

## **Appendix I**

### **Thoroughbred Financial Services, LLC Wrap Fee Program Brochure**

This brochure provides information about the qualifications and business practices of Thoroughbred Financial Services, LLC. If you have any questions about the contents of this brochure, please contact us at (615) 371-0001 or (888)833-0233. The information in this wrap fee program brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authority. Additional information about Thoroughbred Financial Services, LLC, also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 2 Material Changes**

none

Date of Last Annual Amendment: the last annual amendment that included material changes was made on January 16, 2019. The last other than annual amendment, that included material changes, was on May 20, 2020.

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

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#### **Item 4 Services, Fees and Compensation**

##### **A. Services**

Thoroughbred Financial Services, LLC (TFS), sponsors several wrap fee programs. All of the TFS sponsored wrap programs offer management of equity portfolios. Under all of the TFS wrap programs, unrelated outside money managers provide discretionary advisory services for the client's portfolio.

TFS currently offers two wrap programs with two different managers. They are:

- The Southern Sun Asset Management, Inc., Wrap Fee Program
- The WCM Investment Management Wrap Fee Program

TFS monitors the performance of the portfolio manager and makes regular recommendations regarding the appropriateness of the client's selection of the portfolio manager. TFS bases its recommendations on the market conditions, the client's investment objectives and the performance of the portfolio manager. TFS sponsored wrap agreements provide both asset management services and securities transaction execution services for a single, asset-based fee. TFS provides execution through its correspondent clearing agent, National Financial Services, LLC (NFS). The portfolio manager supplies written account reports to each client at least quarterly.

##### **B. Fees and Compensation**

The table below summarizes the fees charged by TFS for the TFS sponsored wrap programs. Generally, TFS bases the fee on the size of the account. However, the client may negotiate the fee.

<b>Program</b>	<b>Fee on first \$250,000</b>	<b>Fee on next \$750,000</b>	<b>Fee on next \$4,000,000</b>	<b>Fee on next \$20,000,000</b>	<b>Portion or range of fees paid to portfolio manager</b>
Southern Sun*	2.00%	2.00%	1.50%	1.00%	1.00% on first \$1 million .85% on next \$4 million .75% on next \$20 million
WCM	2.00%	2.00%	1.50%	1.00%	1.00% on first million .85% on next \$4 million .80% on next \$20 million

**\* \$10,000 minimum annual fee**

As mentioned, TFS pays a portion of the fee to the portfolio manager for its services in providing advice regarding the purchase or sale of specific securities under the program. TFS retains the balance of the fee as compensation for providing oversight services (see below). TFS also bears the following direct costs:

- Execution costs for transactions processed in the account
- Commissions
- Reporting
- Client services

These costs to TFS will vary depending upon the size and complexity of each account.

TFS typically bills the client's account quarterly in advance. The client authorizes the custodian to deduct the annual management fee from the client's account. The client receives an invoice showing the amount of the fee, the value of the assets and how TFS calculated the fee.

**Additional Compensation**

Market makers selling securities to the account may realize bid or ask spreads. Also, the programs may purchase mutual funds. The mutual funds purchased will have internal expense charges that are expenses charged to the funds. Also, TFS would be the broker dealer of record for the mutual funds and would receive any commissions, 12b-1 fees or trails that might be paid by the funds. TFS will refund to the advisory account any such 12b-1 fee or commission received by TFS from any mutual fund share held by the client account. Further, the account may pay state, federal, or international taxes. And, the program may charge the account for regulatory or administrative fees, including postage and handling. Finally, if a brokerage account holds American Depositary Receipts (ADRs), the custodian might charge the account with "pass through" ADR fees, or the fees could be withheld from dividend amounts paid by the issuer, all as described in the ADR prospectuses. All such costs are in addition to the wrap fee charged.

**Wrap Program Relative Costs**

A wrap program may cost the client more or less than purchasing the services separately. Various factors influence the cost of the program compared to the cost of purchasing the services provided separately. These factors include the following:

- The brokerage costs of trading in the account
- The turnover in the account
- The size of the account
- The size of the account transactions
- The type of securities purchased and sold in the account
- Whether or not the client adds funds to or withdraws funds from the account

## Compensation

As stated above, TFS receives a portion of the wrap fee charged to the client as compensation for its services and reimbursement for its direct costs. TFS might receive more or less than the amount of this compensation if the client participated in another program or paid separately for the investment advice, brokerage, and other services. Advisory representatives recommending the wrap programs to clients correspondingly receive part of the management fee compensation from TFS. The individual advisory representative may receive more from TFS than what the person might receive if the client participated in other programs of the sponsor or paid separately for services. Therefore, the advisory representative may have a financial incentive to recommend the wrap fee program over other programs or services, which is a conflict of interest. TFS addresses this conflict by disclosing it.

## **Item 5 Account Requirements and Types of Clients**

### Types of Clients

TFS services a wide range of clients, including the following:

- Individuals
- Pension and profit-sharing plans and IRAs
- Trusts, estates and charitable organizations
- Corporations and other business entities

### Account Requirements

TFS does not impose on the client minimum account size or minimum fee requirements for participation in the wrap programs. The portfolio managers may impose a minimum account size. Southern Sun Asset Management, Inc., one of the portfolio managers, does impose a \$10,000 minimum annual fee (equivalent to a \$500,000 account size) on its wrap program account.

## **Item 6 Portfolio Manager Selection and Evaluation**

### Manager Selection

Generally, TFS selects portfolio managers for the wrap programs based upon the following criteria:

- They have a distinct investment methodology and are experienced in applying that methodology
- They have evidenced discipline in applying that methodology

- The principal responsible for investment decisions has a management record in the equity management area
- They have the administrative capacity to service the client's account from both a marketing/communication standpoint and from an operational standpoint

The selection of a wrap fee program by a client is the result of either the client specifically requesting the program or the recommendation of the advisory representative. In the case of the advisory representative, the representative typically, but not always, makes the recommendation after performing an asset allocation study or portfolio analysis of the client's particular situation.

#### Replacement of the Portfolio Manager

While TFS does not anticipate that it will change or terminate the relationship with the portfolio manager, TFS evaluates manager relationships closely on an ongoing basis. TFS might consider terminating the contract of a manager for the following:

- Substantial deviation from stated style or philosophy of stock selection
- Inability or unwillingness to service the client's account on a timely basis
- Change in key portfolio manager or management
- Sudden increase in assets under management which leads to decreased returns or diminished service
- Below average long-term portfolio returns when compared to managers with similar styles
- Change in the disciplinary history of the managing firm or its management

#### Standards Used to Calculate Performance

The portfolio manager directly provides performance information relative to each client's account. TFS reviews the performance and portfolio reports. The portfolio manager calculates performance using the following standards:

- Rate of Return: Percent change in the market value of the account over the specified time frame, including realized and unrealized capital gains and losses, dividends and income.
- Annualized Rate of Return: Rate of return of the account as though the return occurred equally over twelve-month periods. When the specified time frame is for less than a year, the rate of return is projected as though the same performance continues to occur for a twelve-month period.
- Net of fees: After subtraction of management fees.

TFS believes that these performance figures as well as past performance figures represent normal industry standards.

### Verification of Performance Information

Typically, the portfolio managers execute all trades through TFS and its clearing broker-dealer, NFS. TFS management personnel and the advisory representative verify these transactions in the normal course of business. TFS also reviews the performance and portfolio reports. In all other regards, neither TFS nor a third party reviews portfolio manager performance information for accuracy. The portfolio managers might not calculate performance information on a uniform and consistent basis.

### Item 7 Client Information Provided to Portfolio Managers

When a wrap program account is opened, the portfolio manager acquires a description of each client through client interviews, meetings or other forms of communication. TFS communicates to the manager any material, updated information it receives from the client after the account is opened. Thus, if TFS were to determine that a client's financial situation or objectives had changed materially, the firm would provide notification of such changes to the portfolio manager.

### Item 8 Client Contact with Portfolio Managers

Clients generally contact the portfolio manager through their advisory representative. However, the wrap programs place no restrictions on clients' ability to contact or consult with their portfolio manager.

### Item 9 Additional Information

#### A. Disciplinary Information:

On December 21<sup>st</sup>, 2018 TFS entered into a settlement ("Order") with the Securities and Exchange Commission (SEC). Without admitting or denying the findings, TFS consented to the Order which included the following summary: "These proceedings arose from breaches of fiduciary duty and inadequate disclosures by TFS, a registered investment adviser and broker-dealer, Thomas J. Parker and L. Randall Hartley in connection with their mutual fund share class selection practices, as well as misleading statements and omissions they made upon revising TFS's practices after a Commission examination. Between at least October 2012 and August 2016 (the "Relevant Period"), Respondents invested, recommended or held certain advisory client assets in mutual fund share classes that paid fees pursuant to Rule 12b-1 under the Investment Company Act of 1940 ("12b-1 fees") instead of available, lower-cost share classes of the same funds without 12b-1 fees. TFS (as a broker-dealer) and Parker and Hartley (as TFS registered representatives) received the 12b-1 fees based on these investments. These practices created a conflict of interest, were contrary to Respondents' disclosures regarding TFS's Code of Ethics, and were not disclosed adequately to firm clients in TFS's Forms ADV or



otherwise. Respondents also breached their duty to seek best execution for their clients by investing them in mutual fund share classes with 12b-1 fees rather than lower-cost share classes of the same funds. Moreover, by choosing higher-cost share classes for firm clients, TFS, in some client transactions, avoided paying certain mutual fund transaction clearance, or “ticket,” charges that TFS otherwise would have paid. During the Relevant Period, TFS failed to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder in connection with its mutual fund share class selection practices. Finally, in the process of converting clients to lower-cost share classes after receiving a Commission examination deficiency letter in April 2016, various firm Investment Advisor Representatives (“IARs”), including Parker and Hartley, made misleading statements and omissions to clients about the prior costs and availability of lower-cost share classes, while at the same time asking many of the same clients to agree to higher account management fees, which nearly all clients accepted. By virtue of this conduct, TFS, Parker, and Hartley willfully violated Section 206(2) of the Advisers Act, and TFS also willfully violated Sections 206(4) and 207 of the Advisers Act and Rule 206(4)-7 thereunder.” A violation of Section 206(2) may rest on a finding of simple negligence. The order requires the respondents to pay to affected clients disgorgement, prejudgment interest and civil penalties totaling \$1,679,241.88 as follows: TFS was ordered to pay disgorgement of \$740,250.20, prejudgment interest of \$108,368.10, and a civil penalty of \$260,000. Parker was ordered to pay disgorgement of \$217,883.16, prejudgment interest of \$31,750.80, and a civil penalty of \$75,000. Hartley was ordered to pay disgorgement of \$158,032.42, prejudgment interest of \$22,957.20, and a civil penalty of \$65,000.

B. Other Financial Industry Activities and Affiliations

1. In addition to being a registered investment adviser, TFS is registered as a broker-dealer. Further, the President, Executive Vice-President (Securities) and Vice-President (Operations) are all registered representatives of TFS. Please note, however, that being registered does not imply a certain level of skill or training.
2. Related Persons
  - a. Employee Benefit Services, Inc. (EBS), is a company that supplies employee benefit consulting and administrative services. Many EBS clients and/or their businesses are also TFS clients. Thomas J. Parker, the President of TFS, owns EBS indirectly. TFS will often recommend the services of EBS to TFS clients and/or their businesses. Because Mr. Parker owns EBS, he may profit from the clients’ use of EBS. TFS recommends the services of EBS because of:
    - the quality of the services provided by EBS
    - the competitive pricing of EBS’s services, and
    - the efficiencies achieved when the TFS representative servicing the account of the client assists the client in providing plan data to EBS.EBS discloses the relationship of TFS and EBS to the client and the client is always free to make arrangements with a different company for pension consulting and

plan administrative services. EBS receives compensation for services provided pursuant to a servicing agreement between the client and EBS.

- b. Diversified Partners, Inc. (DPI), is a registered investment adviser. Thomas Jenkins Parker owns 100% of DPI. DPI serves as the general partner of several investment limited partnerships. TFS recommends that some of its clients purchase limited partnership interests in the DPI investment partnerships. DPI pays TFS a continuing sales commission for investments in the DPI partnerships purchased by TFS clients. The DPI partnerships allocate the funds raised among several money managers selected by DPI. The money managers then invest the funds in a portfolio of securities. TFS does not serve as an investment advisor for the DPI partnerships. Most, if not all, of the DPI partnership money managers execute their portfolio trades through TFS and its clearing broker, NFS. As a result, TFS receives sales commissions for partnership trades, which are in addition to commissions for sale of the limited partnership interests. TFS does not receive any investment advisory fees in connection with its clients' investments in the DPI partnerships.

3. Other (Unrelated) Investment Advisers

TFS may recommend an unrelated advisor (money manager) to its clients under a wrap fee arrangement or a nonwrap program arrangement. (Under the wrap-fee arrangement, the client will pay TFS a wrap fee to monitor the performance of the money manager, compensate the money manager, and cover the cost of executing portfolio transactions.) Some of the money managers may execute portfolio transactions under the wrap or other arrangements through TFS and its clearing broker, NFS. If the money manager executes wrap or other transactions through TFS, TFS may retain more of the fees paid by the client than would be the case if the money manager executed the trades through another broker. TFS has a financial incentive to recommend to clients advisers that will execute transactions for the client through TFS. This financial incentive creates a conflict of interest when TFS determines its recommendations of advisers that meet the needs of the client. TFS discloses in its wrap fee and other agreements that, depending upon the circumstances, it may have a financial incentive to recommend a wrap or other portfolio management arrangement to a client over some other arrangement.

In addition, there are situations (both wrap and nonwrap) where TFS hires the outside money manager as a subadvisor. TFS pays the sub-advisor out of the advisory fee paid to TFS. In these circumstances, TFS has a financial incentive to recommend a money manager that charges TFS a lower fee than another manager would. This creates a conflict of interest when TFS recommends an unrelated adviser to meet a client's needs. TFS discloses the nature of the advisor – subadvisor relationship and the advisory compensation structure in its wrap and advisory agreements.

C. Code of Ethics

1. Code of Ethics: Rule 204 A-1 under the Investment Advisers Act of 1940 requires all investment advisers registered with the Securities and Exchange Commission to adopt a code of ethics. TFS has adopted such a code of ethics. The TFS Code of Ethics reflects fiduciary principles that govern the conduct of TFS and its employees. TFS implemented the Code to protect the interests of TFS clients. The Code consists of an outline of policies in several important areas:

- Standards of conduct and compliance with laws, rules and regulations
- Protection of material non-public information
- Personal securities trading

In general, no TFS employee may prefer his or her own interest to the interests of TFS clients. TFS employees may not trade for a personal or family account if the employee bases the trading decision upon information the employee obtained by reason of his or her employment, unless the information is also available to the trading public. All employees must identify their personal investment accounts to the TFS compliance officer. TFS will provide a copy of its Code of Ethics to any client or prospective client upon request.

D. Participation or Interest in Client Transactions

TFS does not participate in or have interest in client transactions as a principal. TFS does not act as a broker or agent for any person other than a client in transactions in which client securities are bought from or sold to a brokerage customer.

E. Personal Trading

TFS advisory representatives occasionally invest in the same securities (generally mutual funds) as those recommended to a client or purchased for a client. The TFS Code of Ethics guides the representative in those transactions. Please see 9C, above.

F. Review of Accounts

TFS conducts a review of a client's entire financial program with TFS at least annually. In addition, TFS conducts reviews as necessary based on changes in the client's personal objectives or changes in economic conditions or the tax laws. In cases where TFS is monitoring the performance of a manager or subadvisor selected by the client, TFS conducts a review at least quarterly.

In addition to other relevant information, TFS will review information supplied by various industry periodicals and a variety of money managers. TFS will evaluate the manager's or subadvisor's performance in comparison to market indexes, mutual funds and other money managers.

The advisory representative assigned to the account directs the review. The representative may work with one or more supervisors and various members of the technical staff. TFS provides the reports in written form. In addition, the portfolio

manager supplies account reports to each client at least quarterly. The manager reports detail the performance of the account and reflect any fees charged.

G. Client Referrals and Other Compensation

See Discussion at 9B, above.

H. Financial Information

There is no financial information about TFS that is reasonably likely to impair its ability to meet contractual commitments to clients.