

Item 1: Cover Page
Part 2A of Form ADV: Firm Brochure
March 2024



A Registered Investment Adviser

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This brochure provides information about the qualifications and business practices of Sunburst Financial Group, LLC (hereinafter "Sunburst Financial Group" or the "Firm"). If you have any questions about the contents of this brochure, please contact the Firm at the telephone number listed above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Additional information about the Firm is available on the SEC's website at www.adviserinfo.sec.gov. The Firm is a registered investment adviser. Registration does not imply any level of skill or training.

Item 2. Material Changes

In this Item, Sunburst Financial Group is required to discuss any material changes that have been made to the brochure since the last annual amendment. Since our last annual amendment filing, our firm has no material changes to report.

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Item 4. Advisory Business

Sunburst Financial Group (“SFG”) is an independent investment adviser specializing in multiple areas of planning including retirement, investment, tax, estate and insurance. The Firm concentrates its efforts on financial planning-based investment management. Sunburst Financial Group offers a variety of advisory services, including financial planning, consulting, and investment management services. Prior to Sunburst Financial Group rendering any of the foregoing advisory services, clients are required to enter into one or more written agreements with Sunburst Financial Group setting forth the relevant terms and conditions of the advisory relationship (the “Advisory Agreement”).

Sunburst Financial Group is a Limited Liability Company domiciled in Alabama. Our firm first filed for registration as an investment adviser in April 2016 and is owned principally by Randy Martin. We actively manage \$531,884,351 on a discretionary basis and \$46,548,182 on a non-discretionary basis for a total of \$578,432,533 in Asset Under Management as of December 2023.

While this brochure generally describes the business of Sunburst Financial Group, certain sections also discuss the activities of its Supervised Persons, which refer to the Firm’s officers, partners, directors (or other persons occupying a similar status or performing similar functions), employees or any other person who provides investment advice on Sunburst Financial Group’s behalf and is subject to the Firm’s supervision and control.

Financial Planning and Consulting Services

The foundation of Sunburst Financial Group stands on the belief that financial planning is the process of meeting life goals through proper management of clients’ assets, liabilities, and cash flow. This process provides direction and meaning as Sunburst Financial Group assists clients with making decisions that will affect their financial future. The Firm continually monitors the tax and economic environment to determine both the short- and long-term effects on each client’s investment choices, and to adapt the financial plan to stay on track toward achieving the client’s goals.

Sunburst Financial Group offers clients a broad range of financial planning and consulting services, which may include any or all of the following functions:

Budgeting
Charitable Giving
Distribution Planning
Business Planning
Insurance Planning
Education Funding

Investment Consulting
Retirement Planning
Tax Planning
Trust and Estate Planning
Risk Management

In performing these services, Sunburst Financial Group is not required to verify any information received from the client or from the client's other professionals (e.g., attorneys, accountants, etc.) and is expressly authorized to rely on such information. Sunburst Financial Group may recommend clients engage the Firm for additional related services, its Supervised Persons in their individual capacities as insurance agents or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if clients engage Sunburst Financial Group or its affiliates to provide additional services for compensation. Clients retain absolute discretion over all decisions regarding implementation and are under no obligation to act upon any of the recommendations made by Sunburst Financial Group under a financial planning or consulting engagement. Clients are advised that it remains their responsibility to promptly notify the Firm of any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising Sunburst Financial Group's recommendations and/or services.

Investment Management Services

Sunburst Financial Group provides Portfolio Management services to you, typically through various risk-based model portfolios, which range from Conservative to Aggressive Growth. Our models are determined collaboratively with third party consultants not affiliated with Sunburst Financial Group. The research and collaboration provided informs decisions made by our Investment Committee to construct and monitor models that will provide exposure to primary asset classes. The investments chosen for the models are screened with an emphasis on yield (income) and/or growth characteristics. A portion of the investments within some of the models can contain market hedges (typically via options) to help offset downside risk in the markets. The models will typically consist of Exchange Traded Funds ("ETF's"), Individual Stocks and Fixed Income Instruments, Mutual Funds, Real Estate Investment Trust (REITs"), and/or Options. Investments in these models will be monitored, reallocated and/or replaced periodically. It should be noted that these third party consultants may recommend investments in proprietary products offered by their firm. This creates a conflict of interest, however the ultimate discretionary authority resides with our firm, and we will always adhere to our fiduciary duty to place client interests ahead of our own.

In some circumstances, your portfolio may be managed by your Advisory Representative ("Advisor"). In most circumstances, your portfolio will be managed pursuant to models constructed in collaboration with our third party consultants, but your Advisor may choose to alter the positions in the model in order to better match your personal financial circumstances more closely.

We monitor the third-party Investment Consultant and the management of your portfolio on an ongoing basis. Additional information about any of the third-party advisory services, including a complete description of the programs, services, fees, payment structure and termination features, is available via the applicable third-party manager's disclosure brochures.

Where appropriate, the Firm may also provide advice about any type of legacy position or other investment held in client portfolios. Clients may engage Sunburst Financial Group to manage and/or provide advice on certain investment products that are not maintained at their primary custodian, such as variable life insurance and annuity contracts and assets held in employer sponsored

retirement plans and qualified tuition plans (i.e., 529 plans). In these situations, Sunburst Financial Group directs or recommends the allocation of client assets among the various investment options available with the product. These assets are generally maintained at the underwriting insurance company or the custodian designated by the product's provider.

Sunburst Financial Group tailors its advisory services to meet the needs of its individual clients and seeks to ensure, on a continuous basis, that client portfolios are managed in a manner consistent with those needs and objectives. Sunburst Financial Group consults with clients on an initial and ongoing basis to assess their specific risk tolerance, time horizon, liquidity constraints and other related factors relevant to the management of their portfolios. Clients are advised to promptly notify Sunburst Financial Group if there are changes in their financial situation or if they wish to place any limitations on the management of their portfolios. Clients may impose reasonable restrictions or mandates on the management of their accounts if Sunburst Financial Group determines, in its sole discretion, the conditions would not materially impact the performance of a management strategy or prove overly burdensome to the Firm's management efforts.

Retirement Plan Consulting Services

Sunburst Financial Group provides various consulting services to qualified employee benefit plans and their fiduciaries. This suite of institutional services is designed to assist plan sponsors in structuring, managing, and optimizing their corporate retirement plans. Each engagement is individually negotiated and customized, and may include any or all of the following services:

- Plan Design and Strategy
- Plan Review and Evaluation
- Executive Planning & Benefits
- Investment Selection
- Plan Fee and Cost Analysis
- Plan Committee Consultation
- Fiduciary and Compliance
- Participant Education

As disclosed in the Advisory Agreement, certain of the foregoing services are provided by Sunburst Financial Group as a fiduciary under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). In accordance with ERISA Section 408(b)(2), each plan sponsor is provided with a written description of Sunburst Financial Group's fiduciary status, the specific services to be rendered and all direct and indirect compensation the Firm reasonably expects under the engagement.

Item 5. Fees and Compensation

Sunburst Financial Group offers services on a fee basis, which may include fixed fees and/or hourly fees, as well as fees based upon assets under management. Additionally, certain of the Firm's Supervised Persons, in their individual capacities, may offer insurance products under a separate commission-based arrangement.

Financial Planning and Consulting Fees

Sunburst Financial Group generally charges fixed fees for providing the initial financial planning services. These fees are negotiable, but generally range from \$250 to \$5,000 on a fixed fee basis and/or from \$100 to \$300 on an hourly basis, depending upon the scope and complexity of the services and the professional rendering the financial planning and/or the consulting services.

The terms and conditions of the financial planning and/or consulting engagement are set forth in the Advisory Agreement and Sunburst Financial Group generally charges all Financial Planning fees in arrears upon delivery of the financial plan or completion of the agreed upon services.

Investment Management Fees

Sunburst Financial Group offers investment management services for an annual fee based on the amount of assets under the Firm's management. This management fee generally varies in accordance with the following fee schedule:

PORTFOLIO VALUE	BASE FEE
Up to \$99,999.99	1.00%
\$100,000 - \$999,999.99	0.85%
\$1,000,000 - \$2,499,999.99	0.75%
\$2,500,000 - \$4,999,999.99	0.65%
\$5,000,000 - \$9,999,999.99	0.55%
\$10,000,000 - \$19,999,999.99	0.45%
\$20,000,000 - \$49,999,999.99	0.35%
\$50,000,000 and Up	Negotiable

The annual fee is prorated and charged quarterly, in arrears, based upon the market value of the assets being managed by Sunburst Financial Group on the last day of the previous billing period. The Firm will charge the fee in advance for certain clients that were billed as such in the past. If assets are deposited into or withdrawn from an account after the inception of a billing period, the fee payable with respect to such assets is not adjusted to reflect the interim change in portfolio value. For the initial period of an engagement, the fee is calculated on a *pro rata* basis. In the event the advisory agreement is terminated, the fee for the final billing period is prorated through the effective date of the termination and the outstanding or unearned portion of the fee is charged or refunded to the client, as appropriate. Unless otherwise agreed to in writing, our advisory fees shall be assessed on cash and cash equivalents.

Additionally, for asset management services the Firm provides with respect to certain client holdings (e.g., held-away assets, accommodation accounts, alternative investments, etc.), Sunburst Financial Group may negotiate a fee rate that differs from the range set forth above.

Retirement Plan Consulting Fees

Sunburst Financial Group generally charges as fixed project-based fee to provide clients with

retirement plan consulting services. Each engagement is individually negotiated and tailored to accommodate the needs of the individual plan sponsor, as memorialized in the Agreement. These fees vary, based on the scope of the services to be rendered, and may range up to 1.00% of the plan's assets per annum depending upon the complexity of the engagement and the amount of assets to be managed.

Fee Discretion

Sunburst Financial Group may, in its sole discretion, negotiate to charge a lesser fee based upon certain criteria, such as anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing/legacy client relationship, account retention and pro bono activities.

Additional Fees and Expenses

Clients will incur transaction fees for trades executed by their chosen custodian via individual transaction charges. These transaction fees are separate from our firm's advisory fees and will be disclosed by the chosen custodian. Charles Schwab & Co., Inc. ("Schwab") does not charge transaction fees for U.S. listed equities and exchange traded funds. Clients may also pay holdings charges imposed by the chosen custodian for certain investments, charges imposed directly by a mutual fund, index fund, or exchange traded fund, which shall be disclosed in the fund's prospectus (i.e., fund management fees, initial or deferred sales charges, mutual fund sales loads, 12b-1 fees, surrender charges, variable annuity fees, IRA and qualified retirement plan fees, and other fund expenses), mark-ups and mark-downs, spreads paid to market makers, fees for trades executed away from custodian, wire transfer fees and other fees and taxes on brokerage accounts and securities transactions. Our firm does not receive a portion of these fees.

Direct Fee Debit

Clients generally provide Sunburst Financial Group with the authority to directly debit their accounts for payment of the investment advisory fees. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Sunburst Financial Group. Alternatively, the Firm may allow certain clients to have Sunburst Financial Group send a separate invoice for direct payment. In that case, the billing terms may be revised.

Account Additions and Withdrawals

Clients may make additions to and withdrawals from their account at any time, subject to Sunburst Financial Group's right to terminate an account. Additions may be in cash or securities provided that the Firm reserves the right to liquidate any transferred securities or declines to accept particular securities into a client's account. Clients may withdraw account assets on notice to Sunburst Financial Group, subject to the usual and customary securities settlement procedures. However, the Firm generally designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. Sunburst Financial Group may consult with its clients

about the options and implications of transferring securities. Clients are advised that when transferred securities are liquidated, they may be subject to transaction fees, short-term redemption fees, fees assessed at the mutual fund level (e.g., contingent deferred sales charges) and/or tax ramifications.

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

Sunburst Financial Group does not provide any services for a performance-based fee (i.e., a fee based on a share of capital gains or capital appreciation of a client's assets).

Item 7. Types of Clients

Sunburst Financial Group offers services to individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations and business entities.

Sunburst Financial Group does not impose any formal requirements for initiation of an advisory client relationship.

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

Methods of Analysis

Sunburst Financial Group utilizes a fundamental method of analysis while employing an asset allocation strategy based on a derivative of Modern Portfolio Theory ("MPT").

Fundamental analysis involves an evaluation of the fundamental financial condition and competitive position of a particular fund or issuer. For Sunburst Financial Group, this process typically involves an analysis of an issuer's management team, investment strategies, style drift, past performance, reputation, and financial strength in relation to the asset class concentrations and risk exposures of the Firm's model asset allocations. A substantial risk in relying upon fundamental analysis is that while the overall health and position of a company may be good, evolving market conditions may negatively impact the security.

Modern Portfolio Theory ("MPT") is a mathematical based investment discipline that seeks to quantify expected portfolio returns in relation to corresponding portfolio risk. The basic premise of MPT is that the risk of a particular holding is to be assessed by comparing its price variations against those of the market portfolio. However, MPT disregards certain investment considerations and is based on a series of assumptions that may not necessarily reflect actual market conditions. As such, the factors for which MPT does not account (e.g., tax implications, regulatory constraints and brokerage costs) may negate the upside or add to the actual risk of a particular allocation. Nevertheless, Sunburst Financial Group's investment process is structured in such a way to integrate those assumptions and real life considerations for which MPT analytics do not account.

Investment Strategies

The core of Sunburst Financial Group's investment process rests on the belief that successful investing is dependent on a long-term focus. As investors, the Firm is willing to accept short-term fluctuations in market performance knowing that markets have a historical upward trend. Attempting to "micromanage" a portfolio or speculate on the short-term price fluctuation of a security can create trading losses and high transaction costs. It may also put the client on the sideline in a rising market. Short-term liquidity requirements are to be analyzed and funded with cash equivalents.

A) Asset Allocation Has the Greatest Impact on Return

Sunburst Financial Group and the client will mutually agree upon the overall asset allocation. Long-term investment performance, in large part, is primarily a function of asset class mix. Historically, while interest-generating investments (i.e. bonds) have the advantage of relative stability of principal, they provide only small opportunities for real long-term capital growth. On the other hand, equity investments (i.e. common stock) have a higher expected return with greater volatility. The Firm's goal is to focus on balancing the risks and rewards of each broad asset class.

All of Sunburst Financial Group portfolios adhere to a macro and micro allocation. The macro allocation consists of cash, bonds, and equities. The micro allocation consists of the various categories within the macro asset class (i.e. US large cap growth & Intermediate term bonds). The Firm's planning process and professional expertise help clients determine an appropriate level of risk and the savings required to achieve their financial goals. This process determines the suitable macro allocation. The micro allocation is constructed by the Firm's investment committee and reviewed on at least an annual basis. The client drives the macro portfolio and Sunburst Financial Group's market outlook drives the micro.

B) High Quality, Liquid Investment Selection

Sunburst Financial Group firmly believes that individuals dislike losing capital more than they enjoy gaining it. To hedge against the risk of losing capital, we allocate investments across a diverse group of liquid, non-correlated asset classes. The Firm adheres to this policy in each asset class. For example, Sunburst Financial Group believes that the risk taken in extending maturities in fixed income investments may not exceed potential reward. Also, the risk of investing in lower quality income investments is not well compensated over time. To reflect this belief, the Firm's fixed income portfolio will generally consist of investment grade securities with varying maturities.

C) Securities used in Portfolios

The majority of Sunburst Financial Group's portfolios are comprised of no-load mutual funds and exchange-traded funds. Occasionally, the Firm may use individual stocks, bonds, and alternative investments. All of these investments must meet the criteria established in the Firm's selection process and be suitable for a client's risk tolerance.

D) Expense Reduction is Imperative

Expenses can have a significant impact on the overall return of an investment. Sunburst Financial Group believes it is in clients' best interests to invest in securities with below average expense and

turnover ratios. The Firm always looks at the total amount of expenses that may affect a client's investment. This includes management expenses, administrative costs, turnover expenses, and taxes.

E) Passive and Active Management May Be Used in the Portfolio

To mitigate the risk of relative underperformance, Sunburst Financial Group invests with active and passive managers. The Firm's passive investments ensure similar returns to a market benchmark, reduce costs, and can increase tax efficiency. The objective of the actively managed portion of the portfolio is to generate a return in excess of the market and attempt to take advantage of market inefficiencies. The Firm's investment committee meets quarterly to determine which asset classes may benefit from an active or passive strategy.

F) Tactical Shifts Can Be Used to Enhance Return

Statistics show that market timing is generally a losing endeavor. However, Sunburst Financial Group does believe that fundamental and technical indicators may reveal periods of market over-valuation and under-valuation. With this in mind, it is important for our model portfolios to have a range of variance. The Firm's investment committee uses a "top down" approach to determine which asset classes to underweight, remain neutral, or overweight. Tactical shifts will only occur in the client's micro allocation. A fundamental or discontinuous change to the client's financial position or risk tolerance is the only reason the Firm may alter the client's macro allocation.

G) Tax Efficiency is Vital

In taxable accounts, it is imperative to analyze the tax implications of buying and selling a security. Sunburst Financial Group also places an emphasis on projecting an investment's capital gains and dividend distributions by utilizing indicators like Morningstar's potential capital gains exposure ratio and tax cost ratio. The Firm employs the following strategies to our taxable managed accounts: tax loss harvesting, low turnover, and tax structure. The Firm will always take into consideration the costs of taxes when rebalancing.

H) Margin Loans

Our firm may allow or recommend that you to pledge securities from your portfolio as collateral for a loan by using margin in brokerage account. This allows you to own more stock than you would be able to with your available cash. Margin accounts and transactions are risky and not necessarily appropriate for every client.

The potential risks associated with these transactions are (1) You can lose more funds than are deposited into the margin account; (2) the forced sale of securities or other assets in your account; (3) the sale of securities or other assets without contacting you; (4) you may not be entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call; and (5) custodians charge interest on margin balances which will reduce your returns over time.

1) Cryptocurrency Products

We may recommend investment in digital (crypto) currency products. These products may be an illiquid private placement or structured as a trust or exchange traded fund which pool capital together to purchase holdings of digital currencies or derivatives based on their value. Such products are extremely volatile and are suitable only as a means of diversification for investors with high risk tolerances. Furthermore, these securities carry very high internal expense ratios, and may use derivatives to achieve leverage or exposure in lieu of direct cryptocurrency holdings. This can result in tracking error and may sell at a premium or discount to the market value of their underlying holdings. Security is also a concern for digital currency investments which make them subject to the additional risk of theft.

Risk of Loss

Market Risks

Investing involves risk, including the potential loss of principal, and all investors should be guided accordingly. The profitability of a significant portion of Sunburst Financial Group's recommendations and/or investment decisions may depend to a great extent upon correctly assessing the future course of price movements of stocks, bonds and other asset classes. There can be no assurance that Sunburst Financial Group will be able to predict those price movements accurately or capitalize on any such assumptions.

Mutual Funds and ETFs

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders' fees (*e.g.*, sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to actual NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed based ETFs and potentially more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units

(usually 20,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

Item 9. Disciplinary Information

Sunburst Financial Group has not been involved in any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of its management.

Item 10. Other Financial Industry Activities and Affiliations

This item requires investment advisers to disclose certain financial industry activities and affiliations. The Firm does not have any other financial industry activities or affiliations that need to be disclosed.

Licensed Insurance Agency

Sunburst Financial Group is a duly licensed insurance agency. Additionally, a number of the Firm's Supervised Persons are licensed insurance agents and may offer certain insurance products on a fully disclosed commissionable basis. A conflict of interest exists to the extent that Sunburst Financial Group recommends the purchase of insurance products where its Supervised Persons may be entitled to insurance commissions or other additional compensation. The Firm has procedures in place whereby it seeks to ensure that all recommendations are made in its clients' best interest regardless of any such affiliations.

JBM Investments, LLC

A representative of our firm, Matthew Morris, is a Member of JBM Investments, LLC ("JBM"). This activity is in the Real Estate and Private Equity Investment business. Mr. Morris started this activity in 2004 and dedicates approximately 10 hours per month on the activity of which none occur during trading hours. Mr. Morris will not actively solicit clients for services or investment opportunities in JBM. Sunburst Financial Group is an independent and unaffiliated firm. Mr. Morris is bound by the code of ethics and will only act in the best interests of clients.

Item 11. Code of Ethics

Sunburst Financial Group has adopted a code of ethics in compliance with applicable securities laws ("Code of Ethics") that sets forth the standards of conduct expected of its Supervised Persons. Sunburst Financial Group's Code of Ethics contains written policies reasonably designed to prevent certain unlawful practices such as the use of material non-public information by the Firm or any of its Supervised Persons and the trading by the same of securities ahead of clients in order to take advantage of pending orders.

The Code of Ethics also requires certain of Sunburst Financial Group's personnel to report their personal securities holdings and transactions and obtain pre-approval of certain investments (e.g., initial public offerings, limited offerings). However, the Firm's Supervised Persons are permitted to buy or sell securities that it also recommends to clients if done in a fair and equitable manner that is consistent with the Firm's policies and procedures. This Code of Ethics has been established recognizing that some securities trade in sufficiently broad markets to permit transactions by certain personnel to be completed

without any appreciable impact on the markets of such securities. Therefore, under limited circumstances, exceptions may be made to the policies stated below.

When the Firm is engaging in or considering a transaction in any security on behalf of a client, no Supervised Person with access to this information may knowingly effect for themselves or for their immediate family (i.e., spouse, minor children and adults living in the same household) a transaction in that security unless:

- the transaction has been completed;
- the transaction for the Supervised Person is completed as part of a batch trade with clients; or
- a decision has been made not to engage in the transaction for the client.

These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact Sunburst Financial Group to request a copy of its Code of Ethics

Client Complaints

It is the Firm's policy to monitor for all client complaints and, if received, review and promptly handle such complaints in a responsive and fair manner. The Chief Compliance Officer, Randy Martin, is responsible for handling any client complaints. Clients can initiate complaints by calling (205) 823-4949 or by sending written correspondence to:

Sunburst Financial Group, LLC
Randy Martin, Chief Compliance Officer
600 Vestavia Parkway, #100
Vestavia Hills, AL 35216

Item 12. Brokerage Practices

Recommendation of Broker/Dealers for Client Transactions

Sunburst Financial Group generally recommends that clients utilize the custody, brokerage and clearing services of Schwab Advisor Services™ ("Schwab") for investment management accounts.

Factors which Sunburst Financial Group considers in recommending Schwab or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. Schwab may enable the Firm to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by Schwab may be higher or lower than those charged by other Financial Institutions.

The commissions paid by Sunburst Financial Group's clients to Schwab comply with the Firm's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified

Financial Institution might charge to effect the same transaction where Sunburst Financial Group determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Financial Institution's services, including among others, the value of research provided, execution capability, commission rates and responsiveness. Sunburst Financial Group seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

Transactions may be cleared through other broker-dealers with whom the Firm and its custodians have entered into agreements for prime brokerage clearing services. Should an account make use of prime brokerage, the Client may be required to sign an additional agreement, and additional fees are likely to be charged.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker/dealers in return for investment research products and/or services which assist Sunburst Financial Group in its investment decision-making process. Such research generally will be used to service all of the Firm's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because Sunburst Financial Group does not have to produce or pay for the products or services.

Sunburst Financial Group periodically and systematically reviews its policies and procedures regarding its recommendation of Financial Institutions in light of its duty to obtain best execution.

Software and Support Provided by Financial Institutions

Sunburst Financial Group may receive without cost from Schwab computer software and related systems support, which allow Sunburst Financial Group to better monitor client accounts maintained at Schwab. Sunburst Financial Group may receive the software and related support without cost because the Firm renders investment management services to clients that maintain assets at Schwab. The software and support is not provided in connection with securities transactions of clients (i.e., not "soft dollars"). The software and related systems support may benefit Sunburst Financial Group, but not its clients directly. In fulfilling its duties to its clients, Sunburst Financial Group endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Sunburst Financial Group's receipt of economic benefits from a broker/dealer creates a conflict of interest since these benefits may influence the Firm's choice of broker/dealer over another that does not furnish similar software, systems support or services.

Products and services available to us from Schwab

Schwab Advisor Services™ is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to their institutional brokerage services (trading, custody, reporting, and related services), many of which are not typically available to Schwab retail customers. However, certain retail investors may be able to get institutional brokerage services from Schwab

without going through us. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us. Following is a more detailed description of Schwab's support services:

Services that benefit you. Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

Services that do not directly benefit you. Schwab also makes available to us other products and services that benefit us but do not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts and operating our Firm. They include investment research, both Schwab's own and that of third parties. We use this research to service all or a substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution and allocate aggregated trade orders for multiple client accounts
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

Services that generally benefit only us. Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology and business needs
- Consulting on legal and compliance related needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers
- Marketing consulting and support

Schwab provides some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab also discounts or waives its fees for some of these services or pays all or a part of a third party's fees. [Schwab also provides us with other benefits, such as occasional business entertainment of our personnel.] If you did not maintain your account with Schwab, we would be required to pay for those services from our own resources.

Our interest in Schwab's services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. Schwab has also agreed to pay for certain technology, research, marketing, and compliance consulting products and services on our behalf once the value of our clients' assets in accounts at Schwab reaches certain thresholds. [These services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody.] The fact that we receive these benefits from Schwab is an incentive for us to [recommend/request/require] the use of Schwab rather than making such a decision based exclusively on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a conflict of interest. [In some cases, the services that Schwab pays for are provided by affiliate of ours or by another party that has some pecuniary, financial or other interests in us (or in

which we have such an interest). This creates an additional conflict of interest.] We believe, however, that taken in the aggregate our [selection/recommendation] of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "How we select brokers/custodians") and not Schwab's services that benefit only us.

Brokerage for Client Referrals

Sunburst Financial Group does not consider, in selecting or recommending broker/dealers, whether the Firm receives client referrals from the Financial Institutions or other third party.

Directed Brokerage

The client may direct Sunburst Financial Group in writing to use a particular Financial Institution to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that Financial Institution and the Firm will not seek better execution services or prices from other Financial Institutions or be able to "batch" client transactions for execution through other Financial Institutions with orders for other accounts managed by Sunburst Financial Group (as described above). As a result, the client may pay higher commissions or other transaction costs, greater spreads or may receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, Sunburst Financial Group may decline a client's request to direct brokerage if, in the Firm's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Trade Aggregation

Transactions for each client generally will be effected independently, unless Sunburst Financial Group decides to purchase or sell the same securities for several clients at approximately the same time. Sunburst Financial Group may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among the Firm's clients differences in prices and commissions or other transaction costs that might not have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among Sunburst Financial Group's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that the Firm determines to aggregate client orders for the purchase or sale of securities, including securities in which Sunburst Financial Group's Supervised Persons may invest, the Firm generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. Sunburst Financial Group does not receive any additional compensation or remuneration as a result of the aggregation.

In the event that the Firm determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to

one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a de minimis allocation in one or more accounts, the Firm may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Item 13. Review of Accounts

Account Reviews

Sunburst Financial Group monitors client portfolios on a continuous and ongoing basis while regular account reviews are conducted on at least an annual basis. Such reviews are conducted by the Firm's registered investment advisers. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with Sunburst Financial Group and to keep the Firm informed of any changes thereto. The Firm contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Account Statements and Reports

Clients are provided with transaction confirmation notices and regular summary account statements directly from the Financial Institutions where their assets are custodied. From time-to-time or as otherwise requested, clients may also receive written or electronic reports from Sunburst Financial Group and/or an outside service provider, which contain certain account and/or market-related information, such as an inventory of account holdings or account performance. Clients should compare the account statements they receive from their custodian with any documents or reports they receive from Sunburst Financial Group or an outside service provider.

Item 14. Client Referrals and Other Compensation

In accordance with Rule 206 (4)-1 of the Investment Advisers Act of 1940, our firm provides cash or non-cash compensation directly or indirectly to unaffiliated persons for testimonials or endorsements (which include client referrals). Such compensation arrangements will not result in higher costs to the referred client. In this regard, our firm maintains a written agreement with each unaffiliated person that is compensated for testimonials or endorsements in an aggregate amount of \$1,000 or more (or the equivalent value in non-cash compensation) over a trailing 12-month period in compliance with Rule 206 (4)-1 of the Investment Advisers Act of 1940 and applicable state and federal laws. The following information will be disclosed clearly and prominently to referred prospective clients at the time of each testimonial or endorsement:

- Whether or not the unaffiliated person is a current client of our firm,
- A description of the cash or non-cash compensation provided directly or indirectly by our firm to the unaffiliated person in exchange for the referral, if applicable, and

- A brief statement of any material conflicts of interest on the part of the unaffiliated person giving the referral resulting from our firm's relationship with such unaffiliated person.

In cases where state law requires licensure of solicitors, our firm ensures that no solicitation fees are paid unless the solicitor is registered as an investment adviser representative of our firm. If our firm is paying solicitation fees to another registered investment adviser, the licensure of individuals is the other firm's responsibility.

Item 15. Custody

The Advisory Agreement and/or the separate agreement with any Financial Institution generally authorize Sunburst Financial Group to debit client accounts for payment of the Firm's fees and to directly remit that those funds to the Firm in accordance with applicable custody rules. The Financial Institutions that act as the qualified custodian for client accounts, from which the Firm retains the authority to directly deduct fees, have agreed to send statements to clients not less than quarterly detailing all account transactions, including any amounts paid to Sunburst Financial Group. In addition, as discussed in Item 13, Sunburst Financial Group may also send periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the Financial Institutions and compare them to those received from Sunburst Financial Group.

Third Party Money Movement.

The SEC issued a no-action letter ("Letter") with respect to the Rule 206(4)-2 ("Custody Rule") under the Investment Advisers Act of 1940 ("Advisers Act"). The letter provided guidance on the Custody Rule as well as clarified that an adviser who has the power to disburse Advisory Client funds to a third party under a standing letter of instruction ("SLOA") is deemed to have custody. As such, SFG has adopted the following safeguards in conjunction with Schwab:

- The Advisory Client provides an instruction to the qualified custodian, in writing, that includes the Advisory Client's signature, the third party's name, and either the third party's address or the third party's account number at a custodian to which the transfer should be directed.
- The Advisory Client authorizes SFG, in writing, either on the qualified custodian's form or separately, to direct transfers to the third party either on a specified schedule or from time to time.
- The Advisory Client's qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the Advisory Client's authorization and provides a transfer of funds notice to the client promptly after each transfer.
- The Advisory Client can terminate or change the instruction to the Advisory Client's qualified custodian.
- SFG has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the Advisory Client's instruction.
- SFG maintains records showing that the third party is not a related party of SFG or located at the same address as SFG.
- The Advisory Client's qualified custodian sends the Advisory Client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.

Item 16. Investment Discretion

Sunburst Financial Group may be given the authority to exercise discretion on behalf of clients. Sunburst Financial Group is considered to exercise investment discretion over a client's account if it can effect

and/or direct transactions in client accounts without first seeking their consent. Sunburst Financial Group is given this authority through a power-of-attorney included in the agreement between Sunburst Financial Group and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). Sunburst Financial Group takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made

Item 17. Voting Client Securities

Sunburst Financial Group generally does not accept the authority to vote a client's securities (i.e., proxies) on their behalf. Clients receive proxies directly from the Financial Institutions where their assets are custodied and may contact the Firm at the contact information on the cover of this brochure with questions about any such issuer solicitations.

Item 18. Financial Information

Sunburst Financial Group is not required to disclose any financial information due to the following:

- The Firm does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance of services rendered;
- The Firm does not have a financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients; and
- The Firm has not been the subject of a bankruptcy petition at any time during the past ten years.