



## **FIRM BROCHURE**

This brochure provides information about the qualifications and business practices of Horizon Financial Services, LLC. If you have any questions about the contents of this brochure, please contact us at (336) 659-7060 or by email to [john.brais@horizonfs.com](mailto:john.brais@horizonfs.com). The information contained 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 Horizon Financial Services, LLC, is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Horizon Financial Services, LLC's CRD number is: 158798.

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*Registration does not imply a certain level of skill or training.*

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## **Item 2: Material Changes**

Since the last required annual update to this firm brochure, which was on February 9, 2023, the following changes have occurred:

- Item 4 has been updated to disclose the most recent calculation for assets under management.
- Item 10 has been updated to disclose an additional outside business for John Brais.
- Item 12 has been updated to remove reference to TD Ameritrade as custodian.
- John Brais is now the Chief Compliance Officer.
- Item 5 has been updated to disclose our changes in fees for variable annuity management.

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## Item 4: Advisory Business

### A. Description of the Advisory Firm

Horizon Financial Services, LLC, is a limited liability company organized in the state of North Carolina. This firm has been in business since July 2011, and the principal owner is John Joseph Brais.

### B. Types of Advisory Services

Horizon Financial Services, LLC, (hereinafter “HFS”) offers the following services to advisory clients:

#### **Asset Management**

HFS offers discretionary asset management services to advisory clients. HFS will offer clients ongoing portfolio management services after determining individual investment goals, time horizons, objectives, and risk tolerance. Investment strategies, investment selection, asset allocation, portfolio monitoring, and each client’s overall investment program will be based on the above factors. Clients will authorize HFS with discretionary authority to execute selected investment program transactions as stated within the Investment Advisory Contract.

HFS will hire subadvisors to manage the assets in client accounts. HFS has full discretion to hire and fire subadvisors as they deem suitable. Subadvisors will maintain the models or investment strategies agreed upon between subadvisors and HFS. Subadvisors will execute trades on behalf of HFS in client accounts. HFS will be responsible for the overall direct relationship with clients. HFS retains the authority to terminate subadvisor relationships at HFS’s discretion.

#### *Variable Annuity Solution*

HFS offers a series of portfolios on fee-based variable annuity platforms. Versions of the portfolios are offered and constructed using the subaccounts made available by the variable annuity platforms. This allows for larger tax-deferrals and it allows clients to consolidate variable annuity gains under a single contract. With access to the various subaccounts through the variable annuity platforms, all portfolio models are appropriately managed and diversified according to the stated investment objective.

#### *Mutual Fund Direct Solution*

HFS also offers a series of portfolios on directly-held mutual fund platforms. Versions of the portfolios are offered and constructed using the mutual funds made available by the platforms. This can provide efficient diversification for specific account types, ease of making account contributions, and simple access to certain mutual fund managers.

#### *Donor Advised Funds*

HFS also offers discretionary asset management services to Donor Advised Funds. The donor(s) of the account provides HFS with discretion on the account. These accounts allow the donor(s) to submit grants to charities on behalf of the donor(s).

#### **Co-Advisor Services**

HFS will act as a Co-Advisor with Advisory Alpha, LLC for asset management services. HFS will prepare a written description of the types of investments and strategies to guide Alpha Advisory’s management of the account. Advisory Alpha will manage the account based on one or more proprietary model investment portfolios. HFS will provide recommendations to clients utilizing specific Model Portfolios managed by Advisory Alpha. HFS will review and monitor, on an on-going basis, each selected Model Portfolio for the account to ensure suitability. Clients will grant Advisory Alpha limited discretionary authority to manage the account and HFS discretionary authority to change the Model Portfolio utilized by the account.

#### **ERISA 3(21) Services**

HFS offers 3(21) fiduciary services to ERISA plans. At the beginning of the client relationship, HFS works together with the selected 3(38) fiduciary (if a 3(38) is utilized by the plan sponsor) to prepare a written description of the types of investments and strategies to guide their management of the Designated Account (“Investment Policy Statement”). It will include HFS’s recommendations for the investment options made

available to plan participants. With the client's approval, HFS may amend the client's Investment Policy Statement from time to time. As time passes, clients must tell HFS if changes are needed. In preparing the client's Investment Policy Statement, HFS will rely upon the information provided by the client without verification. Clients should promptly inform HFS of any anticipated changes in their financial circumstances as well as when their circumstances do materially change.

HFS will be reasonably available to the Plan's participants for the purposes of: (i) explaining the material features of the Plan; (ii) answering questions and discussing the various classifications of funds that are available under the Plan; and (iii) assisting them in enrolling in the Plan. These additional services are not "fiduciary" services within the scope of the ERISA fiduciary standard of care, and will be provided consistent with our fiduciary duties under the Advisers Act. In no event will HFS provide (i) participant-level investment advice; or (ii) Plan design, recordkeeping, or other administrative services.

#### **Assets Under Advisement**

HFS offers consulting services to individuals on assets not held with the HFS custodian. This includes, but is not limited to, the following types of qualified plans: 401K, 401A, 403B, TSA, SRA, and 457. In addition, HFS offers ongoing reviews of variable annuities. HFS will work with individuals to determine their individual goals, time horizons, objectives, and risk tolerance. Investment strategies, investment selection, and asset allocation are based on the above factors. HFS will make recommendations on asset allocations from the investment options available within the plan. Any implementation of these recommendations is at the sole discretion of the client. HFS encourages clients to make any recommended changes in a timely manner and to notify HFS when the changes have been made; however, HFS is not responsible for ensuring changes have been made and shall not be held liable should a client choose not to make its recommended changes in a timely manner. The accounts will be monitored on at least a quarterly basis, or as requested otherwise by the client.

#### **Financial Planning and Consulting Services**

HFS offers financial planning and consulting services to clients. These services cover all areas of financial planning and consulting from risk management to estate conservation. HFS specializes in helping clients develop a comprehensive and cohesive financial strategy that fits their unique needs and enables them to meet both short and long-term objectives. If a conflict of interest exists between the interests of the investment advisor and the interests of the client, the client is under no obligation to act upon the investment advisor's recommendation. If the client elects to act on any of the recommendations, the client is under no obligation to affect the transaction through HFS.

#### **Seminars and Workshops**

HFS holds seminars and workshops to educate the public on retirement and financial planning. These events are educational in nature and no specific investment or tax advice is given.

### **C. Client-Tailored Services and Client-Imposed Restrictions**

HFS offers the same suite of services to all of its clients; however, specific client financial plans and their implementation are dependent upon the Client Investment Policy Statement which outlines each client's current situation (income, tax levels, and risk tolerance levels) and is used to construct a client-specific plan to aid in the selection of a portfolio that matches restrictions, needs, and targets.

Clients may impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs.

### **D. Wrap Fee Programs**

HFS does not sponsor a wrap fee program.

### **E. Amounts Under Management**

HFS has the following assets under management:

<b>Discretionary Amounts:</b>	<b>Non-discretionary Amounts:</b>	<b>Date Calculated:</b>
\$177,764,684	\$0	12/31/2023

## **Item 5: Fees and Compensation**

### **A. Fee Schedule**

#### **Asset Management**

HFS charges an annual fee between 0.60% and 2.00% of the total assets under management.

The annual fee may be negotiable. Accounts within the same household may be combined for a reduced fee. Fees are paid monthly in arrears, based on the previous month's average daily account balance. For accounts opened mid-billing period initial fees for the partial month will be prorated. Clients may terminate their contracts with five (5) business days written notice. For accounts closed mid-billing period, any unpaid fees will be due to HFS. Lower fees for comparable services may be available from other sources.

#### *Variable Annuity Solution*

The platforms have varying fees, the selected subaccounts are subject to various internal expenses, and HFS charges an annual fee between 0.60% and 1.00% of the total assets under management.

The annual fee may be negotiable. Accounts within the same household may be combined for a reduced fee. Fees are paid quarterly in arrears, based on the previous quarter's average daily account balance. For accounts opened mid-billing period initial fees for the partial quarter will be prorated. Clients may terminate their contracts with five (5) business days written notice. For accounts closed mid-billing period, any unpaid fees will be due to HFS. Lower fees for comparable services may be available from other sources.

#### *Mutual Fund Direct Solution*

The platforms have varying fees. The selected mutual funds are subject to various internal expenses and we bill a negotiable flat percentage with a maximum rate of 1% annually.

The annual fee may be negotiable. Accounts within the same household may be combined for a reduced fee. Fees are paid quarterly in arrears, based on the previous quarter's average daily account balance. For accounts opened mid-billing period initial fees for the partial quarter will be prorated. Clients may terminate their contracts with five (5) business days written notice. For accounts closed mid-billing period, any unpaid fees will be due to HFS. Lower fees for comparable services may be available from other sources.

#### *Donor Advised Funds*

HFS does not charge fees on Donor Advised Funds. The only fee to the client is the administrative fee charged by the provider.

#### **Co-Advisor Services**

HFS charges a maximum annual investment advisory fee of 1.70%, which is based on the total assets under management. Fees will be billed monthly in arrears and will be calculated based on the average daily market value of the assets held in the Designated Account over the preceding calendar month. Fees associated with Designated Accounts held directly with mutual fund or insurance companies will be billed quarterly, in arrears. Fees will either be paid directly to HFS or deducted from another account managed by HFS.

#### **ERISA 3(21) Services**

HFS charges a maximum annual investment advisory fee of 1% of Plan assets. We will rely upon the valuations provided by the custodian without independent verification. Fees are billed quarterly in arrears and calculated based upon the assets held in the Designated Account as of the closing date of the Custodian's account statement for the previous quarter. Clients may terminate this Agreement, without penalty, within five (5) business days from the date specified on the signature page. Thereafter, the client or HFS may

terminate this Agreement by providing the other party with written notice. Upon termination, HFS will have no further obligation with respect to your Designated Account.

### **Assets Under Advisement**

HFS charges an annual fee between 0.60% and 2.00% of the total of assets under advisement.

Fees for investment advisory services will be calculated annually based on the account balance at the time services are engaged pursuant to the Schedule of Fees (D) in the Investment Advisory Agreement. After the annual fee is calculated, it will be divided by 12 and billed monthly in arrears. Each year, in conjunction with the Agreement's anniversary date, the account balance will be reviewed with the client and advisory fees for the upcoming year will be calculated using the same methodology. Advisory fees for clients with mid-month engagement dates will begin on the first day of the first complete month following the engagement date.

If clients roll funds out of their account or withdraw funds mid-year and the account balance is reduced by 20 percent or more, HFS will recalculate fees for the remainder of the year and subsequent monthly invoices will be adjusted accordingly. Clients assume responsibility and agree to alert HFS as soon as funds totaling 20 percent or more of an account balance are rolled out of or withdrawn from an account and are not deposited into another account managed by HFS. If an updated statement or screenshot is not provided after a rollover or withdrawal is processed and HFS is not alerted by the client that such action has taken place, HFS will continue to bill fees each month based on the last known account balance used to calculate annual fees.

Fees will not be reassessed mid-year based on growth or deposits made into the account.

Investment advisory fees for assets under advisement will be billed directly to the client or deducted from another account managed by HFS as directed by the client. (An invoice for fees will be provided to clients that choose to pay by direct billing, either by check or credit card.)

Should advisory services be terminated mid-billing period, fees will not be charged or invoiced after the month in which services are terminated.

Clients may terminate their contracts without penalty, for a full refund, within five (5) business days of signing the advisory agreement with written notice. Advisory fees are withdrawn directly from client accounts with the client's written authorization.

### **Financial Planning and Consulting Services**

HFS charges an hourly fee for financial planning and consulting services. Prior to the consultation process, the client will be provided an estimated fee. Services include, but are not limited to, a thorough review of all applicable topics including wills, estate plan/trusts, investments, taxes, and insurance. Payments are received in two installments; the first half at the commencement of the consultation, with the balance due upon completion of services. Services will be completed and delivered within sixty (60) days. Clients may cancel services within five (5) business days of signing the Financial Planning and Consulting Services Agreement for a full refund. If a client cancels the Agreement after five (5) business days, any unpaid earned fees will be due to HFS. Conversely, any unearned fees will be refunded to the client.

#### *HOURLY FEES FOR CLIENTS THAT HAVE ASSETS MANAGED BY HFS:*

Financial planning and consulting services are offered based on an hourly fee of \$150 per hour with a minimum of one hour of service. Fees will be charged in 15-minute increments after the initial hour.

#### *HOURLY FEES FOR CLIENTS THAT DO NOT HAVE ASSETS MANAGED BY HFS:*

Financial planning and consulting services are offered based on an hourly fee of \$300 per hour with a minimum of one hour of service. Fees will be charged in 15-minute increments after the initial hour.

### **Seminars and Workshops**

HFS holds seminars and workshops to educate the public on retirement and financial planning. These events are educational in nature and no specific investment or tax advice is given. HFS offers these seminars for a registration fee of up to \$100 per person.



## **B. Payment of Fees**

Advisory fees are withdrawn directly from client accounts with each client's written authorization. Assets under advisement fees are paid directly to HFS or deducted from an account managed by HFS. Fees for financial planning and consulting services are paid directly to HFS.

## **C. Clients Are Responsible For Third Party Fees**

Clients are responsible for the payment of all third-party fees (e.g., custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.) Those fees are separate and distinct from the fees and expenses charged by HFS. Please see Item 12 of this brochure regarding broker/custodian.

## **D. Prepayment of Fees**

Financial planning and consulting services are estimated and billed 50% in advance. Clients may cancel within five (5) business days of signing their Financial Planning and Consulting Services Agreement for a full refund. If cancellation occurs after five (5) business days, client will be entitled to a pro-rata refund based on work completed.

## **E. Outside Compensation For the Sale of Securities to Clients**

Neither HFS nor its supervised persons accept any compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

# **Item 6: Performance-Based Fees and Side-By-Side Management**

HFS does not accept performance-based fees or other fees based on a share of capital gains on, or capital appreciation of, the assets of a client.

# **Item 7: Types of Clients**

HFS generally provides management supervisory services to the following types of clients:

- Individuals
- High-Net-Worth Individuals
- Pension and Profit-Sharing Plans
- Charitable Organizations
- Business and Corporations

### **Minimum Account Size**

HFS has a minimum account size of \$250,000. In certain circumstances HFS may reduce this minimum at its discretion. Fees will not exceed 2% of assets per year.

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

## **A. Methods of Analysis and Investment Strategies**

### **Methods of Analysis**

HFS's methods of analysis include charting analysis, fundamental analysis, and technical analysis.

**Charting analysis** involves the use of patterns in performance charts. HFS uses this technique to search for patterns used to help predict favorable conditions for buying and/or selling a security.

**Fundamental analysis** involves the analysis of financial statements, the general financial health of companies, and/or the analysis of management or competitive advantages.

**Technical analysis** involves the analysis of past market data; primarily price and volume.

In developing a financial consultation for a client, HFS's analysis may include cash flow analysis, investment planning, risk management, tax planning, and estate planning. Based on the information gathered, a detailed strategy is tailored to the client's specific situation. The main sources of information include financial newspapers and magazines, research materials prepared by others, corporate rating services, annual reports, prospectuses, and filings with the Securities and Exchange Commission.

### **Investment Strategies**

HFS uses long and short-term trading strategies.

Investing in securities involves a risk of loss to clients, which they should be prepared to bear.

## **B. Material Risks Involved with Methods of Analysis and Investment Strategies**

### **Methods of Analysis**

**Charting analysis** strategy involves using and comparing various charts to predict long and short-term performance or market trends. The risk involved in solely using this method is that only past performance data is considered without using other methods to crosscheck data. Using charting analysis without other methods of analysis would be making the assumption that past performance will be indicative of future performance. This may not be the case.

**Fundamental analysis** concentrates on factors that determine a company's value and expected future earnings. This strategy would normally encourage equity purchases in stocks that are undervalued or priced below their perceived value. The risk assumed is that the market will fail to reach expectations of perceived value.

**Technical analysis** attempts to predict a future stock price or direction based on market trends. The assumption is that the market follows discernible patterns and if these patterns can be identified then a prediction can be made. The risk is that markets do not always follow patterns and relying solely on this method may not work long term.

Sub-advisors used by HFS provide a variety of investment strategies designed for a wide range of investors with diverse investment objectives. These portfolio offerings may include "fund of funds" and individual securities. On an ongoing basis the sub-advisors will re-evaluate asset class selection, asset allocation, holding selection, and portfolio rebalancing.

### **Investment Strategies**

Long-term trading is designed to capture market rates of both return and risk. Frequent trading, when done, can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

Short-term trading generally holds greater risk and clients should be aware that there is a material risk of loss using this strategy.

Investing in securities involves a risk of loss to clients, which they should be prepared to bear.

## **C. Risks of Specific Securities Utilized**

HFS generally seeks investment strategies that do not involve significant or unusual risk beyond that of the general domestic and/or international equity markets. Investors face the following investment risks and should discuss these risks with HFS:

- **Market Risk:** The prices of securities in which clients invest may decline in response to certain events taking place around the world, including those directly involving the companies whose securities are owned by a fund; conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency,

interest rate and commodity price fluctuations. Investors should have a long-term perspective and be able to tolerate potentially sharp declines in market value.

- *Interest-rate Risk:* Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- *Inflation Risk:* When any type of inflation is present, a dollar today will buy more than a dollar next year, because purchasing power is eroding at the rate of inflation.
- *Currency Risk:* Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- *Reinvestment Risk:* This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- *Liquidity Risk:* Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- *Management Risk:* The advisor's investment approach may fail to produce the intended results. If the advisor's assumptions regarding the performance of a specific asset class or fund are not realized in the expected time frame, the overall performance of the client's portfolio may suffer.
- *Equity Risk:* Equity securities tend to be more volatile than other investment choices. The value of an individual mutual fund or ETF can be more volatile than the market as a whole. This volatility affects the value of the client's overall portfolio. Small- and mid-cap companies are subject to additional risks. Smaller companies may experience greater volatility, higher failure rates, more limited markets, product lines, financial resources, and less management experience than larger companies. Smaller companies may also have a lower trading volume, which may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.
- *Fixed Income Risk:* The issuer of a fixed income security may not be able to make interest and principal payments when due. Generally, the lower the credit rating of a security, the greater the risk that the issuer will default on its obligation. If a rating agency gives a debt security a lower rating, the value of the debt security will decline because investors will demand a higher rate of return. As nominal interest rates rise, the value of fixed income securities held by a fund is likely to decrease. A nominal interest rate is the sum of a real interest rate and an expected inflation rate.
- *Investment Companies Risk:* When a client invests in open end mutual funds or ETFs, the client indirectly bears their proportionate share of any fees and expenses payable directly by those funds. Therefore, the client will incur higher expenses, which may be duplicative. In addition, the client's overall portfolio may be affected by losses of an underlying fund and the level of risk arising from the investment practices of an underlying fund (such as the use of derivatives). ETFs are also subject to the following risks: (i) an ETF's shares may trade at a market price that is above or below their net asset value or (ii) trading of an ETF's shares may be halted if the listing exchange's officials deem such action appropriate, the shares are de-listed from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally. Advisors have no control over the risks taken by the underlying funds in which the client invests.
- *REIT Risk:* To the extent that a client invests in REITs, it is subject to risks generally associated with investing in real estate, such as (i) possible declines in the value of real estate, (ii) adverse general and local economic conditions, (iii) possible lack of availability of mortgage funds, (iv) changes in interest rates, and (v) environmental problems. In addition, REITs are subject

to certain other risks related specifically to their structure and focus such as: dependency upon management skills; limited diversification; the risks of locating and managing financing for projects; heavy cash flow dependency; possible default by borrowers; the costs and potential losses of self-liquidation of one or more holdings; the possibility of failing to maintain exemptions from securities registration; and, in many cases, relatively small market capitalization, which may result in less market liquidity and greater price volatility.

- *Derivatives Risk:* Funds in a client's portfolio may use derivative instruments. The value of these derivative instruments derives from the value of an underlying asset, currency or index. Investments by a fund in such underlying funds may involve the risk that the value of the underlying fund's derivatives may rise or fall more rapidly than other investments, and the risk that an underlying fund may lose more than the amount that it invested in the derivative instrument in the first place. Derivative instruments also involve the risk that other parties to the derivative contract may fail to meet their obligations, which could cause losses.
- *Long-term purchases:* Long-term investments are those vehicles purchased with the intention of being held for more than one year. Typically, the expectation of the investment is to increase in value so that it can eventually be sold for a profit. In addition, there may be an expectation for the investment to provide income. One of the biggest risks associated with long-term investments is volatility, the fluctuations in the financial markets that can cause investments to lose value.
- *Short-term purchases:* Short-term investments are typically held for one year or less. Generally, there is not a high expectation for a return or an increase in value. Typically, short-term investments are purchased for the relatively greater degree of principal protection they are designed to provide. Short-term investment vehicles may be subject to purchasing power risk — the risk that the investment's return will not keep up with inflation.
- *Trading risk:* Investing involves risk, including possible loss of principal. There is no assurance that the investment objective of any fund or investment will be achieved.
- *Options Trading:* The risks involved with trading options are that they are very time sensitive investments. An options contract is generally a few months long. The buyer of an option could lose his or her entire investment even with a correct prediction about the direction and magnitude of a particular price change if the price change does not occur in the relevant time period (i.e., before the option expires). Additionally, options are less tangible than some other investments. An option is a "book-entry" only investment without a paper certificate of ownership.
- *Trading on Margin:* In a cash account, the risk is limited to the amount of money that has been invested. In a margin account, risk includes the amount of money invested plus the amount that has been loaned. As market conditions fluctuate, the value of marginable securities will also fluctuate, causing a change in the overall account balance and debt ratio. As a result, if the value of the securities held in a margin account depreciates, the client will be required to deposit additional cash or make full payment of the margin loan to bring account back up to maintenance levels. Clients who cannot comply with such a margin call may be sold out or bought in by the brokerage firm.
- *Leveraged Risk:* The risks involved with using leverage may include compounding of returns (this works both ways – positive and negative), possible reset periods, volatility, use of derivatives, active trading and high expenses.
- *Open-End Mutual Fund:* An open-end fund is a registered investment company that does not have restrictions on the number of shares the fund can issue. Generally, open-end funds are actively managed, meaning that the portfolio manager buys and sells securities with the goal of outperforming the fund's stated benchmark. These funds may have significant tracking error or active risk, which is the risk of fund returns deviating from the benchmark returns. Open-end fund shares are bought and sold on demand at their net asset value (NAV), which is based on the value of the fund's underlying securities and is calculated at the end of the trading day.

When a large number of shares are redeemed, the fund may sell some of its investments to pay the investor. This may lead to liquidity risk which is caused by a lack of ready cash to properly handle shareholder transactions.

- *Variable Annuity*: Variable annuities are tax-deferred investments structured to convert a sum of money into a series of payments over time. Variable annuity policies have limitations and are not viewed as short-term liquid investments. An insurance company's fulfillment of a commitment to pay a minimum death benefit, a schedule of payments, a fixed investment account, or another form of guarantee depends on the claims-paying ability of the issuing insurance company. The financial ratings quoted for an insurance company do not apply to the separate account and its subaccount. The insurance company offering a variable annuity will charge several fees, including annual contract charges that compensate the insurance company for the cost of maintaining and administering the contract, mortality and expense risk (M&E Risk) charges based on a percentage of a subaccount's assets to cover costs associated with mortality and expense risk, and administration fees that are based on a percentage of a subaccount's assets to cover the costs involved in offering and administering the subaccount. Clients will also be charged ongoing fees related to the management of the fund and possibly be subject to surrender charges if a withdrawal is made prior to a specified time. If the variable annuity subaccount is invested in a money-market fund, the money market fund is not FDIC-insured, may lose money, and is not guaranteed by a bank or other financial institution.
- *529 Program* - A 529 program is a tax-advantaged savings plan designed to help pay for education. 529 programs are intended to be used only to save for Qualified Education Expenses. These programs are not intended to be used, nor should they be used, for the purpose of evading federal or state taxes or tax penalties. Investors should seek tax advice from an independent tax advisor based on their particular circumstances. Most 529 plans are invested in exchange-traded funds or open-end mutual funds; however, other investment types are possible such as stable value funds, certificates of deposit, and separate accounts. Before investing, investors should consider whether they or their designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's 529 qualified tuition program.

Past performance is not a guarantee of future returns. Investing in securities involves a risk of loss to clients, which they should be prepared to bear.

## **Item 9: Disciplinary Information**

### **A. Criminal or Civil Actions**

There are no criminal or civil actions to report.

### **B. Administrative Proceedings**

There are no administrative proceedings to report.

### **C. Self-Regulatory Organization (SRO) Proceedings**

There are no self-regulatory proceedings to report.

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

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative**

Neither HFS nor its representatives are registered as or have pending applications to become a broker/dealer or a representative of a broker/dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or a Commodity Trading Advisor**

Neither HFS nor its representatives are registered as or have pending applications to become a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor.

### **C. Registration Relationships Material to this Advisory Business and Possible Conflicts of Interests**

John Joseph Brais is also a licensed insurance agent and will offer clients insurance-related advice or products from time-to-time. Clients should be aware that these services pay a commission and involve a conflict of interest, as commissionable products conflict with the fiduciary duties of a Registered Investment Advisor. This conflict is mitigated by disclosures, procedures, and the firm's Fiduciary obligation. HFS always acts in the best interest of the client; including the sale of commissionable products to advisory clients. Clients are in no way required to implement the plan through any representative of HFS in their capacity as an insurance agent.

John Joseph Brais also a member of Cake Partnership, LLC. (CAKE). CAKE is an Insurance Marketing Organization (IMO) which provides a distribution channel on behalf of insurance companies for independent licensed insurance agents. In the event an independent insurance agent elects to partner with the IMO CAKE, CAKE will be compensated directly from the insurance company. The commission structure built into insurance products is predetermined by the insurance companies. The product purchased by the client is issued by the insurance company and the cost to the client is in no way altered by the IMO or the insurance agent involved. Furthermore, the client has no obligation to do business with the agent. John Brais receives compensation based on CAKE's profitability and therefore, a conflict of interest occurs. This conflict is mitigated by disclosures, procedures, and the firm's Fiduciary obligation. Independent insurance agents may work with any insurance company and any IMO of their choosing, one of which may be CAKE.

### **D. Selection of Other Advisors or Managers and How This Advisor is Compensated for Those Selections**

HFS may also utilize the services of a sub-advisor to manage clients' investment portfolios. Sub-advisors will maintain the models or investment strategies agreed upon between sub-advisors and HFS. Sub-advisors execute all trades on behalf of HFS in client accounts. HFS will be responsible for the overall direct relationship with the client. HFS retains the authority to terminate the sub-advisor relationship at HFS's discretion.

In addition, clients will grant HFS full discretionary authority and authorize HFS to select and appoint one or more independent investment advisors ("Advisors") to provide investment advisory services to clients without prior consultation or consent of clients. Such Advisors shall have all the same authority relating to the management of each client's investment accounts as is granted to HFS in the Investment Advisory Contract or Agreement. In addition, at HFS's discretion, HFS may grant such Advisors full authority to further delegate such discretionary investment authority to additional Advisors.

This practice does not represent a conflict of interest as the fees charged by HFS remain the same fees regardless of the use of the sub-advisor.

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

### **A. Code of Ethics**

HFS has a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. The HFS Code of Ethics is available to any client or prospective client free upon request.

### **B. Recommendations Involving Material Financial Interests**

HFS does not recommend that clients buy or sell any security in which HFS or a person related to HFS has a material financial interest.

### **C. Investing Personal Money in the Same Securities as Clients**

From time-to-time, representatives of HFS may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of HFS to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. HFS will always document any transactions that could be construed as conflicts of interest and will always transact client business before their own when similar securities are being bought or sold.

### **D. Trading Securities At or Around the Same Time as Clients' Securities**

From time-to-time, representatives of HFS may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of HFS to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. HFS will always transact client's transactions before its own when similar securities are being bought or sold.

## **Item 12: Brokerage Practices**

### **A. Factors Used to Select Custodians and/or Broker/Dealers**

HFS will recommend the use of a particular broker-dealer based on their duty to seek best execution for the client, meaning they have an obligation to obtain the most favorable terms for a client under the circumstances. The determination of what may constitute best execution and price in the execution of a securities transaction by a broker involves a number of considerations and is subjective. Factors affecting brokerage selection include the overall direct net economic result to the portfolios, the efficiency with which the transaction is affected, the ability to affect the transaction where a large block is involved, the operational facilities of the broker-dealer, the value of an ongoing relationship with such broker and the financial strength and stability of the broker. HFS will select appropriate brokers based on a number of factors including but not limited to their relatively low transaction fees and reporting ability. HFS relies on its broker to provide its execution services at the best prices available. Lower fees for comparable services may be available from other sources. Clients pay for any and all custodial fees in addition to the advisory fee charged by HFS. HFS does not receive any portion of the trading fees.

HFS will recommend the use of Schwab & Co., Nationwide and Capital Group/American Funds as Custodians.



**1. Research and Other Soft-Dollar Benefits**

HFS does not receive any soft dollars.

**2. Brokerage for Client Referrals**

HFS receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

**3. Clients Directing Which Broker/Dealer/Custodian to Use**

HFS will not allow clients to direct HFS to use a specific broker-dealer to execute transactions. Clients must use an HFS recommended custodian (broker-dealer). By requiring clients to use its specific custodians, HFS may be unable to achieve the most favorable execution of client transactions and this may cost clients' money over using a lower-cost custodian.

**B. Aggregating (Block) Trading for Multiple Client Accounts**

HFS maintains the ability to block trade purchases across accounts. Block trading may benefit a large group of clients by providing HFS the ability to purchase larger blocks resulting in smaller transaction costs to individual clients. Declining to block trade can cause more expensive trades for clients.

**Item 13: Reviews of Accounts**

**A. Frequency and Nature of Periodic Reviews and Who Makes Those Reviews**

Client accounts are reviewed at least monthly by Investment Advisor Representatives of HFS. Account reviews are performed more frequently when market conditions dictate.

**B. Factors That Will Trigger a Non-Periodic Review of Client Accounts**

Reviews may be triggered by material market, economic or political events, or by changes in a particular client's financial situation (e.g., retirement, termination of employment, physical move or inheritance).

**C. Content and Frequency of Regular Reports Provided to Clients**

Each client will receive at least quarterly from the Custodian, a written report that details the client's account including assets held and asset value. HFS will provide individual client performance reports as part of the annual review and these performance reports will be shared by email or by paper. Clients also have the ability to generate their own performance reports in a portal provided by the subadvisor. For clients who do not have email or use of a computer, quarterly reports are sent to their address of record on a quarterly basis.

**Item 14: Client Referrals and Other Compensation**

**A. Economic Benefits Provided by Third Parties for Advice Rendered to Clients (Includes Sales Awards or Other Prizes)**

HFS does not receive any economic benefit, directly or indirectly from any third party for advice rendered to HFS clients.

**B. Compensation to Non – Advisory Personnel for Client Referrals**

HFS may, from time to time, enter into agreements with individuals and organizations ("referring party") that refer clients to HFS in exchange for compensation. This activity will either be considered an endorsement or testimonial, depending on if the referring party is a client of HFS. For all clients introduced by a referring party, HFS may pay that referring party a fee pursuant to



a previously executed agreement. Any such fee shall be paid solely from HFS's investment management fee and shall not result in any additional charge to the client. HFS ensures that referring parties are registered with all appropriate jurisdictions or are exempt from registration as investment advisors or investment advisor representatives.

Each referred client to HFS under such an arrangement will receive a copy of this brochure and a written disclosure clearly and prominently disclosing if the referring party is a current client or investor, the compensation that will be paid by HFS to the referring party, and any material conflicts of interest. The referring party is required to provide this disclosure at the time the endorsement or testimonial is disseminated.

#### **Item 15: Custody**

HFS does not have custody of client assets. All assets are held at qualified custodians. Clients will receive all required account statements and billing invoices that are required in each jurisdiction, which they should carefully review for accuracy.

#### **Item 16: Investment Discretion**

For client accounts that HFS provides ongoing supervision, the client has given HFS written discretionary authority with respect to securities to be bought or sold and the amount of securities to be bought or sold. Details of this relationship are fully disclosed to the client before any advisory relationship has commenced. The client provides HFS discretionary authority via a limited power of attorney in the Investment Advisory Contract and in the contract between the client and the Custodian.

#### **Item 17: Voting Client Securities (Proxy Voting)**

HFS will not ask for, nor accept voting authority for client securities. Clients will receive proxies directly from the issuer of the security or the custodian. Clients should direct all proxy questions to the issuer of the security.

#### **Item 18: Financial Information**

##### **A. Balance Sheet**

HFS does not require or solicit prepayment of more than \$1200 in fees per client, six months or more in advance and therefore does not need to include a balance sheet with this brochure.

##### **B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Neither HFS nor its management have any financial conditions that are likely to reasonably impair our ability to meet contractual commitments to clients.

##### **C. Bankruptcy Petitions in Previous Ten Years**

HFS has not been the subject of a bankruptcy petition in the last ten years.