on tender offers for securities held in client accounts.

## **Financial Information**

AFM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.