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## **Form ADV Part 2A**

### **Brochure Cover Page**

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5/31/2011

**This brochure provides information about the qualifications and business practices of Partnervest Advisory Services, LLC. If you have any questions about the contents of this brochure, please contact us [info@partnervest.com](mailto:info@partnervest.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Partnervest Advisory Services, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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**Partnervest Advisory Services, LLC (SEC No. 801-62795)**

**Item 4 Advisory Business**

**What is Partnervest Advisory Services LLC ("Partnervest") and what does Partnervest do?**

Partnervest is a registered investment advisor that primarily offers investment management services, or in other words we manage clients' invested assets for them. We also, on occasion, provide other services, for example, financial planning.

Our services are tailored to the needs and circumstances of the individual client. Usually when a client desires to use Partnervest's investment management services, the Partnervest representative will obtain background information about the client and make an initial suitability determination for the program. This suitability determination will include an analysis of the client's risk tolerance as indicated by the facts provided by the client, investment objectives, investment experience, and other client circumstances. Clients will sign an Investment Advisor Agreement and may be asked to sign an Investment Policy Guideline document which provides general guidance to Partnervest for the management of the client's portfolio. The representative communicates to Partnervest regarding changes in their circumstances which may have a material effect on the suitability for the client to be in the Partnervest program. The client may contact Partnervest directly, including persons on the Investment Management Committee or its Chief Investment Officer.

Although we tailor our advice to the individual needs of our clients, most of the time we do not allow clients to impose restrictions on how their assets are managed and when we do, those restrictions are usually stated in an investment policy guideline ("IPG") signed by Partnervest and the client. In other words, Partnervest uses discretion in managing a client's account and thus it will invest the client's money and enter into transactions on behalf of the client without the client's prior or post consent to each transaction. We take this approach as we feel that we need to have discretion on how to manage the client's assets in order to be effective and efficient in managing them, especially with the speed of the markets today.

Partnervest representatives provide a wide range of investment management advice and portfolios, but we primarily provide investment management services through our STAR portfolios. In brief, these portfolios are structured and rebalanced with a goal to maximize return for a specified acceptable level of risk. We also put in additional risk mitigation strategies, such as covered call writing or securities designed to protect against large downside movement of the portfolio. We feel that it is better to avoid significant downside losses rather than chase high returns of the asset class which is hot at any particular time. Although we offer advice on a wide range of securities, the STAR portfolios primarily use exchange traded funds, which are oftentimes called ETFs, and options. Some of the ETFs used contain commodities, such as gold, which we believe provides an investor a proper correlated and diversified portfolio across a wide spectrum of asset classes.

The other type of investment management services we provide is through other investment advisors. This occurs when we either refer a client to use investment management services offered by another investment advisor or we contract with the other investment advisor, who we call a "Sub-Advisor" to provide their investment management services to you. In such cases, Partnervest is either a solicitor for the other investment advisor, or the other investment advisor is a sub-advisor to Partnervest.

When we do this, we will provide you upfront with the required paperwork from the sub-advisor which details how they will manage your investments. Most often you will need to sign new account paperwork with the sub-advisor in order to open an account with them and receive their services.

In general round terms, Partnervest's business is split as follows: investment management advice about 98% with financial planning accounting for approximately less than 1% and our other advice for about 1% or less.

### **Who owns Partnervest and what are some of its affiliated entities?**

We are 100% owned by a parent company called Partnervest Financial Group LLC which has other subsidiaries such as an insurance agency and limited purpose broker-dealer. Partnervest Financial Group LLC is in turn primarily owned and managed by its officers, Marcy Burton, Jim Herrell, Ken Hyman and Tim Mahota. Partnervest currently has 13 employees in its headquarters office in Santa Barbara, California and numerous representatives throughout the country. Partnervest has been in business since 2001.

The broker-dealer that Partnervest Financial Group LLC owns is called Partnervest Securities, Inc. (PSI). It is a registered limited purpose broker dealer. PSI does not currently conduct any securities business and it is limited to just accepting a portion of commissions based upon the sale of its assets to another broker-dealer called Sorrento Pacific Financial LLC (SPF) in 2009. Even though PSI does not conduct broker-dealer business, Partnervest often refers clients to SPF as well as other broker-dealers for custody services. The insurance agency that Partnervest Financial Group LLC owns is called Partnervest Insurance Group LLC, a state registered insurance agency. Partnervest Insurance engages in a broad range of activities normally associated with general insurance agencies, but primarily in life insurance and fixed annuities. Pursuant to the investment advice and/or financial planning given by Partnervest, purchase of insurance products may be recommended for clients of Partnervest. Further detail on these entities and other affiliations is provided in this document under the heading "Other Financial Activities."

### **How does Partnervest offer its services?**

Partnervest primarily distributes its services through independent contractor representatives, and also has a few employee representatives. Both are investment advisory representatives, but we refer to them in this document as "representatives." Finally, Partnervest distributes its investment management strategies through sub-advisors and solicitors.

Independent Contractor representatives are not employees of Partnervest, but are registered as investment advisory representatives for the purpose of providing investment management services through Partnervest. Independent contractor representatives pay for their own offices and expenses and usually do business under a separate name from Partnervest, for example "John Doe Investment Management." An independent contractor representative may provide other services not affiliated with Partnervest, for example, accounting, tax preparation and planning or legal advice. You can ensure that you are receiving investment management advice from Partnervest by either asking the representative or locating a disclosure on written materials stating "Investment management services provided by Partnervest Advisory Services LLC." Further, independent contractor representatives may use and charge for services, resources and approaches different than those of Partnervest as stated within this document. These differences will be disclosed in the representative's Form ADV Part 2B.



Employee representatives offer the Partnervest programs under the Partnervest name.

Solicitors are independent of Partnervest and refer potential clients to Partnervest. Solicitors are required to disclose this relationship to clients at the time of solicitation and referred clients that use Partnervest services are required to sign a document which discloses to the client the amount of compensation paid to the solicitor for referring the client to Partnervest.

Partnervest also distributes its investment management services through various independent investment advisors who are not otherwise affiliated with Partnervest. Partnervest functions as a sub-advisor to these other investment advisors. In this instance, Partnervest only controls the provision of the investment advice to the client on behalf of the other investment advisor. The primary relationship with the client is with the other investment advisor and Partnervest can't control or impact the overall investment advice provided to the client.

### **Tell me more about STAR:**

STAR™ is the name of the proprietary asset management programs offered by Partnervest. The STAR programs use Partnervest's discretionary asset management services. The STAR programs are divided into three general programs, STAR I, STAR II and STAR III. STAR III is further divided into multiple programs called "strategies" and further subdivided into "enhancements". STAR stands for "Strategic Tactical Allocation Risk" and denotes the general attributes of each STAR program. Although they differ in their specific approach, the programs invest in a variety of securities but mostly Exchange Traded Funds ("ETF"s) and mutual funds. However, it is important to note that Partnervest only offers investment advice and not the funds themselves.

Here is some more detail about our STAR programs:

#### **STAR I:**

This program is offered by Partnervest's independent contractor representatives. The strategies are varied and are detailed to the client by the representative and most often memorialized in an investment policy guideline. A more specific description of the representative's version of the STAR I program is contained within the specific Form ADV Part 2B provided by your representative. Partnervest will invest, bill, report and/or provide ancillary services to client accounts for the representative based upon investment models as provided by the representative and other instructions of the representative.

#### **STAR II:**

Clients who choose to use this program benefit from Partnervest's experienced portfolio management team and proprietary portfolio management process. The first step we take in providing STAR™ II to clients is understanding the client's investment objectives, time horizon, and risk tolerance. We do this by obtaining background data learned about the client, including information contained in the new account documentation. Partnervest, sometimes in conjunction with the client, then analyzes the information and suggests the optimal mix of asset classes and investment styles in order to achieve the client's investment objectives within his/her risk parameters. The strategic asset allocation model provides target ranges for each asset class or investment style. A wide variety of securities, comprising (in varying degrees) of open-end (mutual) funds, Exchange Traded Funds (ETFs), individual equities,

fixed-income, and other securities, may be utilized in each investment style.

STAR™ II follows a “core and satellite” portfolio structure designed to achieve its objectives. The securities are sorted and ranked according to a proprietary quantitative and qualitative investment model comprising several criteria which may include: rates of return, fund inception, correlations, Sharpe Ratio, maximum drawdown, standard deviation, mean-variance optimization and other factors. Portfolio allocations are dynamic and can vary depending upon several factors, including client needs and circumstances, market conditions, and other factors. When changes are made due to these circumstances, we call them Tactical Shifts. Representative examples of the STAR II portfolios are listed below, but can significantly change over time, or even not be offered as indicated, due to market or firm circumstances and conditions.

Aggressive (90% Equity, 10% Fixed-Income)

Growth (80% Equity, 20% Fixed Income)

Moderate (65% Equity, 35% Fixed Income),

Balanced (50% Equity, 50% Fixed Income).

STAR III:

Currently there are three primary proprietary strategies within STAR™ III, ALPHA, VEGA and TITAN.

*ALPHA:*

ALPHA strives to combine the price appreciation potential of both equities and commodities ETFs (e.g. gold) in a mixed portfolio while attempting to mitigate the downside risk via the use of non-correlated assets and income from U.S. Government bonds. We usually invest a majority of the client's assets in fixed-income investments which is intended to have the effect of further lowering overall price volatility. The structure of the Alpha strategy creates the potential to benefit in both rising and falling markets. The nature of the downside protection provided by the Alpha proprietary strategy often enables Alpha to reset at lower prices after a decline, thus mitigating the need for a full market recovery before an investor can participate in subsequent advances. In sum, Alpha is a strategy that limits portfolio risk by indexing equity exposure, reducing the absolute dollar amount at risk, and matching the target date with an fixed-income return stream to both participate in positive stock returns, and helps protect those returns during negative periods.

More specifically, the Alpha Strategy combines three non-correlated ETF's, Exchange Traded Notes (ETN's), other securities or options on these securities in the same portfolio, seeking to ensure the protection of principal across all market cycles. This is done by, in part, investing in fixed income securities while providing market appreciation potential from both the S&P 500 and gold securities, or other securities, while at the same time seeking to reduce the price volatility a client would experience from investing in any asset individually. A core component of the strategy comes from the fixed-income portion of the portfolio, whereby a majority of the assets are placed in a fixed income security. The strategy may utilize the iShares 20+ year Treasury Bond ETF (TLT) or similar securities as determined by Partnervest in its discretion. Participation in the S&P 500 and gold securities is primarily from the use of bull, or long call calendar, option spreads. There may be times when an account does not purchase all desired securities, for example when Partnervest deems a particular security to be overvalued or trading at a premium. There may also be times when more than three securities are purchased in order to achieve the objectives of the strategy.

Call options are sold on the component securities at a strike price equivalent to targets based on volatility and quantitative criteria as determined by Partnervest in its discretion. As calls are covered and/or expire, a new strike price is calculated for each security and additional options on the underlying securities are sold. The average time until expiration for the option portfolio is typically one quarter (91 days) or less, so that premiums may be received on each security approximately four times per year (however, Partnervest may close out or enter into options on a more or less frequent basis in its discretion). When a call spread is used, in lieu of purchasing the underlying security and selling a call, a call option is usually purchased on a particular underlying security, while simultaneously writing a call option on the same underlying security.

As an alternative or in addition to purchasing securities and selling covered call options, Partnervest may sell cash-secured puts as a means to receive income premium while setting a lower underlying security purchase price. The sale of cash-secured puts requires cash to be set aside in the account to cover the purchase of the underlying security should the option be assigned. Partnervest, at its discretion, may also utilize the purchase of puts as a means to profit from and/or hedge against a downward movement in price of the underlying security to meet the strategy objectives. The risk of buying long puts is limited to the loss of the premium paid for the purchase of the put. There is no assurance that any strategy, including option strategies, will be successful or result in a profit for the client.

Although Alpha is designed to generate quarterly income in the form of premiums received from the sale of covered calls and/or sale of cash-secured puts, there are some risks involved. The amount of the premium is typically determined at the start of the quarter, and realized either at expiration or sooner if the strategy determines that conditions warrant covering the short option position beforehand. The risks of covered call writing include the potential for the market to rise sharply. In such instance, the buyer of the call option would likely acquire the security from the client and the return on that security would be limited to the premium received and the difference between the strike price and the purchase price until such time as the underlying security is repurchased as applicable. The risk of a bull or long call calendar spread is limited to the net premium paid. The risks of cash-secured put writing include when the underlying security declines significantly and the put writer is assigned, the purchase price for the shares can be above current market price. In this case, the put writer will have an unrealized loss due to the high stock purchase price, but will have upside profit potential if retaining the purchased shares and keeps the premium from the sale of the puts. If no other payout instructions exist, premium income will be reinvested into the Alpha model.

Within ALPHA, clients with ERISA qualified plans may select the "ALPHA Q" program. This program is basically the same as Alpha but we don't use calendar spread options and instead just use covered call options.

### VEGA:

VEGA stands for Volatility Enhanced Global Appreciation™. VEGA seeks to generate consistent, repeatable returns utilizing a diversified global portfolio of ETFs, and harnessing volatility via an options writing strategy to generate a steady uncorrelated income stream. In other words, this strategy seeks to capture the up and down movement of a globally diversified portfolio in order to benefit from non-directional price swings as well as cumulative appreciation. It then seeks to mitigate the risk of the underlying portfolio by using a proprietary options strategy. Another way to describe VEGA, is that the

VEGA strategy consists of an equally-weighted portfolio of ETF's and ETN's or other securities designed to mimic certain, global indices while using options to attempt to reduce risk over time across different market environments.

Since VEGA tries to capture premiums based on each index's individual volatility, the difference represents a significant potential source of excess returns. VEGA's structured investment process includes a covered call strategy known as "overwriting." The use of options in this context is intended to reduce overall portfolio risk as compared to a long-only approach. VEGA attempts to quantify and capture expected quarterly returns by in part, selling option premium on portfolio components in excess of the current price when warranted. The strategy of purchasing an underlying equity security and simultaneously selling a call for the equivalent number of shares is known as "overwriting." More specifically, call options are sold on the component securities at a strike price equivalent to targets based on volatility and quantitative criteria at Partnervest's discretion. As calls are covered and/or expire, a new strike price is calculated for each security and additional options on the underlying securities are sold. The average time until expiration for the option portfolio is typically one quarter (91 days) or less, so that premiums may be received on each security approximately four times per year (however, Partnervest may close out or enter into options on a more or less frequent basis in its discretion). As an alternative or in addition to purchasing securities and selling covered call options, Partnervest may sell cash-secured puts as a means to receive income premium while setting a lower underlying security purchase price. The sale of cash-secured puts requires cash to be set aside in the account to cover the purchase of the underlying security should the option be assigned.

There is no assurance that any strategy, including option strategies, will be successful or result in a profit for the client and there are always risks. The risks of covered call writing include the potential for the market to rise sharply. In such instance, the buyer of the call option would likely acquire the security from the client and the return on that security would be limited to the premium received and the difference between the strike price and the purchase price until such time as the underlying security is repurchased as applicable. The risks of cash-secured put writing include when the underlying security declines significantly and the put writer is assigned, the purchase price for the shares can be above current market price. In this case, the put writer will have an unrealized loss due to the high stock purchase price, but will have upside profit potential if retaining the purchased shares and keeps the premium from the sale of the put. Further, the options strategy does not protect a portfolio against loss if the underlying securities decline in value. Finally, the portfolio may under-perform in a rising market if the value of the security at expiration exceeds the strike price of the call plus the premium received.

VEGA is an actively managed strategy that can be expected to generate the bulk of its returns in the form of short-term capital gains. An investor needs to carefully consider the tax-consequences of the returns in light of their current tax situation. Further, there may be times when an account does not purchase all desired securities, for example when Partnervest deems a particular security to be overvalued or trading at a premium or when the amount of investable assets don't allow for sufficient diversification. The amount of diversification is increased as the amount of investable assets increases until a desired allocation is achieved.

Partnervest also offers several enhancements to the VEGA strategy which the client can select based upon their individual circumstances and risk tolerances. The following are a listing of enhancements in the VEGA program.

*a. Premium Income Enhancement*

Except for premium amounts required for transactional and portfolio management purposes, Partnervest, in its discretion, will allocate the accumulated premium in the VEGA Enhanced strategy which includes Principal Protection, and may include Reinvestment Option Elections.

### *b. Principal Protection*

The Principal Protection feature is intended as a means to profit and/or hedge against potential price declines of 20% or greater in the client's VEGA Enhanced account. It may be implemented as volatility lowers and/or security prices have risen and the cost of protection has been deemed to be cost beneficial. The cost of the protection is expected to be derived from accumulated option premium but principal may be used. The use of this enhancement entails the purchase of put options on a security representing some or all of the market holdings of a client's account. Please note that the principal protection requires the VEGA Enhanced account to be approved for purchasing long options (in addition to covered options) in order to purchase protective puts. The risk of buying long puts is limited to the loss of the premium paid for the purchase of the put.

### *c. Reinvestment Option Elections*

Except for premium amounts required for transactional and portfolio management purposes, Partnervest usually does not reinvest the premium back into the original securities, unless the Client requests. In normal circumstances, the use and/or investment of accumulated premium is determined by client selected Reinvestment Option elections. Unless otherwise specified, the default choice for premium accumulation is a money market fund or FDIC deposit sweep account selected by Partnervest. The following two elections are selected by clients who choose the Reinvestment Option Election:

- 1) Treasury Option Income Election: Periodic reinvestment of accumulated premium into the representative Treasury ETF, and sale of periodic call options on the same.
- 2) Volatility-Based Reinvestment Election: May be implemented on a systematic or periodic basis, by reinvesting accumulated option premium back into the underlying VEGA Enhanced account as the level of implied volatility rises and/or securities' prices decline. The CBOE Volatility Index (VIX) is used as a measure of current volatility. However, clients should note that due to minimum 100 share lot purchase requirement per security, total account equity per account can be a factor considered by Partnervest when determining premium reinvestment elections.

### *TITAN:*

TITAN™ stands for "Tactical Inverse ETF Absolute Returns." The TITAN strategy comprises an approximate notionally-weighted portfolio of both long and short Exchange Traded Funds (ETFs).

Notional Value is basically defined as the total value of a leveraged position's assets. This term is commonly used in the options, and levered ETF markets as a small amount of invested money can potentially represent a larger position. For example, 100 shares of the S&P 500 Depository Receipts (SPY) with a market price of \$110 represent \$11,000 of notional value. By comparison, 150 shares of the ProShares UltraShort S&P 500 (SDS) at \$36.65 represent \$10,995 of notional value (150 shares x 200% leverage x \$36.65).

The strategy seeks to maintain an effective net directional bias between the paired ETFs of close to zero by, in part, actively managing the long and short ETFs according to prevailing market conditions. Notional exposure to all ETFs combined should not exceed 100% of account equity under normal market conditions. Covered call options are sold on the component ETFs at a strike price equivalent to targets based on Partnervest's proprietary volatility and quantitative models which are modified at Partnervest's discretion upon market and policy changes. The premiums received from the sale of the options are usually not reinvested back into the underlying ETFs but rather are maintained in cash except to the extent premium amounts are required for transactional and portfolio management purposes or unless the client and Partnervest enter into a written determination to reinvest those assets ("Enhanced Election"). As calls are exercised and/or expire, a new strike price is calculated for each ETF and additional options on the underlying securities are sold. The average time until expiration for the option portfolio is typically one quarter (91 days) or less, so that premiums are received on each ETF approximately four times per year. TITAN is designed to generate regular income in the form of premiums received from the sale of covered calls. The amount of the premium is typically determined at the start of the quarter, and realized either at expiration or sooner if the strategy determines that conditions warrant covering the short option position beforehand. As stated above, except for premium amounts required for transactional and portfolio management purposes, the TITAN strategy does not reinvest the premium back into the original ETFs, unless the Client requests Partnervest to do so in writing, i.e. Premium Elections. Unless otherwise specified, the default choice for premium accumulation is Cash/Money Market Fund. The Premium Elections within TITAN are:

*a. Fixed-Income:* Accumulated premiums are invested in either a taxable/tax-free (municipal) fixed-income fund or funds as selected by Partnervest. Generally, a higher rate of return is expected from the yields on longer maturity bonds; however, there is risk to principal with this option.

*b. VEGA:* Premiums are transferred into a separate account, and invested according to the VEGA strategy.

*c. Periodic Reinvestment:* As option premiums accrue, they are systematically reinvested back into the long/short ETF portfolio. But please note that due to the rounding requirement of minimum 100 share lots per ETF, and depending on the total equity of the account, at the discretion of Partnervest, premium will be reinvested when it is both optimal and reasonably feasible to do so.

### **Tell me more about your other advisory services which are not STAR.**

**Customized Models:** Partnervest also offers investment models customized to meet the client's needs, circumstances or desires. These programs are not often provided and usually just to clients who have unusual needs or significant and varied assets to manage. Sometimes a representative will heavily weight a client's portfolio in a small number or single asset class especially if the representative is managing only a small portion of the client's overall assets. These offerings are subject to change due to market and demand changes and are provided in the discretion of Partnervest.

**Financial Planning:** Partnervest offers comprehensive financial planning services. These are at a cost in addition to investment management. There is no obligation for a investment management client to use Partnervest's financial planning services and vice versa.

### **Tell me more about your financial planning services.**

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Partnervest provides comprehensive personal financial planning services for a fee. Our investment management services may be a part of the implementation process that occurs once the initial planning has been accomplished. Use of our investment management services is not required to use the financial planning services and vice versa.

The financial planning process generally involves some or all of the following (although some steps may be modified, added or deleted based upon the circumstances and individual needs of the client):

1. Clarify the client's present circumstances by collecting and assessing materially relevant personal and financial data.
2. Identify the client's financial, business and life goals, challenges, concerns and planning assumptions.
3. Analyze a range of possible solutions and discuss alternatives.
4. Provide customized and specific recommendations regarding one or more of the following, where applicable:
  - a. Preparing for or living in retirement
  - b. Investment strategies
  - c. Estate planning ideas
  - d. Income tax impacts on investment management
  - e. Stock option analysis and planning
  - f. Life and or disability insurance
  - g. Savings program and planning
  - h. Education planning and funding
  - i. Charitable gifting
  - j. Debt management
  - k. Employee benefit usage
  - l. Budgeting and cash flow planning
  - m. Estate evaluation

The gathering of information, the review of alternatives and plan development are all done in close conjunction with the client usually based upon a series of meetings or discussions which may include one or more of the following areas:

1. The client's objectives and financial goals,
2. A review of the client's assets, debts, income and expenses, and income taxes,
3. A review, analysis and recommendation regarding one or more of the subject planning areas previously listed,
4. A summary of our findings, and
5. A task list for the client.

Our financial planning services are tailored to the needs of the client and can vary from informal advice in connection with our asset management services, to a formal written financial plan. If a written financial plan is to be provided, then clients will receive a copy of a written financial plan that is developed and which serves as the basis for discussions during the time we work together. If there are questions, these are reviewed in our on-going discussions, or between meetings, through whatever means of communication is most convenient for the client and Partnervest. When acceptable to the client, we make active use of the telephone, email, and other forms of electronic or written communication as well as face-to-face meetings. Proper planning is not a one-time event. Life's

circumstances change, goals change and opportunities available change over time. Any plan needs to be adjusted and updated to reflect these changes or it becomes outdated. Therefore, in our normal planning relationship, we encourage clients to meet periodically with us to review and update the client's information, to measure progress in key financial areas, and to develop strategies designed to address any changing circumstances. The initial planning should always be seen as the beginning step in a life long process. In essence, we attempt to follow up, monitor and make changes in the plan when and if we receive information from the client and as circumstances indicate.

Once an initial plan is completed, which may be written or verbal, the client has several options with regard to ongoing financial planning services: 1) the client may feel that the questions which required the service in the first place have been adequately addressed and that there is no need for further involvement with Partnervest; 2) the client may wish to have access to ongoing services provided, such that regular or periodic meetings occur to discuss changes in the client's financial situation or in the financial environment; or 3) the client may wish to wait to initiate contact with Partnervest as new questions arise. Compensation for future services may be at our then hourly rates, at an agreed project rate or on retainer depending on the situation. It is important to note that clients can stop the planning process at any point and terminate the business relationship with Partnervest.

Personal financial planning (the analysis, report, and subsequent modifications and services) is a service separate from our investment management services. Clients have full discretion as to the extent to which, if at all, they choose to implement the recommendations discussed in the financial planning phase. There are no requirements to use any specific broker-dealer, agency or custodian for investment, insurance or implementation services, although clients usually use our recommended service provider, which may also provide Partnervest more compensation and/or benefit.

Planning services may also include a reasonable amount of time and activities necessary to work with client's attorney and/or accountant in reaching agreement on solutions. But the client should note that Partnervest is not responsible for attorney, tax planner/preparer or accountant services and/or fees charged to client as a result of the above activities. Furthermore, a financial plan does not include recommendations on specific individual investments, preparation of any kind of income tax, gift or estate tax returns or preparation of any legal documents, including wills or trusts. Specific investment recommendations are considered part of the implementation phase of the relationship. The others may constitute legal, accounting or tax advice which are not provided by Partnervest.

### **Do you offer a wrap program?**

Partnervest has a wrap program set up but does not actively conduct business with it.

Rule 204-3(g)(4) of the Investment Advisers Act defines wrap fee program to be a "program under which any client is charged a specified fee or fees not based directly on transactions in a client's account for investment advisory services including portfolio management or advice and execution of client transactions.' In other words, it is called a Wrap Fee Program because the charge for the investment advice and the transactions to implement the investment advice are wrapped into one fee.

We currently offer one wrap program, and only through one independent contractor representative. Partnervest uses discretion in managing a client's account and thus it will invest the client's money and enter into transactions on behalf of the client without the client's consent to each transaction. The Wrap Fee Program is implemented through a custodian, currently TD Ameritrade, which is independent



of Partnervest. The custodian is responsible for holding client funds and securities, and will implement transactions through its broker-dealer as instructed by Partnervest. The investment advice provided through the Wrap Fee Program is one of our STAR strategies.

In wrap-fee arrangements, trades are generally executed at the broker-dealer at which the account is held in custody and with which the client has entered the wrap-fee arrangement. In such cases Partnervest is not free to seek the best price and execution for the client. Therefore, no assurance can be given that Partnervest will be able to obtain the best price or execution for clients whose accounts are subject to wrap-fee arrangements. Clients who enter into wrap-fee arrangements should satisfy themselves that the broker-dealer offering the wrap fee arrangement is able to provide adequate price and execution of transactions. Clients who enter into wrap-fee arrangements should also be aware that the total fee charged by the broker-dealer (the single overall or "wrap" fee) may exceed the alternative total fees for brokerage, custody, and other services if the client were to negotiate such fees separately. In evaluating wrap-fee arrangement, clients should be aware that brokerage costs are not negotiated nor controlled by Partnervest. Therefore, clients in wrap-fee programs may be disadvantaged in some circumstances relative to other clients of Partnervest who are not in wrap-fee programs.

**Is there any other important information that I should know about your offerings.**

In addition to what is stated elsewhere in this document, there are some other things you may want to know. Partnervest has a policy of having written Investment Advisor Agreements with each of its clients but it is not absolutely required. If there is a written advisory agreement, that will control and supercede any oral understanding. Partnervest's services cannot be assigned to any other investment advisor without the consent of the client. Such consent may be given by the client, as stated in the Investment Advisor Agreement which includes by a silent affirmation or opt-out method, i.e. the client is notified by Partnervest in writing of the proposed assignment and if the client fails to object within the stated period then the client's silence is deemed acceptance or agreement to the assignment. Partnervest provides Part 2 of Form ADV and Privacy Policy to clients at or before the time services are rendered. There is no minimum initial account size to obtain Partnervest's investment management services but Partnervest prefers to manage accounts with at least \$100,000 in assets. We reserve the right to terminate a client's account pursuant to the terms of the Investment Advisor Agreement but the general notice period in our Investment Advisor Agreement to terminate the relationship is thirty days.

**Partnervest Advisory Services, LLC****Item 5 Fees and Compensation****What are the fees for your services?****Investment Management Fees**

Partnervest provides investment management services including, without limitation, the STAR program exclusively on a fee basis. Partnervest may also use the services of a third party to provide investment management services to the client. In such cases, Partnervest is either a solicitor for the third party investment advisor or the third party investment advisor is a sub-advisor to Partnervest. In either case, when a third party investment advisor is used specific disclosure is made to the client with discussion of any fees to be received by the third party asset manager

To serve the variety of needs of its many different investment management clients, Partnervest utilizes multiple compensation structures. representatives may have different schedules in their specific Form ADV Part 2B delivered to the client and/or may have a fee schedule in the Investment Advisor Agreement. However, for Investment Advisor Agreements that indicate the fee is as stated in Partnervest's Form ADV, and if there is not a more particularized STAR I fee schedule in the representative's Form ADV Part 2B, then the fee chargeable to the client will be the applicable fee as stated below:

**General Fee Structure for Non-STAR (and STAR I) investment advisory services:**

- 2.25% per year for the first \$250,000 of assets under management
- 1.60% per year for the next \$750,000 of assets under management
- 1.35% per year for the next \$1,500,000 of assets under management
- 1.30% per year for the next \$2,500,000 of assets under management
- 1.25% per year for all assets under management over \$5,000,000

**For STAR accounts, the fee schedule is:****STAR II**

- 1.60% per year for the first \$250,000 of assets under management
- 1.50% per year for the next \$250,000 of assets under management
- 1.35% per year for the next \$500,000 of assets under management
- 1.20% per year for the next \$1,500,000 of assets under management
- 1.10% per year for the next \$2,500,000 of assets under management

**STAR III**

- 2.75% per year for all assets under management

**For the Wrap Fee Program the fee schedule is:****General Fee Structure – Percentage of Assets Under Management**

- 1.0% per year for the first \$250,000 of assets under management
- .9% per year for the next \$250,000 of assets under management

- .8% per year for the next \$500,000 of assets under management
- .7% per year for the next \$1,500,000 of assets under management
- .6% per year for the next \$2,500,000 of assets under management
- .5% per year for all assets under management over \$5,000,000

### General Fee Structure – Flat Fee

\$1000 per year, charged as \$250 quarterly

In any case, the investment advisory fee charged by Partnervest will not exceed 3% per annum except in the case of accounts charged a performance fee (see the section titled "Performance-Based Fees" for more detail).

### **Financial Planning Fees**

Partnervest offers financial planning for fees based on one of three methods:

- a) **Hourly fees:** Usually at the rates set forth below. This approach is typically recommended for shorter term consulting requests or more limited financial planning analysis.
- b) **Project fees:** These are fixed at the beginning of the engagement and based on an estimate of the time required to complete the work. This approach is appropriate for both basic planning and for more complex planning cases.
- c) **Quarterly retainer fees:** This approach is recommended where the nature of the planning work is complex and the client has multiple financial concerns requiring regular advice and guidance.

The current hourly rates charged to clients are a maximum of \$350 per hour. Hourly clients are billed for time incurred at the completion of each key planning task or on delivery of the financial planning deliverable. Hourly rates are negotiable. Also, Partnervest may, if mutually agreeable with the client, charge a fixed fee for its financial planning services. The fixed fee will be dependent upon the perceived complexity of the client's situation and can usually range from \$2,000 to \$15,000. The fixed fee does not include any investment management services. For project based financial planning services, an initial retainer of \$500 is normally payable in advance (but less than 6 months ahead of the service being provided) and will be applied against the project fee. The initial deposit compensates Partnervest for administrative time spent in the initial phase of the planning activity. Progress billings of the balance of the agreed upon fee may be presented at appropriate states in the planning process as work progresses. The project fee is based on the hourly rates listed above multiplied by the number of hours Partnervest expects to or does spend on the project.

Extraordinary research or analysis may involve additional cost, which will be negotiated on an individual basis prior to the beginning of such work. For clients who are seeking on-going financial or business advice, and for those who have less than \$1 million of investments being managed by Partnervest, a quarterly retainer arrangement may be negotiated. The quarterly retainer fee will reflect the time and effort expected to be required of Partnervest in providing the anticipated services to the client. A range of client priorities and needs can be easily accommodated through the quarterly retainer structure. Such retainer fees are usually billed quarterly, in advance. If, for any reason, a client wishes to terminate an investment advisory agreement in the first five business days after entering the agreement, the client will be entitled to a full refund of any fees paid to Partnervest under that agreement. Thereafter, a client may terminate the agreement at any time but will be liable for the financial planning fees earned to that date and or for the expenses incurred by Partnervest based on

the standard hourly rates previously noted. To ensure clear communication, a termination notice must be issued in writing and is effective upon receipt by Partnervest or the client.

**Other Important Fee Information:**

Fees and minimums may be negotiable where special circumstances exist. Fees are usually charged quarterly in arrears unless otherwise disclosed to a client that they will be charged in advance. All investment management fees are charged as a percentage of assets under management and are calculated at the close of each calendar quarter unless otherwise stated to a client. Investment management fees are based on prices provided by the custodian at market close on the last business day of the quarter, but other valuations may be used such as quarterly average and are disclosed to the client. Prices for most assets are available through electronic download on a daily basis. However, daily prices may not be available for certain assets, such as some annuities or assets that are not held at our recommended custodians or which do not have a readily ascertainable market. In such cases, less frequent valuation, typically the month-end or quarter-end asset values (e.g. as reported by the custodian) may be used in calculating the average daily balance, if that calculation method is used. Assets are held in custodial accounts at Pershing (through SPF), TD Ameritrade, Fidelity or Schwab or similar custodial company or directly at the issuer. Any charges that may be assessed by the custodians are included in the above-mentioned fee.

All fees paid to Partnervest for investment management services are separate and distinct from the fees and expenses charged by the broker-dealers used for the transactions, custodians that hold the assets and the fees incorporated into the securities themselves, such as mutual funds or ETFs. The securities fees and expenses are described in each fund's prospectus and brokerage/custodial fees are described in the new account documentation when the client opens a brokerage account. A client could invest in most securities directly without the services of Partnervest and the client could pay more or less than what they pay for the programs if they purchased the services separately. Some of the factors that determine whether the client would pay more or less are volume of trades executed for the client, dollar value of client assets, type of executing broker dealer, frequency of portfolio reviews. In that case, the client would not receive the services provided by Partnervest which are designed, among other things to assist the client in determining which securities or funds are most appropriate to each client's financial objectives. Accordingly, the client should review both the fees charged by the funds/issuers to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Clients authorize Partnervest to deduct Partnervest's fees directly from their accounts, but on rare occasions Partnervest may direct bill the client for the investment management fee. Partnervest provides a quarterly billing statement to the client and the custodian for custodial accounts where Partnervest's fees are paid by account charge, by direct deposit or by automatic disbursement. Partnervest may inform the client of the fee to be deducted before or after the actual deduction or may rely on the Custodian's statement to the client to reflect the fee deduction. Custodians should state the amount of the fee deducted on the client's periodic statement received from the custodian. Custodians may term the fee differently, e.g. "management fee" "service fee". Clients should carefully review and compare account statements received from Partnervest against those provided by the custodian holding the client's assets. The account custodian does not check the fee calculation, percentage or amount to be deducted, so the client is responsible for reviewing the fee deduction shown on account statements and informing Partnervest of any suspected errors.

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If, for any reason, a client wishes to terminate an Investment Advisor Agreement in the first five business days after entering the agreement, the client will be entitled to a full refund of any fees paid to Partnervest under that agreement. Thereafter, a client may terminate the agreement at any time but will be liable for the advisory fees earned according to the terms of the Investment Advisory Agreement based on the fee schedule then in effect for that client. To ensure clear communication, a termination notice must be in writing. Partnervest does not require a client, and a client is under no obligation, to act upon our recommendations. Partnervest also reserves the right to terminate a client's account pursuant to the terms of the Investment Advisor Agreement.

If a client does desire to implement Partnervest's recommendations including, without limitation, financial planning services, the client is free to effect the transactions through any broker-dealer, investment advisor or other financial institution. If a client directs Partnervest to use a particular broker-dealer, Partnervest may not be able to negotiate commission discounts, obtain volume discounts or achieve best execution for the clients transactions completed through their chosen broker-dealer.

Partnervest representatives may receive commissions (e.g. insurance and brokerage commissions) for the sale of the insurance product and/or securities to the client which is done to implement the investment advice provided to the client. A potential conflict exists, as a representative may advise a client to invest in certain products or securities which the representative also receives a commission. At the discretion of the representative, the representative may offset such commissions from the advisory management fee charged to the client. Any such offset will usually be described in writing to the client. Further, upon written notice to the client, which may be limited to the offer of an updated Partnervest Form ADV Part 2A or 2B, Partnervest's fees may be increased or decreased.

Partnervest does not collect fees exceeding \$1,200 six (6) months or more in advance of being entitled to the fee.

**Partnervest Advisory Services, LLC**

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

**Does Partnervest offer clients the ability to pay a performance fee for asset management services?**

Yes. Some clients may prefer to pay fees to Partnervest based upon the performance of the portfolio. Upon determination by Partnervest that a client qualifies for such a fee arrangement according to Rule 205-3 of the Investment Advisors Act, such clients will be charged a percentage of their portfolio gains as stated in the Investment Advisor Agreement. In addition, a 2% annual administrative fee is charged whether there is any gain in the portfolio or not. Thus, overall fees could significantly exceed 3% of the assets under management per annum. Fees are charged quarterly in accordance with Partnervest's normal billing practices as detailed within this document and/or in the Investment Advisory Agreement. Performance fees are subject to the following disclosures:

A. Clients must have a net worth, excluding their primary residence, of \$1.5 million or be a Foreign Person or otherwise qualify for performance fees under Rule 205-3.

B. Type of Fees: As agreed between Partnervest and the client and as stated in the written Investment Advisor Agreement, Fees will usually be calculated pursuant to the Percentage of Appreciation method which is a specified percentage of appreciation in the account. However, if agreed by the client and Partnervest, they may instead be one of the following:

1. Percentage of out performance: This is a percentage of the gain in the account over a stated benchmark. This may, but is not obligated to, include a high water mark (i.e. No performance fee is earned unless the fund's performance exceeds the previously achieved high point, so as to avoid earning a performance fee on recoupment of prior losses.)

2. Escalating Fee Rate: When the account's performance exceeds a certain benchmark, the overall rate of advisory fee increases

3. Asymmetrical fulcrum fee: Unlike a typical fulcrum fee, the decreases and increases in compensation based on performance may occur at different rates and to differing extents, e.g. for every 10 percent below a benchmark, compensation is reduced by a 5 percent increment up to a maximum of a 20 percent reduction, whereas for every 10 percent above the benchmark, compensation is increased by 10 percent up to a maximum of a 50 percent increase.

C. Maximum: The performance fee will not exceed 30% of the quarterly realized and unrealized gain in the portfolio using the valuation as reported by the custodian at the quarter end.

D. Fees will be calculated after deletion of additions and withdrawals to the account.

E. Performance fees are charged quarterly based upon quarterly performance

F. There will be no performance fee if the account declined in value during the quarter, excluding additions and withdrawals.

G. The performance fee arrangement may create an incentive for Partnervest to make investments in

the client's account that are more risky and more speculative than would be the case in the absence of such an arrangement

H. Accounts subject to performance fees will be managed subject to a client's investment policy guidelines

I. Partnervest may receive increased compensation with regard to unrealized appreciation as well as realized gains in the account

Since Partnervest manages both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, there could be potential conflicts of interest by managing these accounts at the same time.

However, we make no distinction in terms of management between any accounts based on their fee schedule. This includes accounts that do not pay a fee (Advisor accounts, employee accounts) as well as asset-based and performance-based fees. One potential conflict of interest in a performance-fee based account is to use leverage to trade a higher dollar amount than an account's value. Since Partnervest does not employ leverage in the strategies it manages, we have no incentive to favor a performance-fee based account over any others. We avoid these potential conflicts of interest by excluding an account's fee election from the position summary and the block summary at the time of the trade. Furthermore, securities are generally traded at the block level, with every account in a given block receiving the same average price execution.

**Partnervest Advisory Services, LLC**

**Item 7 Types of Clients**

Partnervest provides financial services to individuals, pension and profit sharing plans, trusts, estates, charities, corporations or other business entities.



**Partnervest Advisory Services, LLC****Item 8 Methods of Analysis, Investment Strategies and Risk of Loss****What are the methods of analysis and information used by Partnervest in providing its investment advice?**

We treat clients as individuals. When a client comes to us their current investments are evaluated to determine whether they correspond with the client's financial objectives. Partnervest designs and proposes a portfolio to help clients attain their financial goals.

Before making recommendations to a client, and as a part of our overall method of analysis, Partnervest does extensive research to help develop our strategies and recommendations. Partnervest uses commercially available services, financial publications and information services dealing with investment research. Such information may be obtainable in print, on computer media, via the internet or via some other electronic means. Company prepared materials and research releases prepared by others are also utilized. Partnervest also uses research materials prepared by various investment product vendors or custodians. Finally, as an investment advisor, Partnervest has a good opportunity to access information from a variety of experts whether through personal visits, telephone calls or at industry or related meetings which cutting-edge information then benefits the client. However, Partnervest does not have access to all important financial information and does not access or use material non-public information concerning securities. Partnervest's research encompasses a wide range of investments including, without limitation, stocks, bonds, ETFs and mutual funds. Partnervest may offer advice on exchange listed or over-the-counter securities, corporate and agency debt and municipal securities, CDs, variable annuities, variable life insurance, mutual funds, U.S. Government securities, exchange traded funds (ETFs), hedge funds, options, adjustable rate securities, private and public real estate investment trusts (REITs) and limited partnership interests. The vast majority of investments recommended by Partnervest are in the form of no-load mutual funds and ETFs. The investment selection offered to clients may be limited by the knowledge and experience of the personnel of Partnervest and or the resources available to it as a result of its relationships with custodians and other providers in the broader financial industry. Partnervest believes that the breadth of choices available under these restrictions is sufficiently wide so as to effectively make available the full range of investment options that might conceivably be important for the vast majority of clients.

We then incorporate our research into the creation of our investment strategies. Some methods used in creating our strategies are charting, fundamental economic and investment analysis, technical investment analysis and/or cyclical analysis. The asset allocation service utilizes a strategy designed in accordance with individual client volatility tolerance to deliver the optimal mix of asset classes, using a tailored mix of securities. For fixed income, Partnervest generally uses ETFs but in some cases builds portfolios using investment grade fixed-income instruments (i.e. CDs, corporate bonds, U.S. Treasuries, tax free municipal bonds, zero-coupon bonds and commercial paper), with maturities designed to provide either preservation of capital or current income.

Partnervest's selection of investment vehicles supports the asset allocation process. Each investment represents a relatively narrow sector of the equity or fixed income market as determined by the particular security or if a mutual fund, its management style or the index it tracks. By combining

individual investments into the overall asset allocation portfolio, a well diversified portfolio of individual securities (including options) is sought with broad market exposures but without chronic over-weighting or under-weighting of specific sectors industries or manager styles. Partnervest often makes use of broad based index funds and ETFs in order to participate in any particular asset class but also diversifies in other methods depending upon the individual client's needs, including individual equities and options such as covered calls. Index funds and ETFs benefit from low costs and minimum trading activity, avoiding timing and human judgment and the tax costs arising from each security trade. In many cases, Partnervest will utilize both active managers and passive index funds in the same asset classes within a single portfolio.

**What are some of the risks associated with your method of analysis?**

Partnervest's limited resources may not allow it to research as much as it would otherwise find desirable. Likewise, the scope of securities included may not be extensive as Partnervest has an incentive to increase efficiency of its limited resources by focusing more of its analysis of asset class sector ETFs. This narrower focus could mean that clients don't participate in higher returns that they otherwise could have done. Also, Partnervest's STAR III strategy can accrue large amounts of cash in the client's account due to option strategies and Partnervest may need to, or find it desirable, to wait for better buying opportunities to reinvest the client's money. This may cause a portfolio to be out of balance for significant periods of time. Also, if a better buying opportunity is not apparent, Partnervest may sell cash covered puts. The implementation of our investment management program methods, including those described above, is at the discretion of Partnervest and thus may not be what the client would want at that specific time.

**Partnervest Advisory Services, LLC**

**Item 9 Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of Partnervest's business or the integrity of its management.

**Partnervest Advisory Services, LLC**

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

**What other important financial industry activities or affiliations do you or your management personnel have?**

Representatives of Partnervest may also sell products and services through their affiliations with insurance agencies and broker-dealers such as Sorrento Pacific Financial LLC and Partnervest Insurance Group LLC doing business as Partnervest Insurance Services.

Partnervest is a 100% owned subsidiary of Partnervest Financial Group LLC which owns Partnervest Securities, Inc. (PSI), a registered limited purpose broker dealer and Partnervest Insurance Group LLC dba Partnervest Insurance Services (Partnervest Insurance).

Partnervest Securities sold its brokerage assets to Sorrento Pacific Financial LLC in August 2009 and representatives of PSI are now registered representatives of the Partnervest Division of Sorrento Pacific Financial LLC (SPF). Thus, PSI does not currently conduct any securities business and therefore Partnervest's relationship to Partnervest Securities is not material to clients of Partnervest. Nevertheless, Partnervest Securities is paid a portion of the commissions earned by SPF in connection with the purchase of certain PSI assets by SPF. Thus, a conflict may exist between Partnervest's interests and those of its clients. If SPF is selected as the broker-dealer, it may effect transactions in securities for clients of Partnervest. SPF and its registered representatives receive commissions for executing securities transactions and PSI would therefore receive a portion of them. Clients are advised that if SPF is selected as the broker-dealer, the transaction charges may be higher than the charges the client might pay if the transactions were executed at other broker-dealers. The client is under no obligation to purchase securities recommended or to purchase securities through representatives of SPF.

Partnervest Financial Group LLC also owns Partnervest Insurance Group LLC, a registered insurance agency. Partnervest Insurance engages in a broad range of activities normally associated with general insurance agencies. Pursuant to the investment advice and/or financial planning given by Partnervest, purchase of insurance products may be recommended for clients of Partnervest. If Partnervest Insurance is selected by the client as the insurance agency, it may effect insurance product transactions for clients of Partnervest. If Partnervest Insurance is selected as the agency, the transaction charges may be higher than the charges the client might pay if the transactions were executed at other insurance agencies. The client is under no obligation to purchase insurance recommended or to purchase insurance through Partnervest Insurance.

Some other affiliations are:

Partnervest refers clients to several other custodians including Fidelity, TD Ameritrade and Schwab. See sections in this Form ADV Part 2A titled "Client Referrals" and "Custody" for more details about these relationships.

Certain Partnervest representatives and management personnel have other business affiliations, such

as, CPA, tax advice and preparation or law practices, as more fully described in their Form ADV Part 2B. These practices are independent of and not affiliated with Partnervest. Partnervest does not provide accounting, tax or legal advice.

Representatives may offer their services as a Partnervest investment advisory representative through another name. We call this a "doing business as" (dba) name. For example instead of operating under the name John Doe, the representative may operate under Doe Financial Group or XYZ Wealth Management. In these circumstances, the investment advisory services, but only the investment advisory services, are still offered through the Partnervest representative, notwithstanding the dba.

Partnervest recommends, but does not direct, that clients use one of several third party plan administrators ("TPAs") for administration of qualified plans. Partnervest receives no compensation for this recommendation but some pension staff may receive discounted or free continuing education from the TPAs to maintain their cutting-edge expertise in pension matters.

### **What are some of the risks or conflicts of interest created by these other financial activities?**

Representatives and management personnel may have their time and attention drawn to other activities and affiliations which may impede their ability to fully carry out all duties for Partnervest and its clients as would otherwise be desirable. Representatives may not be clear in exactly what firm or organization they are representing when providing various services. If the advice is provided altogether in a single meeting, for example, the client may believe that Partnervest is providing all of it, when in fact Partnervest is only providing the investment advice, and all other services are provided by a different entity. Partnervest and its representatives may have a bias to refer clients to its affiliated entities which may charge more than the fees otherwise available for such services. Such bias may also arise due to the potential for cross-referral of client relationships. Clients should comparison shop for any services recommended by Partnervest or its representatives and be sure that they clearly understand what entity is providing the services and be satisfied with the entity's merits. Partnervest has an incentive to refer its clients to SPF for brokerage services since it receives a portion of the commissions earned by SPF from the brokerage business done by SPF representatives that were formally representatives of Partnervest's broker-dealer, Partnervest Securities, Inc.

**Partnervest Advisory Services, LLC**

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

**What does your Code of Ethics say?**

Following is Partnervest's Code of Ethics. Partnervest will provide a copy of its code of ethics to any client or prospective client upon written request.

Partnervest is committed to ethical conduct. Partnervest's Code of Ethics is intended to set the tone for the conduct and professionalism of Partnervest employees and representatives. We stress the importance of the principles of honesty, integrity and professionalism in order to protect our clients from misconduct, protect the reputation of Partnervest, and educate and remind employees and representatives of their responsibilities to act with propriety at all times.

**Persons Covered by the Code**

Partnervest's Code of Ethics covers all Partnervest employees and representatives.

**Standards of Business Conduct**

Partnervest and its representatives will abide by honest and ethical business practices. The general principles discussed in this section govern all conduct at the firm and stress the importance of honesty, integrity, and professionalism in all conduct, treating clients fairly and doing what is right. These principles include, but are not limited to:

1. **Fiduciary Duty:** Place the interest of the client first at all times and maintain confidentiality regarding the financial circumstances of clients, including the identity of security holdings.
2. **Not inducing trading in a customer's account that is excessive in size or frequency in view of the financial resources and character of the account.**
3. **Making recommendations with reasonable grounds to believe that the recommendations are suitable for the customer on the basis of information furnished by the customer.**
4. **Not borrowing money or securities from, or lend money or securities to, a customer.**
5. **Not placing an order for the purchase or sale of a security if the security is not registered, or the security or transaction is not exempt from registration in states we provide investment advice in.**
6. **Not placing orders for customers, or recommending that the customer place an order, to purchase or selling a security through a broker/dealer or agent, or engaging the services of a broker/dealer, agent, or investment advisor, not licensed under states we provide investment advice in.**
7. **Personal Securities Transactions:** Conduct personal securities transactions in such a manner to avoid any potential or actual conflict of interest or any abuse of your position of trust and responsibility.
8. **Conflicts of Interest:** Do not take advantage of your position, and maintain independence in the investment decision-making process. Disclose material actual conflicts and obtain client consent. Avoid conduct wherein a conflict of interest would harm a client or could be interpreted as attempting to inappropriately influence a client
9. **Insider Trading:** Comply with Partnervest's prohibition against Insider Trading.
10. **Political Contributions:** Do not make political contributions to clients of the firm or to municipal officials wherein the firm has advised clients to purchase their municipal securities or in

which the firm has advised the municipality.

In connection with the purchase or sale (directly or indirectly) of a security held or to be acquired by a client, a representative or employee of Partnervest may not:

1. Defraud the client in any manner;
2. Mislead a client, including by making a statement that omits material facts;
3. Engage in any act, practice or course of conduct that operates or would operate as a fraud or deceit upon such client;
4. Engage in any manipulative practice with respect to a client;
5. Engage in any manipulative practice with respect to securities, including price manipulation.

### Reporting Violations of the Code of Ethics

All Partnervest representatives and employees have a responsibility to report any code violations to the Chief Compliance Officer, or a supervisor. Failure to report a code violation constitutes a violation itself. Retaliation against the reporting employee is prohibited and constitutes a further code violation.

### Annual Acknowledgement

On an annual basis, employees will be requested to attest that they have a copy of the Code of Ethics, have read it, and will comply.

### Failure to Comply With the Code of Ethics

Failure to comply with Partnervest's Code of Ethics may result in appropriate disciplinary action, up to and including termination.

### **Do you buy or sell the same securities that you recommend to clients and what procedures do you have which are reasonably designed so that clients don't get harmed by such activity?**

Partnervest or its representatives may, on occasion, buy or sell securities identical to those recommended to clients. It is the policy of Partnervest that no persons employed by Partnervest may purchase or sell any security prior to a transaction being implemented for an advisory account, thus preventing such employees from benefiting from transactions placed on behalf of advisory accounts. This rule does not apply to mutual fund transactions since trades are executed at the closing price at the end of the trading day. Should a conflict occur because of materiality, e.g. a thinly traded stock, disclosure will be made to the client. Incidental trading not deemed to be a conflict, e.g. purchase or sale which is minimal in relation to the total outstanding value, and as such would have negligible effect on the market price, would not be disclosed to the client. In addition, Partnervest has the following policies:

1. No employee of Partnervest will prefer his or her own interest to that of the advisory client,
2. Partnervest gives the unrestricted right to all clients to decline to implement any recommendation or advice rendered. Partnervest emphasizes the unrestricted right of each client to select and choose any broker or dealer and / or insurance company they wish.



3. Partnervest requires that all affiliated persons act in accordance with all applicable federal and state regulations governing investment advisors or be subject to discipline.

4. Partnervest does not act as principal to buy securities for itself from clients, or to sell securities it owns to any client.

5. Partnervest maintains policies and procedures designed to prevent its officers, directors and employees from trading on material non-public information gained during their employment with Partnervest.

Partnervest may provide a Profit Sharing Plan and 401(k) Plan for its employees. The funds in the plan are invested according to participant selection and generally use a similar investment strategy as recommended to our clients. Neither Partnervest nor any Partnervest employee has a vested interest in the securities or make a market in the securities used, therefore, there is no conflict of interest as it relates to our clients or ourselves. Owners of the company as individuals participants in or trustees of the retirement plan may also use Partnervest services to invest assets on their behalf.

Also related to retirement plans are Partnervest's policies with regard to cross transactions. Cross transaction occurs when Partnervest facilitates a securities trade between two clients. Partnervest will not effectuate any cross transactions involving qualified plan assets when Partnervest advises both the buyer and the seller. Partnervest will disclose to the client in writing prior to the completion of the transaction the capacity in which Partnervest is acting, the nature of the transaction, the pricing methodology used, the reason for the transaction, and a statement concerning Partnervest's conflict of interest in trying to fulfill its fiduciary duty to act in the best interests of both clients in the transaction, and that the client waives this conflict of interest by signing the consent. Partnervest will also disclose to the client a statement that authorization for a cross transaction may be terminated by the client at any time before settlement by written notification to Partnervest. Partnervest will give the client an annual summary of all cross transactions.

In addition, Partnervest may have a corporate investment account which is designed to be used as collateral or for growth of corporate assets. This account is invested in the STAR III VEGA investment strategy and is treated the same and no better than clients of the firm in the same investment strategy.

### **Do you have a privacy policy?**

Our Privacy Policy is as follows:

Overview Protecting the privacy and security of your personal information is a top priority for Partnervest. This Privacy Policy describes the privacy practices of Partnervest Financial Group LLC, and its affiliates, collectively known as Partnervest.

### **Highlights**

Your nonpublic personal information is confidential.

Information security is a priority at Partnervest.



We do not sell information to third parties.

We do not share your nonpublic personal information with outside parties except as necessary to service your account and as permitted or required by law.

### How We Gather Your Information

In the course of doing business with Partnervest, you share personal and financial information with us. We treat this information as highly confidential and are committed to protecting the privacy and security of it.

You may provide information when communicating or transacting with us in writing, electronically, or by phone. For instance, information may come from applications, requests for forms or literature, and your transaction and account positions. On occasion, such information may come from consumer reporting agencies and those providing other services to us.

### How We Protect and Use Your Information

We maintain safeguards and enforce our code of ethics to insure that your personal information is held in confidence. We do not sell information about current or former customers to third parties. We only share information about our customers within the Partnervest family of companies and with certain third party service providers that assist us in servicing your accounts. All third party service providers are required to protect the privacy of your information. In the event that your representative leaves Partnervest, we may provide your personal information to the Representative and his/her new firm in order to facilitate the transfer of your accounts to the new firm so that you may continue to be served by your Representative. We only disclose information as permitted or required by law.

### Notice (Required by Regulation)

If you do not want us to share information, other than required by law, with third parties, please clearly indicate your request in writing. If you wish confirmation of receipt of your request, then enclose a self-addressed stamped envelope. If you have questions concerning this or other Partnervest policies, please call your investment representative.

### **Are there other risks and potential conflicts of interest for clients using your programs?**

Yes. You will find discussion of risks and potential and actual conflicts of interest throughout this document. In addition to those, there may be other risks and potential conflicts that a client should understand when entering into an investment advisor relationship with Partnervest. Here are some:

1. As with any investment, there are substantial risks in investing including, without limitation, volatile and unpredictable markets and potential loss of all principal.
2. Clients should realize that past performance cannot guarantee future returns.
3. Clients should understand that the investment advisory fee is just one charge the client will pay. Other fees include transaction costs, custodial fees, fees internal to the securities purchased, account maintenance and closing fees and other fees more fully disclosed in documentation provided to the client.
4. Clients should understand that fees and charges will be incurred by the client and that these can be

substantial and have a significant impact on performance, especially during years with flat or negative performance.

5. Clients should understand that trying to compare the performance of their account managed by Partnervest may be difficult as it is not easy to find a comparable benchmark and unmanaged indices, such as the S&P 500, cannot be managed and therefore are not suitable comparisons either. Thus, it may not be possible for the client to truly gauge how their portfolio is performing relative to the market when receiving Partnervest's services.

6. Clients must be willing to accept costs of short term trading in many of Partnervest's asset management strategies.

7. Clients should understand that smaller accounts are difficult to properly diversify and thus they may not get the same benefit of larger accounts or have greater divergence of their results from the intended portfolio allocation. Due to their smaller size, they may also suffer higher pro rata transaction costs.

8. Although Partnervest generally recommends clients purchase ETFs and mutual funds, it may at times recommend client purchase securities that may involve greater risks related to liquidity, volatility and potential unfavorable fluctuations in underlying asset and/or index values. For example, international investments may be subject to economic or political instability, credit risk and exchange-rate fluctuations. Also, it may recommend a client heavily weight their portfolio in a single asset class, e.g., gold.

9. It may take an indeterminate amount of time to allocate the account assets to achieve the chosen asset allocation, especially for small portfolios or if only subsequent deposits are to be used to reallocate account assets. The number of securities in the portfolio will vary by the model employed.

10. Account assets may not always be allocated according to the parameters described in the IPG or portfolio documentation due to market fluctuations, rounding, option assignments, client-specific requests, and other factors.

11. Transaction charges may be incurred in order to achieve the chosen allocation, e.g. in connection with rebalancing the asset allocation of the portfolio, option assignments or rollouts. Lower asset accounts will have higher pro rata transaction costs. If Client desires to achieve the chosen allocation as soon as possible or has specific prohibitions or trading criteria, then Client will have to inform Partnervest of client's desire in writing and Partnervest may not be able to accommodate such requests.

12. Partnervest's STAR programs make significant use of options. The Options Clearing Corporation provides a very good document disclosing the reason options are used and their risks. The document is titled "Characteristics and Risks of Trading Standardized Options." A copy may be obtained online at <http://www.theocc.com/about/publications/character-risks.jsp>, or Partnervest will provide a copy to you upon your written request.

13. If a client directs Partnervest to use a particular broker-dealer, Partnervest may not be able to negotiate commission discounts, obtain volume discounts or achieve best execution for the clients transactions completed through their chosen broker-dealer.

14. Some investments in certain funds used by Partnervest will be denominated in foreign currencies. Changes in the relative values of foreign currencies (including the Euro) and the U.S. dollar, therefore, will affect the value of investments in portfolios with these funds. Partnervest and the funds used by Partnervest may purchase foreign currency futures contracts and options thereon in order to hedge against changes in the level of foreign currency exchange rates, but there can be no assurance that the client's portfolio will not be subject to significant fluctuations in foreign currency valuations.

15. Partnervest, like other advisors and businesses, encounter operational and technical difficulties which may impede its ability to effectively carry out all of its tasks and implement all desirable procedures. For example, Partnervest's software may encounter a bug, or an employee input a trade incorrectly. In order to address this issue, Partnervest completes a risk assessment every year in which it attempts to identify situations and circumstances which are creating a risk to it effectively conducting its business and then ranking those risks to determine where to allocate its limited resources in an attempt to address or mitigate those risks. It cannot be guaranteed that the risks will be identified or, even if they are identified, that they will be successfully mitigated. Such risks could pose operational or reputation risk to the firm and possibly impose trade errors or other loss to the client.

**Partnervest Advisory Services, LLC****Item 12 Brokerage Practices****What are the factors that you consider in selecting or recommending broker-dealers for client transactions?**

Partnervest recommends clients use certain broker-dealers/custodians. The client is not obligated to effect transactions through any broker-dealer/custodian recommended by us. However, if a recommended broker-dealer/custodian is not used, then Partnervest may not be able to assist the client in implementing its investment advice and may not be able to monitor the portfolio. This is primarily due to the fact that Partnervest's back office systems receive electronic data from the recommended broker-dealer custodians. Without this access it is not practical or efficient to adequately manage the client's assets.

We consider many factors in selecting the broker-dealers/custodians we recommend. One such factor is that we will seek broker-dealers/custodians that provide clients "best execution" and reasonable commissions. The lowest possible commission cost is not by itself the determinative factor. The transaction must represent the best qualitative execution. The factors considered in selecting brokers and determining the reasonableness of their commissions and best execution are:

1. The value of products, research and services given to the client.
2. The quality of service, responsiveness to Partnervest and its clients
3. The ability to execute transactions per client's special instructions
4. The economic advantage provided by the custodian.
5. The breadth of the products, research and services available
6. Whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
7. Whether research is used to service all of Partnervest's accounts or just those accounts paying for it
8. Efficiency of execution,
9. The timing of the transaction
10. The price of the security
11. The commission rate
12. The financial responsibility of the brokerage firm

Partnervest will determine that the rate is reasonable in relation to the value of the brokerage and research services provided.

While there is no direct benefit received from the recommended broker-dealers/custodians in relation to the investment advice given by Partnervest to its clients, economic benefits may be provided in the future if higher assets under management are maintained and economic benefits are received which would not be received if Partnervest did not give investment advice to clients and also use the services of these broker-dealer/custodians. Thus there is an incentive for Partnervest to recommend these broker-dealer/custodians which could pose a conflict of interest between the client and Partnervest. Some of these benefits that Partnervest may receive from the recommended broker-dealer/custodians include: receipt of duplicate client confirmations and bundled duplicate statements, access to a trading desk servicing institutional service participants exclusively, ability to have investment management fees deducted directly from clients accounts, access to an electronic communications network for client

order entry and account information, receipt of compliance publications and access to mutual funds, which generally require significantly higher minimum initial investments and are generally available only to institutional investors. The benefits received from these organizations may or may not depend upon the amount of transactions directed to, or amount of assets custodied by the organization. Partnervest may also take advantage of certain group discounts on publications and investment research that is available through the institutional services units of the custodians. In addition, Partnervest may receive certain compensation from custodians in the form of training and education, e.g. sponsored conferences and meetings and related travel expenses.

Partnervest believes that the conflict of interest created by the receipt of these incentives from the broker-dealer/custodian is not material as most of these incentives aid Partnervest in efficiently serving the interests of the client and that the client receives industry standard services from these broker-dealer/custodians.

**Do you aggregate the purchase or sale of securities for various client accounts?**

Partnervest does implement block trading as it is able to and beneficial for clients. For example, individual trades may be made in a client's account, or Partnervest can implement a single trade for multiple clients and then allocate the traded securities or proceeds to the individual's account. This is called block trading. The aggregations should, on average, reduce slightly the costs of execution, and Partnervest will not aggregate a client's order if Partnervest believes that aggregation would cause the client's cost of execution to be increased. The custodian will be notified of the amount of each trade for each account. No advisory client will be favored over any other client; each client that participates in an aggregated order will participate at the average share price for all Partnervest transactions in that security on a given business day, with transaction costs shared pro rata based on each client's participation in the transaction subject to rounding for odd lots that would be deemed too small for an account ("de minimis allocations"), and other objective criteria. When the total final execution amount of a trade is materially less than an amount of the requested order, certain accounts may be removed entirely from the list of participants and the amounts of the allocation can be adjusted to avoid inefficient results. Accounts that do not receive an allocation with respect to a particular security will be considered first when the next partial fill occurs. Notwithstanding the foregoing, the order may be allocated on a basis different from that specified if all client accounts receive fair and equitable treatment. Partnervest will receive no additional compensation or remuneration of any kind as a result of the aggregation.

**Partnervest Advisory Services, LLC**

**Item 13 Review of Accounts**

**What type of reviews and reporting do you do?**

**Reviews**

Partnervest periodically monitors the performance of the portfolios and manages them in accordance with its investment strategies.

For STAR II and STAR III accounts:

Investment portfolios are consistently monitored and systematically rebalanced. More specifically, Partnervest implements technology and procedures designed to allow a portfolio to stay within an acceptable bandwidth of target asset allocation. Each portfolio is reviewed periodically to evaluate the extent to which the actual allocation matches the target allocation. Where the variance is considered excessive (as defined by the client's IPG or in the advisor's discretion if no bandwidth is stated), Partnervest may take appropriate action to rebalance (buy and sell) in order to bring the actual allocation within acceptable range of the target allocation. This process is referred to as rebalancing and is utilized with the intent of helping maintain a risk quotient which is more consistent over time for each portfolio and which is systematized as a way to help the investor "buy low and sell high." However, there can be factors such as size of an account and market volatility which prevent Partnervest from keeping a client in the targeted portfolio at all times. Further, accounts are also usually reviewed upon other triggering events such as: 1) receipt of new money to be invested, or, 2) the request to liquidate and disclose a significant portion of the portfolio, or 3) a significant change in the financial circumstances of the client if made known by client, or 4) a significant change in the status of the financial markets.

Tactical shifts in underlying investments are initiated when the strategy indicates it is both optimal and beneficial to do so.

For STAR I accounts:

The client's representative is primarily in charge of doing periodic account reviews. The representatives usually review accounts on a quarterly basis but may be only annually.

In doing such reviews, representatives usually ask themselves the following or similar questions:

1. How did your portfolio perform over the last period, on both a nominal and relative basis?
2. What parts of your portfolio did well? Poorly?
3. Is your portfolio allocation in line with the target allocation set forth in the IPG or other suitability information or client data? If not, what changes are called for?
4. Does the target portfolio continue to make sense?
5. Has a change in your current circumstances occurred suggest a need to change the target allocation?

The representative may, in special circumstances, incorporate the review of Partnervest's asset

management team, for the account.

### Reporting

Client communications occur at several levels: Confirmations and monthly statements of accounts document all transactions and are provided to the client by the broker dealer, fund manager, investment manager, investment sponsor or custodian. Also, quarterly statements of account reports are prepared and distributed by Partnervest or other third party investment service providers, however a few representatives prepare and distribute their own reports. In addition, Partnervest or its representatives may provide clients with a newsletter periodically covering investment and financial planning topics. There is no set schedule for these newsletters. Also, client meetings, which may be by phone or other form of communication, are generally held at least annually between the client and the representative to review the account and determine if there have been any changes in the client's financial goals. Finally, emails and letters also occur from time to time as circumstances warrant. Financial planning clients receive a written financial plan at the time of services and no ongoing reports are prepared unless specifically retained by the client to do so.



**Partnervest Advisory Services, LLC****Item 14 Client Referrals and Other Compensation****Do You use Solicitors and is Partnervest a solicitor for other programs?**

Yes. Clients who are solicited by others for Partnervest are provided with a Solicitor Disclosure Document at the time of solicitation by the solicitor. This document details the compensation received by the solicitor for the referral, which is usually a percentage of the investment management fee received by Partnervest from the client. Likewise, when Partnervest solicits clients for the programs provided by other investment advisors, Partnervest will provide a Solicitor Disclosure Document showing what compensation Partnervest is paid for the solicitation. Here is a list of the solicitors we use and those which we solicit for:

**Firms Partnervest Solicits For:**

1. **BTS Asset Management**
  - a. Partnervest is a solicitor for BTS, which provides a strategic fixed income security asset allocation program allocating assets among open end mutual funds with fees more fully described in its Form ADV.
2. **LBS Capital Management ([www.indexandsectorinvesting.com](http://www.indexandsectorinvesting.com))**
  - a. Partnervest is a solicitor for LBS which has designed proprietary technologies and market analysis architectures that power their investment strategies for various fees as more fully described in its Form ADV.
3. **Curian Capital LLC ([www.curian.com](http://www.curian.com))**
  - a. Partnervest is a solicitor for Curian which provides model portfolios for fees more fully described in its Form ADV.
4. **Dunham & Associates Investment Counsel, Inc. ([www.dunham.com](http://www.dunham.com))**
  - a. Partnervest is a solicitor for Dunham and provides manager of managers investment advisory and asset allocation services which charges fees more fully described in its Form ADV.
5. **Edelman Financial Advisors. ([www.edelmanfinancial.com](http://www.edelmanfinancial.com))**
  - a. The Edelman Managed Asset Program® gives you all these features: A long-term investment approach; Extensive diversification, using as many as 19 separate asset classes and market sectors, each featuring hundreds of securities; Security selection that is market-based, not manager-based; Daily rebalancing review;
6. **FTJ Fund Choice ([www.ftjfundchoice.com](http://www.ftjfundchoice.com))**
  - a. Partnervest is a solicitor of the FTJ FundChoice program which is designed to provide administrative services to enable eligible persons to acquire mutual funds for the qualified and non-qualified accounts for fees more fully described in its Form ADV.
7. **Golub Group, LLC ([www.golubgroup.com](http://www.golubgroup.com))**
  - a. Partnervest is a solicitor for the Golub Group portfolio strategies such as Growth, Balanced or Income, with weightings dedicated to these asset classes: equities, fixed income and cash.

**Solicitors for Partnervest:**

1. **Marcie Mask of Wagner-Mask Financial Group, Inc.**
  - a. A solicitor for Partnervest. Ms. Mask is also a registered representative of Sorrento Pacific



Financial LLC.

2. Theodore Caldwell
3. John Dowd
4. Cathy Downs of Beneficent Financial
5. Daniel Farrell
6. Carol Fishburn of Brentwood Advisory Group LLC ([www.brentwoodadvisorygroup.com](http://www.brentwoodadvisorygroup.com))
  - a. A solicitor for Partnervest. Carol Fishburn CFP® and Manager of Brentwood provides high quality, personalized investment management and financial planning solutions.
7. Judy Goodbody
  - a. a solicitor for Partnervest. Ms. Goodbody is a former investment advisory representative of Partnervest.
8. Anthony Maione
9. Rita Murdoch
10. Robert Ryan
11. David Whitt
12. Frank Williams
13. Stephen Abbey

**What other referral programs do you participate in?**

We participate in several referral programs offered by the custodians that we refer clients to, such as the TD Ameritrade referral program, Schwab Advisor Network® referral program and the Fidelity Wealth Advisor Solutions referral program. For example, the Fidelity Wealth Advisor Solutions is a referral program designed to introduce high net worth investors to independent registered investment advisors. Partnervest does not pay a fee to participate in the Wealth Advisor Solutions Program or other custodian referral programs.

**What sub-advisors do you use and for what investment advisors are you a sub-advisor to?**

Partnervest may use the services of a third party independent investment advisor to assist in the management and/or manage the client's assets, which we call sub-advisors. The sub-advisor's fee is incorporated into the fee charged to the client by Partnervest, i.e. the client does not pay more than Partnervest's normal fee for the client's use of a subadvisor through Partnervest. Partnervest uses the following sub-advisors:

1. Genworth Financial Wealth Management, Inc. ([www.genworthwealth.com](http://www.genworthwealth.com))
  - a. As a sub-advisor to Partnervest, provides mutual fund and variable annuity programs and a privately managed account program.
2. Blue Marble Investments LLC ([www.bluemarble.com](http://www.bluemarble.com))
  - a. As a sub-advisor to Partnervest, provides socially responsible portfolio models and asset management
3. Capital Allocation Management ([www.capitalallocation.com](http://www.capitalallocation.com))
  - a. As a sub-advisor to Partnervest, Capital Allocation Management provides tax efficient portfolios for taxable accounts.
4. Clark Lanzen Skalla ([www.cls.com](http://www.cls.com))
  - a. As a sub-advisor to Partnervest, CLS believes Risk Budgeting is a critical element in creating client portfolios. A client's risk budget is based on the individual's financial goals, ability to handle risk and overall time horizon. CLS portfolio managers then allocate client accounts by

overweighting strong asset classes while keeping the risk level consistent. Once a risk budget is assigned, that risk cannot be over-spent, nor can it be underused. Risk Budgeting manages the level of risk within your portfolio. The key to risk budgeting lies in the CLS risk continuum. Through the risk budgeting methodology, CLS understands that risk actually appears on a continuum with some equities containing less risk than some bonds, and vice versa. By maintaining a risk budget and making trades based on both asset class and investor risk, CLS is able to capitalize on areas of growth, and underweight asset classes that are underperforming.

5. Congress Asset Management Company ([www.congressasset.com](http://www.congressasset.com))

a. As a sub-advisor to Partnervest, provides various asset management and portfolio models.

Partnervest, also, can act in the capacity of a sub-advisor to the third party independent investment advisor. The client should look to that advisor's documentation, (i.e. Form ADV Part 2 and investment advisory agreement) for further details and fees. Below is a list of firm to which Partnervest acts as a subadvisor:

1. Lane Gorman Trubitt PLLC (LGT) ([www.lgt-cpa.com](http://www.lgt-cpa.com))

a. Partnervest is a subadvisor to LGT to provide the Partnervest STAR programs to clients of LGT.

2. American Independent Securities Group (AISG) ([www.aisg.com](http://www.aisg.com))

a. Partnervest is a subadvisor to AISG to provide the Partnervest STAR programs to clients of AISG.

3. VSR Financial Services Inc. ([www.vsrfinancial.com](http://www.vsrfinancial.com))

a. Partnervest is a subadvisor to VSR to provide the Partnervest STAR programs to clients of VSR.

4. Sloane Wealth Management LLC ([www.SloaneWealthManagement.com](http://www.SloaneWealthManagement.com))

a. Partnervest is a subadvisor to Sloan Wealth Management to provide the Partnervest STAR programs to clients of Sloan Wealth Management.

5. CUSO Financial Services L.P. ([www.cusonet.com](http://www.cusonet.com))

a. Partnervest is a subadvisor to CUSO to provide the Partnervest STAR programs to clients of CUSO. CUSO is affiliated with Sorrento Pacific Financial LLC.

6. International Wealth Management Inc. ([www.internationalwealthmanagement.net](http://www.internationalwealthmanagement.net))

a. Partnervest is a subadvisor to IWMI to provide the Partnervest STAR programs to clients of IWMI.

7. National Planning Corp ([www.natplan.com](http://www.natplan.com))

a. Partnervest is a subadvisor to NPC to provide the Partnervest STAR programs to clients of a specific representative of NPC.

8. Corpus Capital Management Inc.

a. Partnervest is a subadvisor to Corpus Capital to provide the Partnervest STAR programs to clients of Corpus Capital.

### **Do you refer clients to other service providers?**

**Pension Plan Services:** Partnervest may refer clients to certain pension plan design and administrative firms. These independently provided programs generally provide for the design, implementation, compliance and annual review of defined contribution and/or defined benefit plans for individuals and groups using prototype plan(s). A client is free to choose any pension provider. Partnervest may or may not provide investment advice and/or financial planning to the plan sponsor and plan participants.

**Insurance:** When an insurance need arises, Partnervest will generally make a recommendation as to the generic type of product or products that would best address the specific need. If the client has an existing agent who can provide the needed product and related service, Partnervest will, at the client's request, work with the agent to ensure the client is getting a suitable product for that need. If the client does not have a preferred agent, Partnervest may work with a provider or refer the client to an agent whom Partnervest believes can best deliver the appropriate product and related service, which agent may be an agent of Partnervest Insurance or SPF for variable insurance products. Partnervest almost always refers clients to an agent of Partnervest Insurance, or SPF for variable insurance products. Also, as Partnervest is heavily involved in the insurance product research and review, a fee may be charged based on the time expended by Partnervest personnel when a Partnervest Insurance agent is not used.

**Complex Issues Solutions:** Partnervest can make referrals so that a client receives solution-based advice from a team of experts to solve essential issues above and beyond those associated with basic financial planning. The team that is put together for or referred to the client will consist of those disciplines tailored to meet the individual client's needs and may include the following experts: Certified Public Accountants ("CPAs"), business professionals ("MBAs"), Certified Financial Analysts ("CFAs"), Chartered Life Underwriter ("CLU"), Certified Financial Planner (CFP), lawyers, tax experts, human resources specialists, real estate professionals and estate planners. Although making a referral, Partnervest advises clients to seek out their own third party service providers and carefully compare the services and costs. Partnervest does not provide the services by these third parties and is not responsible for their advice.

**What are the important potential conflicts of interest created by these referral/solicitor/sub-advisory relationships?**

Partnervest may refer clients to other programs as a solicitor or may use a sub-advisor for the management of the client's assets with Partnervest. Although this is disclosed to the client and Partnervest does reasonable due diligence on such third parties, there is a risk that Partnervest overlooked something or that the third party does not manage the clients assets as expected as Partnervest does not control the third party. Further, Partnervest's participation in the custodian referral programs may raise potential conflicts of interest. Partnervest may have an incentive to recommend that clients custody asset with custodians that refer more or better quality clients to Partnervest.

If Partnervest does not manage all of the client's assets and if the client has not provided documentation detailing the other assets held by the client, then the investment advice rendered by Partnervest may be unsuitable as it is only provided for a portion of the client's assets. An example of this is that the client's portfolio may be overweighted in a certain asset class because Partnervest does not know the client's asset allocations managed elsewhere.

**Partnervest Advisory Services, LLC****Item 15 Custody****Who are the custodians and brokers you use?**

Partnervest has custody of client assets by virtue of the discretion it has in managing the client assets and that it has the ability to deduct its asset management fee from the client's account. In other words, under government regulations, we are deemed to have custody of your assets if, for example, you authorize us to instruct the custodian to trade in your account, or if you grant us authority to move your money to another person's account. Therefore, Partnervest has clients maintain their assets at independent qualified custodians which send quarterly, or more frequently, account statements directly to clients. To ensure that the client is aware of where their assets are and what is being done in their account, it is important for clients to compare the account statements from the qualified custodian to any report provided by Partnervest and notify Partnervest and the custodian if you believe there is any error. If you do not wish to place your assets with a qualified custodian, then we cannot manage your account. The qualified custodians we use are listed below along with further detail about our relationship with them:

**SCHWAB**

For some clients, we recommend that they use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. Partnervest is independently owned and operated and is not affiliated with Schwab. Schwab will hold your assets in a brokerage account and buy and sell securities when we instruct them to. While we recommend that some clients use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you, although we may assist you in doing so.

For our clients' accounts that Schwab maintains, Schwab generally does not charge you separately for custody services but is compensated by charging you commissions, transaction charges or other fees on trades that it executes or that settle into your Schwab account.

In addition to commissions, Schwab charges you a flat dollar amount as a "prime broker" or "trade away" fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account custodied at Schwab.

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. 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 generally are available on an unsolicited basis (we don't have to request them) and at no charge to us as long as our clients collectively

maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200.

Following is a more detailed description of Schwab's support services:

**Schwab Services That Benefit the Client:** 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 May Not Directly Benefit the Client:** Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research, both Schwab's own and that of third parties. We may 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, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits, such as occasional business entertainment of our personnel.

## **FIDELITY**

Partnervest has an arrangement with National Financial Services LLC and Fidelity Brokerage Services LLC (collectively, and together with all affiliates, "Fidelity") through which Fidelity provides Partnervest with "institutional platform services." Partnervest is independently operated and owned and is not affiliated with Fidelity.

The institutional platform services include, among others, brokerage, custody, and other related services. Fidelity's institutional platform services that assist Partnervest in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of fees from its clients' accounts; and (v) assist with back-office functions,

recordkeeping and client reporting.

Fidelity is providing Partnervest with certain brokerage and research products and services that qualify as "brokerage or research services" under Section 28(e) of the Securities Exchange Act of 1934 ("Exchange Act"). Fidelity offers other services intended to help Partnervest manage and further develop its advisory practice. Such services include, but are not limited to, performance reporting, financial planning, contact management systems, third party research, publications, access to educational conferences, roundtables and webinars, practice management resources, access to consultants and other third party service providers who provide a wide array of business related services and technology with whom Partnervest may contract directly.

Fidelity generally does not charge its advisor clients separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Fidelity or that settle into Fidelity accounts (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity provides access to many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges.

#### TD AMERITRADE

Partnervest also participates in the TD Ameritrade Institutional program. TD Ameritrade Institutional is a division of TD Ameritrade, Inc. ("TD Ameritrade") member FINRA/SIPC/NFA. TD Ameritrade is an independent and unaffiliated SEC-registered broker-dealer. TD Ameritrade offers to independent investment Advisors services which include custody of securities, trade execution, clearance and settlement of transactions. Partnervest participates in TD Ameritrade's institutional customer program and Partnervest may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Partnervest's participation in the program and the investment advice it gives to clients, although Partnervest receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Partnervest but may not directly benefit client accounts but may nevertheless assist Partnervest in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Partnervest manage and further develop its business enterprise. The benefits received by Partnervest or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Partnervest endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Partnervest in and of itself creates a potential conflict of interest and may indirectly influence Partnervest's choice of TD Ameritrade for custody and brokerage services.



**PERSHING LLC through SORRENTO PACIFIC FINANCIAL LLC ("SPF")**

Partnervest also uses Pershing as a custodian through SPF. SPF is the broker-dealer for the client which introduces the account to Pershing, who in turn acts as the custodian for the client's assets. SPF and Pershing are members of FINRA and SIPC. Both firms are independent and unaffiliated with Partnervest, other than SPF's affiliation with Partnervest as detailed elsewhere in this document (see "Advisory Business" and "Other Financial Activities" for more detail). Pershing offers services similar to those listed above by other custodians which include custody of securities, trade execution, clearance and settlement of transactions. Furthermore, SPF provides data access and retention services for certain of Partnervest's back-office operations. There is no direct link between Partnervest's participation in the program and the investment advice it gives to clients, although Partnervest receives economic benefits through its participation in the program.

**What are the potential conflicts of interest in process of recommending certain qualified custodians?**

Certain custodians may give Partnervest benefits when Partnervest has a certain amount of assets under management held with the qualified custodian. Such benefits may be participation in a referral program of representatives and/or potential clients to Partnervest and or discounted custodian and transaction fees. This can provide incentive for Partnervest to recommend to clients that they custody their assets at one particular custodian over the other.

For example, the availability of certain services from custodians benefits us because we do not have to produce or purchase them. We don't have to pay for custodian services so long as our clients collectively keep a certain minimum of assets in accounts at the various custodians. These minimum requirements may give us an incentive to recommend that you maintain your account at a certain custodian. This is a potential conflict of interest. We believe, however, that our recommendation of a particular custodian is primarily supported by the scope, quality, and price of the custodian's services and the fact that some custodian's platforms are more suited to the type of trading we do which makes the use of our resources more efficient. Therefore, we are not recommending a custodian to a client based solely on services that benefit only us.

**Partnervest Advisory Services, LLC****Item 16 Investment Discretion****Do you use discretion in the management of client's assets?**

Partnervest accepts discretionary authority from the client to manage their assets. Discretion, in part, includes giving Partnervest the authority to determine, without obtaining specific client consent, the securities bought or sold and the amount of securities bought or sold. Most all of Partnervest's clients grant Partnervest full discretion in the management of their assets and it is unusual for Partnervest to manage client assets on a non-discretionary basis. Discretion is granted by the client to Partnervest in the Investment Advisor Agreement at the commencement of the relationship or thereafter by written affirmation. Although it is possible for Partnervest to accept restrictions on its discretionary authority, it is highly unusual for Partnervest to do so, as it impedes Partnervest's ability to efficiently manage the assets and provide services to clients with available resources. Partnervest may also use its discretion in the method it uses to effectuate trades for clients (See Brokerage Practices for more detail in this regard). Lastly, notwithstanding anything to the contrary within this document, Partnervest is not authorized to dispose of client's funds or securities for any purpose other than authorized trading or deducting the fees client owes Partnervest (and/or a subadvisor) from the client's account.

**Do You Use Anything to Help Guide Your Use of Discretion Over My Assets?**

Yes, Partnervest generally encourages a client to sign an Investment Policy Guideline or Statement (IPG). The IPG is a document that discloses some of the policies and procedures which Partnervest follows in managing the client's assets. Topics addressed in a robust IPG may include the target asset allocation, the trigger for re-balancing procedures to be implemented, the investment goals, time horizon, risk tolerance, tax considerations, frequency and type of monitoring and reporting, criteria for investment selection and overall investment strategy. However, IPGs may be more or less detailed and may be tailored for clients. Usually, customized IPGs are only used with STAR I clients and are completed by the specific representative that is managing the client's assets. The client should review the representative's Form ADV Part 2B for more detail with regard to how that particular representative manages client assets in STAR I accounts. The IPGs used for STAR II and III asset management are fairly standardized and not customized. If an IPG is not used, then Partnervest will rely on other information from the client, for example the suitability information on the brokerage/custodian new account form, to aid in guiding its investment advice and management of the client's assets.

Besides the IPG, Partnervest also has certain core beliefs which it considers in managing its clients' assets. Partnervest generally believes that asset allocation, trend analyses, active and passive portfolio management and sector concentration are helpful in determining appropriate investment strategies. By its nature, our investment management and financial planning are long-term oriented, and investing which supports the plans should therefore also focus on the long term. However, current changes that might impact a client's financial situation are not ignored and also short term instruments, such as options are often times used to enhance client returns.

**What are some of the potential conflicts that arise from Partnervest's discretion in managing client accounts?**



## Form ADV - Part 2A

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A conflict may arise between Partnervest and the client due to Partnervest's use of discretion because the client is not consulted as to each transaction before it is made for the client. For example, certain transactions may not be consistent with what the client would have wanted to occur in that particular situation. Partnervest also has discretionary access to the client's assets, but Partnervest believes any risk from such access is satisfactorily mitigated by maintaining Errors and Omissions Insurance and Fidelity Bonding. Also, the client will always have direct access to their assets and notification of any transactions from the qualified independent broker-dealer/custodian, which holds the client's assets.

**Partnervest Advisory Services, LLC**

**Item 17 Voting Client Securities**

Partnervest does not accept authority or responsibility to vote proxies for securities held for a client. Clients will either receive proxies or other solicitations to vote their securities directly from their custodian or a transfer agent or on rare occasion from Partnervest. Even though Partnervest does not accept responsibility to vote proxies for the clients, clients may still contact us with questions about a particular solicitation.

**Partnervest Advisory Services, LLC**

**Item 18 Financial Information**

Partnervest does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore does not provide its confidential balance sheet for the most recent fiscal year. Partnervest does not believe there is any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.