



## **ADV PART 2A – Firm Brochure**

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CRD# 117531

Dated March 31, 2016

For further information about Investment Advisors Corp., please contact:  
Lisa M. Smith - President, and CEO

This ADV Part 2A brochure provides information about the qualifications and business practices of Investment Advisors Corp. If there are any questions about the contents of this brochure, please contact us at (515) 727-6700 or [IAC@investmentadvisorscorp.com](mailto:IAC@investmentadvisorscorp.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 Investment Advisors Corp. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

SEC registration does not imply a certain level of skill or training.

## **Material Changes**

**October 2015, Michael T. Sherzan, Chairman of the Board, appointed Ms. Lisa M. Smith, President and CEO of the firm. Ms. Smith has been appointed to the Board of Directors and firm ownership remains the same.**

**October 2015, Ms. Lisa M. Smith, President and CEO of the firm appointed Barbara Bennett, Chief Operating Officer of the firm.**

**October 2015, Ms. Lisa M. Smith, President and CEO of the firm appointed Kara Kessler, Relationship Manager of the firm.**

**March 2016, Ms. Lisa M. Smith, President and CEO of the firm appointed Barbara Bennett, Chief Compliance Officer of the firm.**

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The previous update to this brochure was on November 11, 2015.

# Table of Contents

	Page
Cover Page .....	i
Material Changes .....	ii
Table of Contents .....	iii
Advisory Business .....	1
Financial Planning or Consulting Services .....	1
Third-Party Models, Model Providers, Overlay Managers, and Separately Managed Accounts,.....	2
IAC Investment Strategies .....	3
IAR Managed Programs .....	3
Wealth Advisor Program .....	3
Turnkey Advisory, Advisor Directed Program at Envestnet .....	3
Wrap-Fee Programs .....	4
Private Investment Management (“PIM”) .....	4
Advisor One .....	4
Custom Choice .....	4
Asset Based Pricing and Wrap Programs .....	5
Client Assets .....	5
Fees and Compensation .....	5
Financial Planning or Consulting Services .....	5
Fee-Based Compensation .....	6
Private Investment Management (“PIM”) .....	6
Advisor One .....	6
Custom Choice .....	7
Third-Party Managers and Separately Managed Accounts .....	7
Wealth Advisor Program .....	7
Termination Fees .....	8
Performance-Based Fees, Side-By-Side Management .....	8
Types of Clients .....	8
Methods of Analysis, Investment Strategies and Risk of Loss .....	9
Risks Associated With Investing .....	9
Disciplinary Information .....	13
Other Financial Industry Activities and Affiliations .....	14
Code of Ethics, Participation, or Interest in Client Transactions and Personal Trading .....	15
Brokerage Practices .....	16
How We Select Custodians .....	16
Client Brokerage and Custody Costs .....	16
Products and Services Available to IAC from Custodians .....	16
Services That Benefit Client .....	17
Services That May Not Directly Benefit Client .....	17
Services That Generally Benefit Only IAC .....	17
Our Interest in Custodians’ Services .....	17
Brokerage for Client Referrals .....	17

Directed Brokerage .....	18
Review of Accounts .....	18
Client Referrals and Other Compensation .....	18
Custody .....	19
Investment Discretion .....	19
Investment Advisory Services (Non-Discretionary or Discretionary) .....	19
Voting Client Securities .....	19
Financial Information .....	19

**ADV Part 2B – Brochure Supplement (IAR Resume Brochure)**

Cover Page	
Educational Background and Business Experience	
Disciplinary Information	
Other Business Activities	
Additional Compensation	
Supervision	

## **Advisory Business**

Investment Advisors Corp. ("IAC"), through its Investment Adviser Representatives ("IARs"), offers investment advisory services that are tailored to the client's individual situation. The IAR will direct clients to an investment program specifically for the client after a review of the client's financial situation, risk tolerance, time horizon, and goals. The investment program recommended may be an IAR as manager program and or the investment program may also use other advisers, called sub-advisers or third-party managers, to meet the client's investment goals.

Many factors affect which advisory programs an IAR may recommend to clients. Such factors as the client's investment objectives, the IAR's expertise, and business practices help guide which advisory program may be most appropriate for the client. Client may also choose to give his/her IAR discretionary authority over their account(s). IAC does allow an IAR to exercise discretion only after an approval process for the IAR, and the client must grant discretionary authority in writing.

When an advisory program is decided on, the client must complete a selected advisory agreement provided by the IAR. The selected advisory agreement outlines client's investment objectives, financial circumstances, risk tolerance, restrictions, and fees paid, that the client may wish to impose on his/her investment activities. Clients are asked to inform IAC in writing of any material change in their financial circumstances that might affect the manner in which their assets should be invested. The IAR will be reasonably available to the client for consultation on these matters, and will act on any changes in a client's financial circumstances deemed to be material or appropriate as soon as practical after the IAR becomes aware of the change.

Founded in 1996, IAC is a privately held, Registered Investment Adviser with the Securities and Exchange Commission that is headquartered in West Des Moines, Iowa. BDFSC Holdings Corp. owns Investment Advisors Corp. Michael T. Sherzan, Chairman of the Board of IAC, owns more than 25% of BDFSC Holdings Corp. and several other shareholders, including the ESOP plan, own less than 25% each. BDFSC Holdings Corp. also owns Broker Dealer Financial Services Corp. ("BDFS") and Bankers Financial Services LLC (BFS). Broker Dealer Financial Services Corp. is a securities broker-dealer, and is a member of FINRA, SIPC, MSRB, and the NFA and has an insurance agency division. Lisa Smith was appointed President and CEO by the Board of Directors in October, 2015. Ownership remains the same as stated above.

### **Financial Planning or Consulting Services**

Clients may enter into a Financial Planning Service Agreement or Consulting Services Agreement with IAC. Under a Financial Planning Service Agreement, the IAR provides advice to the client in the form of a written financial plan that is based on the client's current and anticipated financial condition and which addresses the client's financial goals. Generally, a financial plan covers at least three financial goals of the client. Clients may receive financial advice on a more limited scope with a Consulting Services Agreement. Financial advisory topics include advice on areas of concern such as estate planning, retirement planning, college education planning, business planning, real estate, insurance, and tax planning or other financial goals.

Financial plans or consulting services generally involve a review by IAC of the client's financial condition at the time of service, with no ongoing responsibility to select or make future recommendations after the conclusion of the consultation or the delivery of the written plan. Each IAR utilizes different planning and investment strategies along with IAC-approved software tools when making recommendations and recommending investment allocations for client accounts. Plan supervision is guided by the stated objectives of the client and the written plan. In some instances, advice rendered using financial planning or consulting services may include the recommendation of specific investment and/or insurance products. The client is not obligated to make a purchase of an investment or product through the IAR. IARs working in this capacity do not offer tax or legal advice. The client should seek his/her own legal or tax advisers for specific advice.

Financial plans or consulting services may make future and hypothetical projections using information provided by the client. Information provided to IAR is believed to be accurate. There are no guarantees on the performance of the plan or consulting services provided.

### **Third-Party Managers, Model Providers, Overlay Managers, and Separately Managed Accounts**

IAC has agreements with third-party managers that IARs may recommend to clients. The third-party manager will direct the client's investments. Many asset managers available are accessed using their investment models ("Third-Party Models"), whereby the asset manager, acting as a "Model Provider," constructs an asset allocation and selects the underlying investments for each portfolio. Overlay Managers perform overlay management of the Third-Party Models by implementing trade orders and periodically updating and rebalancing each Third-Party Model pursuant to the direction of the Model Provider. The Model Provider may, from time to time, replace existing models or hire others to create models and cannot guarantee the continued availability of these models.

The IAR assists the client in completing a suitability review and a review of the manager's strategies to meet the client's goals. IARs do not provide continuous and regular management of these assets. The IAR may assist with choosing an appropriate investment strategy or allocation and may periodically suggest changes due to market factors or changes in the client's financial goals.

IAC and the IAR recommending a third-party manager to clients receive a solicitor's fee as compensation because of a client's participation in a program and for as long as the client remains in the program. Any such solicitor's fee paid is solely from the gross fee and does not result in any additional charge to the client. The amount of this compensation may be more than what the IAR would receive if the client participated in other sponsored programs or paid separately for investment advice and other services. Therefore, the IAR may have a financial incentive to recommend this program over other programs or services. The selected qualified custodian will maintain the client assets and will provide a portfolio statement at least quarterly.

Clients are advised to read the third-party manager's disclosure brochure for complete information on their individual program and fees. Third-party managers may require some notice before cancellation; however, any unearned portion of a prepaid fee shall be refunded to the client on a pro rata basis. IAC has agreements with many third-party managers including but not limited to:

**AssetMark Investment Services, Inc.**  
**Investnet**  
**SEI Investment Management Corporation**  
**Wells Fargo Advisors**

These platforms are offered by IARs to access third-party managers to meet the investment management and asset allocation needs of clients. IARs will obtain the necessary financial data from the client; assist the client in determining the client's tolerance and ability to take risks; and assist the client in selecting appropriate investment strategies from the available third-party managers. The maximum fee on any of the third-party asset management programs is 3.00% of assets per year, and the fee clients pay is negotiable with their IAR. A portion of the fee collected from the client's account, using any of the third-party managers, will be paid to IAC and the IAR as compensation for the role as a solicitor. Certain Model Providers may pursue an investment strategy that utilizes underlying mutual funds or exchange traded funds advised by the Model Provider or its affiliate(s) ("Proprietary Funds"). In such situations, the Model Provider or its affiliate(s) may receive fees from the Proprietary Funds for serving as investment advisor or other service provider to the Proprietary Fund (as detailed in the Proprietary Fund's prospectus). These fees will be in addition to the management fees that a Model Provider receives for its ongoing management of the Third-Party Models and creates a financial incentive for the Model Provider to utilize Proprietary Funds. Clients should discuss any questions with or request further information from their IAR concerning the use of Proprietary Funds in Third-Party Models or the conflict of interest this creates. IAC will monitor the third-party managers for suitability, performance, and compliance as it relates to the client's account. Please consult the third-party manager's disclosure brochure for more information about their methods, costs,

fees, risks, etc. This brochure should be provided by the IAR and should be in a similar format to the document you are now reading.

Please see the section entitled “Fees and Compensation” for more information on fees, billing procedures, compensation and other costs. For more information on trading, brokerage and custodial services please see the “Brokerage Practices” section. The following third-party manager platforms are available to IARs:

<b>Investnet Managed Solutions</b>	<b>Schwab’s Managed Account Access</b>
<b>Fidelity Managed Account Resources® (MAR)</b>	<b>Schwab’s Managed Account Marketplace®</b>
<b>First Clearing, LLC Private Advisor Network</b>	<b>Schwab’s Managed Account Select</b>
<b>First Clearing, LLC Wells Fargo Advisors -</b>	<b>TD Ameritrade Managed Account Program</b>
<b>Selected Programs</b>	<b>TD Ameritrade Separate Account Exchange</b>
<b>TD Ameritrade Unified Managed Account Exchange</b>	

### **IAC Investment Strategies**

IAC has investment strategies sub-advised by other investment advisers who direct trading for client accounts using IAC models. IAC has arranged for third-party investment advisers to invest our clients’ funds in a manner that is designed to coincide with the client’s investment objectives for the account as determined by a risk tolerance, and investment objective questionnaire. Under this arrangement, the sub-adviser is responsible for trading funds in your accounts in an effort to meet the investment objective for the account. IAC and your IAR will monitor the performance of the sub-adviser and will discuss it with you from time to time. The sub-adviser is paid a fee from the fees charged to the account. The disclosure brochure or ADV II 2A for the sub-adviser is provided to you if you want to invest funds in this manner. IAC’s sub-advisers for this program are:

**Advisory Alpha, LLC.**

## **IAR Managed Programs**

### **Wealth Advisor Program**

In its Wealth Advisor Program, IAC, through its IARs, provides regular and continuous management of client portfolios based on the client’s investment goals with the IAR acting with trading authority (discretion) to direct trades for the client’s account. Each IAR utilizes his/her own investment strategies when managing client accounts. Account supervision is guided by the stated objectives of the client. The IAR may recommend that clients establish a brokerage account with a qualified custodian to maintain custody of client’s assets and to effect trades for their accounts. Although IAC may recommend that clients establish accounts at one of the following non-affiliated custodians, it is the client’s decision as to which custodian to use:

**Fidelity Institutional Wealth Services**  
**TD Ameritrade Institutional**  
**Schwab Advisor Services**

IAC and the custodian each reserve the right to reject and not provide services to any client, or with respect to any client account, for any reason. The client may be responsible for transaction charges in addition to the IAR’s advisory fee unless otherwise stated in the client’s Advisory Account Agreement. The advisory fee is negotiated based on the complexity of the investment strategy and the account size.

### **Turnkey Advisory, Advisor Directed Program at Investnet**

IAC through Investnet offers IARs the ability to create their own investment model portfolios for clients (an “Advisor Directed Model”). For client’s using an Advisor Directed Model, Investnet is providing only administrative services; they provides no advisory services, and are not responsible for the selection of the specific investment choices made with respect to an Advisor Directed Model. IAC through its IARs provides non-discretionary investment advice. Investnet will also place trade orders pursuant to the direction of the IAR when the IAR has discretion. IARs will review investment model strategies with the client to determine that the use of a

particular investment strategy is appropriate and suitable for the client. The client will then approve any subsequent changes to the investment model.

### **Private Investment Management (“PIM”)**

With PIM, IARs provide investment advisory services to clients on a discretionary basis. As a minimum criterion for providing advisory services, IAC requires our IARs to possess satisfactory past business experience, plus any required industry examinations and registrations. Based on the client’s investment objectives and individual needs, the IAR will have discretion to manage the client assets to an appropriate investment strategy. Asset Allocation guidelines are provided to IAR for each account objective.

PIM is based on both fundamental and quantitative research and other independent research. Individual IARs may develop specific investment strategies using a mix of these analytic methods. They also establish quality and concentration requirements to provide overall discipline. Such strategies ordinarily include long-term and short-term securities purchases and, depending on the client’s objectives and the IAR’s investment philosophy, supplemental covered option writing. In special circumstances, the strategies may also include margin transactions, other option strategies and trading or short sale transactions.

IARs may use third-party research to assist in developing security selection models for PIM. When seeking to anticipate trends and identify undervalued securities with sound fundamentals, IARs may also use a security selection and portfolio modeling process that incorporates fundamental, technical, and statistical analyses of historical data. Due to any number of factors, including timing of deposits, investment selection process or investment needs, certain clients may receive different execution prices and investment results.

### **Non-Discretionary Programs**

IAC offers the following non-discretionary programs:

#### **Advisor One**

Under the Advisor One Program, the non-discretionary account requires a minimum investment of \$50,000. The program offers the client personalized investment advice based on the client’s investment objectives, financial circumstances, and risk tolerance. The Advisor One Program features include 20 free trades per calendar year with quarterly performance reporting. After the first 20 trades, any additional trade incurs a \$25 transactional charge to the client. The fee is negotiated based on the complexity of the investment strategy and the account size. This fee covers advisory, custodial, brokerage (for the first 20 trades) and reporting services. Billed quarterly in advance, the standard Advisor One fee schedule is based on program eligible assets. The IARs have an ongoing responsibility to select or make recommendations based on the needs of the client as to specific securities or other investments for the account. The IAR may recommend that the client purchase or sell, and if the client accepts a recommendation, the IAR is responsible for arranging for the transaction. Clients must specifically authorize the transaction.

Most types of securities are eligible for purchase in the Advisor One Program. Assets may include, but are not limited to, common and preferred stocks, exchange-traded funds, closed-end funds, fee-based unit investment trusts, corporate and government bonds, certificates of deposit, options, structured products, certain mutual funds whose shares can be purchased at net asset value, and certain wrap-class alternative investments such as hedge funds and managed futures funds. Collectively, these are referred to as “Program Assets.” IAC strategic asset allocations are used to monitor the accounts based on the client’s investment objectives.

#### **Custom Choice**

Custom Choice is a non-discretionary investment advisory program designed to help the client allocate assets among open-end mutual funds in accordance with the client’s individual investment goals, objectives, and expectations. Based on the client’s investment objectives and risk tolerance, the IAR will recommend an appropriate mix of various open-end mutual funds and money market funds. IAC strategic asset allocations may be used to monitor the accounts.

The client has the option of accepting any of the recommendations or selecting an alternative combination of funds and the IAR will implement the client investment decisions. Over time, as changes occur in the financial markets and/or client's investment objectives and circumstances, the IAR may recommend changes in the client's portfolio. In making these recommendations, the IAR will take the updated information in the client's Investment Policy Worksheet into account. Clients should recognize that investments in mutual funds may have tax consequences that should be discussed with their tax advisor. In order to maintain the client's portfolio in conformance with the client's target asset allocation, the client may authorize the IAR to rebalance the account using an automated rebalance trading system in accordance with the discretion granted by the client. The client may select a quarterly, semi-annual, or annual rebalance option.

Wells Fargo Advisors ("WFA") does not provide advisory services to IAC with respect to Private Investment Management, Advisor One and Custom Choice. While IAC is the sponsor of these advisory programs, WFA provides certain non-advisory services that enable IAC to offer these programs.

### **Asset-Based Pricing and Wrap Programs**

IAC through its IARs provides client services that are tailored to each individual client's requirements. When opening an account, the IAR will work with the client to identify investment objectives and a strategy or program that is appropriate to the client's overall assets and investment goals given his/her specific circumstances. The client must promptly notify the IAR if there are any changes in his/her financial situation or investment objectives, or if they wish to change or impose any investment restrictions to his/her account services.

IAC offers several wrap programs and pricing options. Investment strategies implemented by IARs are not materially different from non-wrap programs. Wrap programs are a combination of custodial, advisory and brokerage services that may not be available separately or may require multiple accounts, documentation, and fees. The client should consider the anticipated trading activity and overall costs when comparing advisory programs. Advisory programs typically assume a normal amount of trading activity and therefore, under particular circumstances, prolonged periods of inactivity or asset allocations with significant fixed income or cash weightings, may result in higher fees than if commissions were paid separately for each transaction. IAC and the IAR receive a portion of the fee from the wrap-fee program provider for our services.

### **Client Assets**

As of December 31, 2015, IAC provides continuous and regular supervisory or management services to clients with assets of \$106,352,092 on a non-discretionary basis, and \$299,052,530 in discretionary accounts. Assets in third-party manager programs were \$148,382,264.

## **Fees and Compensation**

Investment Advisors Corp. receives fees and compensation in multiple ways depending on the advisory services chosen by the client.

### **Financial Planning or Consulting Services**

Compensation for Financial Planning or Financial Consulting Services is negotiable with the IAR providing services on behalf of IAC on either an hourly basis or a fixed fee. The fixed fee is not based on a percentage of the client's assets. The client is billed for the hourly fees accrued or at the conclusion of the plan preparation. This negotiated fee will vary depending on the complexity of the client's financial condition, special project or the plan or service. Plans must be delivered within six months of contract execution.

Clients residing in Iowa will be subject to a 6-7% state sales tax and additional local taxes when applicable.

## Fee-Based Compensation

Generally, IAC is compensated with fees based on a percentage of the value of eligible assets in the account on the last business day of the preceding quarter. Management fees are negotiated with the IAR providing services on behalf of IAC and are assessed quarterly, in advance, unless otherwise specified. The fee is deducted directly from the client's account unless otherwise specified in the selected Investment Advisory Agreement. Fees are based on the value of the assets in the client account, and compensation is not based on a share of capital gains upon or capital appreciation of the funds or any portion of client funds.

Program account-size-minimums are \$25,000 with limited exceptions that may affect the fee. The client may pay a fee ranging from .10% to 3.00% based on assets under management as determined by the program selected on the Investment Advisory Agreement. Third-party manager fees will be covered in the manager's disclosure document. In addition, accounts may be subject to additional custodial transactions fees. The fee is not to exceed 3.00% of assets under management unless disclosed in the selected Investment Advisory Agreement, excluding distinct fees and expenses charged by mutual funds or structured products described in the product's brochure.

Upon notice, whenever there are changes to the fee schedule, the schedule of charges previously in effect shall continue until the next billing cycle.

## Private Investment Management ("PIM")

The PIM Program is an advisory service generally provided by the IAR on a discretionary basis. This is a wrap program meaning brokerage, custody, and advisory services are included in one fee. The advisory fee, which may range from .10% to 3.00% is negotiated based on the complexity of the investment strategy and the account size of the securities portfolio. The minimum account size is \$25,000 per household, with limited exceptions.

❖ Investment Advisors Corp. recommends the following fee schedule:

<u>Account Value</u>	<u>Maximum Annualized Fee</u> , billed quarterly
First \$250,000	3.00%
Next \$750,000	2.50%
Over \$1,000,000	2.00%

## Advisor One

The Advisor One Program is a wrap-fee sponsored program of IAC that offers the client personalized investment advice provided on a broad range of investment recommendations based on the client's investment objectives, financial circumstances, and risk tolerance, with client-directed or non-discretionary trading. Features of the program include 20 free trades for the client account per calendar year with quarterly performance reporting. After the first 20 trades, any additional trades incur a \$25 a transactional charge to the client for the remaining calendar period. An annual fee, which may range from .10% to 3.00%, is negotiated based on the complexity of the investment strategy and the account size. This fee covers advisory, custodial, and reporting services. The Advisor One program fee includes .10% program fee to First Clearing LLC, over the IAR's fee. Clients may pay additional fees such as custodian fees and mutual fund fees. Please see the fund's prospectus for a description of fund fees. Clients may exclude from accounts certain securities that are considered "unmanaged." Unmanaged assets will be excluded from billing and performance reports. Billed quarterly in advance, the standard Advisor One fee schedule is based on program eligible assets: The minimum account size is \$50,000 per account, with limited exceptions.

❖ Investment Advisors Corp. recommends the following fee schedule:

<u>Account Value</u>	<u>Maximum Annualized Fee</u> , billed quarterly
First \$100,000	3.00%
Next \$400,000	2.50%
Next \$500,000	2.25%
Over \$1,000,000	2.00%

Clients residing in Iowa will be subject to a 6-7% state sales tax, and additional local taxes when applicable.

## Custom Choice

Custom Choice is a non-discretionary mutual fund advisory program and with a \$25,000 minimum account size. Participants are charged an all-inclusive fee on eligible mutual funds that covers advisory, execution, custodial and reporting services. Billed quarterly in advance, the standard Custom Choice fee schedule is based on program eligible mutual funds. The advisory fee, which may range from .25% to 1.75%, is negotiated based on the complexity of the investment strategy and the account size of the securities portfolio. Clients may pay additional fees such as custodian fees and mutual fund fees. Please see the fund's prospectus for a description of fund fees. Clients may exclude from accounts certain securities that are considered "unmanaged." Unmanaged assets will be excluded from billing and performance reports.

- ❖ Investment Advisors Corp. recommends the following fee schedule:

<u>Account Value</u>	<u>Maximum Annualized Fee, billed quarterly</u>
First \$250,000	1.75%
Next \$750,000	1.50%
Over \$1,000,000	1.15%

Clients residing in Iowa will be subject to a 6-7% state sales tax and additional local taxes when applicable.

## Third-Party Managers and Separately Managed Accounts

IAC generally will be paid a solicitor's or referral fee for referring business to third-party managers. IAC retains a portion of the fee and a portion is paid to the IAR. The solicitor's or referral fee generally is paid out of the gross fees charged by the third-party manager. Please see specific plan documents for full description of fees that may or may not include brokerage fees, custody fees and/or fund expenses.

Total fees are based on a percentage of the value of eligible assets in the client's account from inception date to the last business day of the billing quarter. The total fees and costs are determined by the client's selected program and are detailed in the selected Investment Advisory Agreement. Please read the selected program's brochure for fees. Clients may pay additional fees such as custodian fees and mutual fund fees. Please see the fund's prospectus for a description of fund fees. Clients may exclude from accounts certain securities that are considered "unmanaged." Unmanaged assets will be excluded from billing and performance reports. Any unearned portion of a prepaid fee shall be refunded to the client on a pro rata basis.

## Wealth Advisor Program

The Wealth Advisor Program is an investment advisor program generally provided by the IAR on a discretionary basis. The client is responsible for transaction charges in addition to the advisory fee unless otherwise stated in the client's Wealth Advisor Agreement. The advisory fee, which may range from .10% to 3.00%, is negotiated based on the complexity of the investment strategy and the account size of the securities portfolio. The Wealth Advisor program fee includes .10% program fee to First Clearing LLC, over the IAR's fee. The minimum account size is \$25,000 per household, with limited exceptions.

- ❖ Investment Advisors Corp. recommends the following fee schedule:

<u>Account Value</u>	<u>Maximum Annual Fee, billed quarterly</u>
First \$100,000	3.00%
\$100,001 - \$500,000	2.50%
\$500,001 - \$1,000,000	2.25%
Over \$1,000,000	2.00%

Advisory fees are deducted from the client's account unless otherwise agreed upon in the Investment Advisory Agreement and may be subject to additional custodial fees.

Fees are based on a percentage of the value of eligible assets in the account on the last business day of the preceding calendar quarter and are billed in the following month. Clients may pay additional fees such as custodian fees and mutual fund fees. Please see the fund's prospectus for a description of fund fees. Clients may

exclude from accounts certain securities that are considered “unmanaged.” Unmanaged assets will be excluded from billing and performance reports.

### **Termination Fees**

The client or IAC may terminate the selected Investment Advisory Agreement with a full refund of fees, if such termination occurs within five (5) business days after the Agreement has been signed. Thereafter, the Agreement may be terminated by either party, with 30 days written notice to the other party, sent via U.S. mail. Any unearned portion of a prepaid fee shall be refunded to the client on a pro rata basis. Fees may be charged or refunded if the net addition, or net withdrawal, would generate a fee or refund of \$40 or more for the remainder of that quarter.

Upon termination of the relationship, IAC will accept the client's instructions regarding disposition of the account, which may include transferring the client's account to a brokerage account, to a new custodian designated by the client or by liquidating the client's account. The client should be aware that certain mutual funds impose redemption fees in certain circumstances as stated in each company's fund prospectus. Client must keep in mind that the decision to liquidate may result in tax consequences that should be discussed with the client's tax adviser. Due to the administrative processing time needed to terminate the client's investment advisory service, it may take several business days under normal market conditions to process the client's request for liquidation or transfer. During this time, the client's account is subject to market risk. All efforts will be made to process the termination in an efficient and timely manner.

Neither IAC nor the client may assign the Investment Advisory Agreement without the consent of the other party.

IAC, its supervised persons, and IARs generally do not accept compensation or commission for the sale of securities or other investment products, including asset-based sales charges or services fees from the sale of mutual funds. An exception is a few accounts under Mano 16, which may receive 12b-1 fees from certain mutual fund companies as described in the Investment Advisory Agreement. Any risk due to this potential conflict of interest is mitigated by closing the MANO program to new accounts beginning January, 2009.

The IAR may be in conflict by recommending the client sell a security and select an investment program that over the life of the program offers more compensation than the IAR may have earned by using a full-service brokerage account or by the client implementing the advice elsewhere.

BDFS, our affiliated brokerage firm, benefits from Advisor One accounts by receiving fees arising from margin interest, fees assessed for trades after the 20 free trades per calendar year, and fees relative to the transfer out of any Advisor One accounts. First Clearing, LLC provides execution and custodial services for Advisor One accounts.

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

This area is not applicable to our firm.

### **Types of Clients**

The programs offered by IAC through its IARs may be offered to individuals, retirement accounts, IRAs, Roth IRAs, SEP IRAs, trusts, banks or thrift institutions, pension and profit sharing plans, estates, charitable organizations and corporations. The following programs may have limited exceptions for the stated minimums.

- ❖ Advisor One Program, and PIM, require a minimum account size of \$50,000.
- ❖ Custom Choice Program requires a minimum account size of \$25,000.
- ❖ Wealth Advisor Program requires a minimum account size of \$25,000 per household.
- ❖ Third-party managers and separately managed accounts require \$10,000 upwards depending on the program.

The relationship between the IAR and the client usually pre-exists the establishment of an advisory account, therefore, IAC does not usually “assign” an IAR to a client. If a client wishes to have a new or different IAR service his/her account, IAC will assist the client in establishing or transitioning to such a relationship. IAC requires its IARs to have successfully passed the applicable required industry examination and to have obtained state registration.

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

IAC through its IARs offers many investment strategies formed with several methods of analysis. Client accounts are managed to the client’s unique needs and goals. The methods of analysis and investment strategies depend on the IAR’s experience and personal investment philosophy. The IAR may use allocation and timing strategies including charting, fundamental analysis, technical analysis, and cyclical analysis. IARs have access to multiple reputable research firms and recommended lists of funds, ETFs, and equities.

IAC does not endorse or recommend any particular method or investment strategy. IAC believes in the basic tenets of Modern Portfolio Theory and properly allocating accounts to four primary asset classes. The client must best describe his/her financial goals and objectives to his/her IAR to help determine which strategy or strategies to implement. Investing involves many risks including loss of principal. The client and IAR should discuss the prevalent risks associated with the selected advisory program considering the client’s risk tolerance, and whether the client is suitable for taking the specific risk inherent with investing. The following are risks associated with investing in programs offered through IAC:

### **Risks Associated With Investing**

The client should consider the following risks before investing:

*Asset Allocation Risk* — The risk that an IAR’s decisions regarding a portfolio’s allocation to asset classes or underlying funds will not anticipate market trends successfully.

*Asset-Backed Securities Risk* — Payment of principal and interest on asset-backed securities is dependent largely on the cash flows generated by the assets backing the securities, and asset-backed securities may not have the benefit of any security interest in the related assets.

*Below Investment Grade Securities Risk* — Fixed income securities rated below investment grade (junk bonds) involve greater risks of default or downgrade and are more volatile than investment grade securities.

*Commodity-Linked Securities Risk* — Investments in commodity-linked securities may be more volatile and less liquid than direct investments in the underlying commodities themselves. Commodity-related equity returns can also be affected by the issuer’s financial structure or by the performance of unrelated businesses.

*Closed-End Fund Risk* — Closed-end investment companies issue a fixed number of shares that trade on a stock exchange or over-the-counter at a premium or a discount to their net asset value. As a result, a closed-end fund’s share price fluctuates based on what another client is willing to pay rather than on the market value of the securities in the fund.

*Convertible and Preferred Securities* — Convertible and preferred securities have many of the same characteristics as stocks, including many of the same risks. In addition, convertible bonds may be more sensitive to changes in interest rates than stocks. Convertible bonds may also have credit ratings below investment grade, meaning that they carry a higher risk of failure by the issuer to pay principal and/or interest when due.

*Corporate Fixed Income Securities Risk* — Corporate fixed income securities respond to economic developments, especially changes in interest rates, as well as perceptions of the creditworthiness and business prospects of individual issuers.

*Credit Risk* — The risk that an issuer of a security, or the counterparty to a contract, will default or otherwise become unable to honor its financial obligation.

*Currency Risk* — As a result of investments in securities denominated in, and/or receiving revenues in, foreign currencies the risk that those currencies will decline in value relative to the U.S. dollar, or in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency hedged. In either event, the dollar value of an investment would be adversely affected. To the extent that a portfolio takes active or passive positions in currencies, it will be subject to the risk that currency exchange rates may fluctuate in response to, among other things, changes in interest rates, intervention (or failure to intervene) by U.S. or foreign governments, central banks or supranational entities, or by the imposition of currency controls or other political developments in the United States or abroad.

*Derivatives Risk* — A portfolio's use of futures, forwards, options, and swaps is subject to market risk, leverage risk, correlation risk, and liquidity risk. Leverage risk, liquidity risk and market risk are described below. Correlation risk is the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate, or index. A portfolio's use of forwards and swap agreements is also subject to credit risk and valuation risk. Valuation risk is the risk that the derivative may be difficult to value and/or valued incorrectly. Credit risk is described above. Each of these risks could cause a portfolio to lose more than the principal amount invested in a derivative instrument.

*Directional or Tactical Strategies Risk* — Directional or tactical strategies usually use long and short positions which entail prediction on the direction into which the overall market is going to move. Directional or tactical strategies may utilize leverage, and hedging. Risk of loss may be significant if the portfolio's judgment is incorrect as to the direction, timing, or extent of expected market moves.

*Distressed Securities Risk* — Distressed securities frequently do not produce income while they are outstanding and may require a portfolio to bear certain extraordinary expenses in order to protect and recover its investment. Distressed securities are at high risk for default.

*Duration Risk* — Longer-term securities in which a portfolio may invest are more volatile. A portfolio with a longer than average portfolio duration, is more sensitive to changes in interest rates than a portfolio with a shorter than average portfolio duration.

*Equity Market Risk* — The risk that stock prices will fall over a short or extended period of time.

*Event-Driven Strategies Risk* — Event-driven strategies involve making evaluations and predictions about both the likelihood that a particular event in the life of a company will occur and the impact such an event will have on the value of the company's securities. The transaction in which such a company is involved may either be unsuccessful, take considerable time or may result in a distribution of cash or a new security, the value of which may be less than the purchase price of the company's security. If an anticipated transaction does not occur, the portfolio may be required to sell its securities at a loss.

*Exchange-Traded Funds (ETFs) Risk* — The risks of owning shares of an ETF generally reflect the risks of owning the underlying securities the ETF is designed to track, although lack of liquidity in an ETF could result in its value being more volatile than the underlying portfolio securities.

*Exchange-Traded Notes (ETNs)* — The value of an ETN is subject to the credit risk of the issuer. There may not be an active trading market available for some ETNs. Additionally, trading of ETNs may be halted, or delisted by the listing exchange.

*Extension Risk* — The risk that rising interest rates may extend the duration of a fixed income security, typically reducing the security's value.

*Fixed Income Market Risk* — The prices of fixed income securities respond to economic developments, particularly interest rate changes, as well as to perceptions about the creditworthiness of individual issuers, including governments and their agencies.

*Foreign Investment/Emerging Markets Risk* — The risk that non-U.S. securities may be subject to additional risks due to, among other things, political, social and economic developments abroad, currency movements and different legal, regulatory and tax environments. These additional risks may be heightened with respect to

emerging market countries since political turmoil and rapid changes in economic conditions are more likely to occur in these countries.

*Foreign Sovereign Debt Securities Risk* — The risks that:

- (i) The governmental entity that controls the repayment of sovereign debt may not be willing or able to repay the principal and/or interest when it becomes due, due to factors such as debt service burden, political constraints, cash flow problems and other national economic factors;
- (ii) Governments may default on their debt securities, which may require holders of such securities to participate in debt rescheduling or additional lending to defaulting governments; and
- (iii) There is no bankruptcy proceeding by which defaulted sovereign debt may be collected in whole or in part.

*Hedged Strategies Risk* — A portfolio may employ investment strategies that involve greater risks than the strategies used by typical portfolios, including short sales or derivatives transactions. There is no assurance that hedged strategies will protect against losses or perform better than non-hedged strategies.

*Income Risk* — The possibility that a portfolio's yield will decline due to falling interest rates.

*Inflation Protected Securities Risk* — The value of inflation protected securities, including TIPS, generally will fluctuate in response to changes in "real" interest rates, generally decreasing when real interest rates rise and increasing when real interest rates fall. Real interest rates represent nominal (or stated) interest rates reduced by the expected impact of inflation. In addition, interest payments on inflation-indexed securities will generally vary up or down along with the rate of inflation.

*Interest Rate Risk* — The risk that the value of fixed income securities, including U.S. Government securities, will fall due to rising interest rates.

*Investment Company Risk* — When a portfolio invests in an investment company, in addition to directly bearing the expenses associated with its own operations, it will bear a pro rata portion of the investment company's expenses. In addition, while the risks of owning shares of an investment company generally reflect the risks of owning the underlying investments of the investment company, the portfolio may be subject to additional or different risks than if the portfolio had invested directly in the underlying investments.

*Investment Style Risk* — The risk that the portfolio's strategy may underperform other segments of the market or the market as a whole.

*Leverage Risk* — The use of leverage can amplify the effects of market volatility on the value of a portfolio's investments and may also cause the portfolio to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations.

*Liquidity Risk* — The risk that certain securities may be difficult or impossible to sell at the time and the price that the investment adviser would like. The investment adviser may have to lower the price, sell other securities instead, or forego an investment opportunity, any of which could have a negative effect on portfolio management or performance.

*Margin Risk* — To the extent margin is used in the client account, the client should be aware that the margin debit balance will not reduce the market value of eligible assets, and will therefore increase the asset-based fee clients are charged. The increased asset-based fee may provide an incentive for IAR to recommend the use of margin strategies. The use of margin is not suitable for all investors, since it increases leverage in the client accounts and therefore risk.

*Market Risk* — The risk that the market value of a security may move up and down, sometimes rapidly and unpredictably. Market risk may affect a single issuer, an industry, a sector, or the market as a whole.

*Money Market Funds* — With respect to an investment in money market funds, an investment in the money market fund is not a bank deposit nor is it insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the money market fund seeks to maintain a constant price per share of \$1.00, clients may lose money by investing in the money market fund.

***Mortgage-Backed Securities Risk*** — Mortgage-backed securities are affected by, among other things, interest rate changes and the possibility of prepayment of the underlying mortgage loans. Mortgage-backed securities are also subject to the risk that the underlying borrowers will be unable to meet their obligations.

***Municipal Securities Risk*** — State and local governments rely on taxes, and to some extent revenues from private projects financed by municipal securities, to pay interest and principal on municipal debt. Poor statewide or local economic results or changing political sentiments may reduce tax revenues and increase the expenses of municipal issuers making it more difficult for them to meet their obligations. Actual or perceived erosion of the creditworthiness of municipal issuers may reduce the value of a portfolio's holdings. As a result, the portfolio will be more susceptible to factors that adversely affect issuers of municipal obligations than a portfolio that does not have as great a concentration in municipal obligations. Also, there may be economic or political changes that impact the ability of issuers of municipal securities to repay principal and to make interest payments on securities owned by the portfolio. Any changes in the financial condition of municipal issuers also may adversely affect the value of the portfolio's securities.

***Non-Diversified Risk*** — To the extent that a portfolio is non-diversified, which means that it may invest in the securities of relatively few issuers, it may be more susceptible to a single adverse economic or political occurrence affecting one or more of these issuers and may experience increased volatility due to its investments in those securities.

***Opportunity Risk*** — The risk of missing out on an investment opportunity because the assets necessary to take advantage of it are tied up in other investments.

***Portfolio Turnover Risk*** — To the extent that a portfolio buys and sells securities frequently, such activity may result in higher transaction costs and additional capital gains tax liabilities. To the extent that a portfolio invests in an underlying fund, the portfolio will have no control over the turnover of the underlying fund. In addition, the withdrawal of a portfolio from an underlying fund could involve expenses, such as redemption fees, to the portfolio under the terms of the portfolio's investment.

***Prepayment Risk*** — The risk that with declining interest rates, fixed income securities with stated interests may have the principal paid earlier than expected requiring a portfolio to invest the proceeds at generally lower interest rates.

***Private Placements Risk*** — Investment in privately placed securities may be less liquid than in publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized from these sales could be less than those originally paid by the portfolio, or less than what may be considered the fair value of such securities. Furthermore, companies whose securities are not publicly traded may not be subject to the disclosure and other client protection requirements, which might be applicable if their securities were publicly traded.

***Real Estate Industry Risk*** — Securities of companies principally engaged in the real estate industry may be subject to the risks associated with the direct ownership of real estate, including fluctuations in the value of underlying properties and defaults by borrowers or tenants. If a portfolio's investments are concentrated in issuers conducting business in the real estate industry, the portfolio may be subject to legislative or regulatory changes, adverse market conditions, and/or increased competition affecting that industry.

***REITs*** — REITs are trusts that invest primarily in commercial real estate or real estate-related loans. Investments in REITs are subject to the risks associated with the direct ownership of real estate. Risks commonly associated with the direct ownership of real estate include fluctuations in the value of underlying properties, defaults by borrowers or tenants, changes in interest rates and risks related to general or local economic conditions. Some REITs may have limited diversification and may be subject to risks inherent in financing a limited number of properties.

***Rule 144A Securities Risk*** — Rule 144A securities may be less liquid than publicly traded securities. A portfolio may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the price realized from these sales could be less than

those originally paid by the portfolio. Further, companies whose securities are not publicly traded may not be subject to the disclosure and other client protection requirements that would be applicable if their securities were publicly traded.

*Short Sales Risk* — Short sales expose the portfolio to the risk that it will be required to buy the security sold short (also known as "covering" the short position) at a time when the security has appreciated in value, thus resulting in a loss to the portfolio. Reinvesting proceeds received from short selling may create leverage, which can amplify the effects of market volatility on the price of the portfolio's investments.

*Small and Medium Capitalization Risk* — The smaller and medium capitalization companies may be more vulnerable to adverse business or economic events than larger, more established companies. In particular, small and medium companies may have limited product lines, markets, and financial resources and may depend upon a relatively small management group. Therefore, small cap and medium cap stocks may be more volatile than those of larger companies. Small cap stocks may be traded over-the-counter, or listed on an exchange.

*Social Investment Criteria Risk* — If a portfolio is subject to certain social investment criteria, it may avoid purchasing certain securities for social reasons when it is otherwise economically advantageous to purchase those securities, or may sell certain securities for social reasons when it is otherwise economically advantageous to hold those securities. In general, the application of a portfolio's social investment criteria may affect the portfolio's exposure to certain industries, sectors and geographic areas, which may affect the financial performance of the portfolio, positively or negatively, depending on whether these industries or sectors are in or out of favor.

*Taxation Risk* — A portfolio that is managed to minimize tax consequences to clients will likely still earn taxable income and gains from time to time.

*Tax Exempt Risk* — In order to pay tax-exempt interest, tax-exempt securities must meet certain legal requirements. Failure to meet such requirements may cause the interest received and distributed by the portfolio to shareholders to be taxable. Changes or proposed changes in federal tax laws may cause the prices of tax-exempt securities to fall. The federal income tax treatment on payments with respect to certain derivative contracts is unclear. Consequently, a portfolio may receive payments that are treated as ordinary income for federal income tax purposes.

*Tracking Error Risk* — The risk that the performance of a portfolio designed to track an index may vary substantially from the performance of the benchmark index it tracks as a result of cash flows, portfolio expenses, imperfect correlation between the portfolio and benchmark's investments and other factors.

*Underlying Funds Risk* — With respect to portfolios that invest in underlying funds, the risk that the value of a portfolio is based primarily on the performance of the underlying fund. Specifically with respect to alternative investment funds, the process of redeeming from an underlying fund may be both lengthy and costly due to the use of "lock-up" periods, gates, redemption fees, and suspension of redemptions by the underlying funds. All of these factors will restrict or limit the portfolio's withdrawals under certain circumstances.

*U.S. Government Securities Risk* — Although U.S. Government securities are considered to be among the safest investments, they are not guaranteed against price movements due to changing interest rates. The U.S. Treasury backs obligations issued by some U.S. Government agencies, while others are backed solely by the ability of the agency to borrow from the U.S. Treasury or by the agency's own resources.

## **Disciplinary Information**

Neither Investment Advisors Corp. nor any management person has had any civil or criminal actions brought against them.

Neither Investment Advisors Corp. nor any management person has had any administrative proceedings before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

Neither Investment Advisors Corp. nor any management person has had any proceedings before a self-regulatory organization.

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

The principal business of IAC executive officers includes directing the operations of a full-service introducing securities brokerage firm, Broker Dealer Financial Services Corp. (“BDFS”), member FINRA, SIPC, MSRB, NFA, an insurance agency division, and an affiliate, Bankers Financial Services, LLC. (BFS) All affiliated businesses are located at the same address. With just a few exceptions, most of the IARs are also licensed (dual registered) with BDFS.

BDFSC Holdings Corp. owns one hundred percent of Investment Advisors Corp., the affiliated broker-dealer, BDFS, and Bankers Financial Services, LLC.

For some of its investment programs, IAC uses BDFS and First Clearing, LLC, its clearing agent, to provide custody, brokerage and execution services. First Clearing, LLC. is also the clearing agent for Wells Fargo Advisors (“WFA”) and the advisory programs offered through WFA.

Neither IAC nor its affiliated companies have a pending registration for futures commission merchant, commodity pool operator, commodity pool trading advisor, or as an associated person of the foregoing entities.

IAC’s management persons are also the executive officers of BDFS, which is a registered introducing broker (“IB”) with the National Futures Association (“NFA”). All management persons are considered registered with the NFA as associated persons.

IAC’s management persons are also the executive officers of BDFS, which is registered with the Municipal Securities Rules Making Board. All management persons are considered registered with the MSRB.

IAC shares certain personnel in accounting, managerial, compliance, and operational services with its affiliates, BFS and BDFS. IAC also has contractual relationships with other registered investment advisers pursuant to which IAC receives compensation for these services.

BDFS benefits from Advisor One accounts by receiving fees arising from margin interest, fees assessed for trades after the 20 free trades per calendar year, and fees relative to the transfer of any Advisor One accounts. First Clearing, LLC provides execution and custodial services for Advisor One accounts.

Bankers Financial Services, LLC (BFS) provides services to banks and other financial institutions to assist them in issuing market-linked certificates of deposit. Such certificates of deposit may be purchased for the client’s account(s), which would benefit BFS in connection with the services it provided to the issuer and the compensation that BFS receives from the issuers of the certificates of deposit. IARs of IAC who provide significant support to BFS may have a direct financial interest in having clients invest in market-linked certificates of deposit.

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

The Code of Ethics (“Code”) is a comprehensive guideline, based on fiduciary principles, to make the IARs and related persons aware of conduct and behavior expected of them. The Code addresses prohibited activities and addresses reporting requirements, confidentiality requirements, and standards of care.

Annually, IARs certify they read, understand, and will comply with IAC’s Code of Ethics. A copy of the Code will be provided to any client or prospective client upon request.

Accordingly, IARs and related persons must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of the clients. To avoid any potential conflicts of interest involving personal securities transactions, IAC, IARs and related persons must at all time:

- 1) Place the clients’ interests ahead of themselves and the firm. As fiduciaries, they must serve in their clients’ best interests and may not benefit at the expense of a client.
- 2) The IARs and related persons are required to notify IAC with respect to personal securities transactions and are prohibited from trading upon material non-public information.
- 3) The IARs and related persons should not contemporaneously purchase or sell the same securities as a client without making an equitable allocation of the securities to the client first, on the basis of considerations such as available capital and current positions in the client’s account, and then to the account of the IAR or related persons. Personal trades may require preauthorization from IAC.
- 4) IARs and related persons are prohibited from participating or having an interest in client transactions with the exception of personal or family related accounts disclosed in advance to IAC.
- 5) IARs and related persons are to avoid potential conflicts of interest by not accepting investment opportunities, gifts or gratuities with greater than *de Minimis* value from individuals seeking to conduct business with the firm or on behalf of a client.
- 6) IARs and related persons must abide by standards of disclosure regarding personal securities trading and reporting as required in the Advisers Act and under the firm’s policy on Private Securities Transactions, Policy on Confidential Information and Insider Trading Policy.
- 7) IARs and related persons are charged with the duty to protect all client information and confidentiality by properly securing their workstations, computers, mobile devices, external storage units, and records and only authorize access to related persons or vendors who have a legal business need for client information to complete a transaction.
- 8) IARs and related persons are prohibited from misappropriating client funds, securities or non-public personal information.
- 9) IARs and related persons must promptly report any violations of the Code to the Compliance Department.

## Brokerage Practices

IAC does not maintain custody of the client assets on which we advise, although we may be deemed to have custody of the client assets if the client gives us authority to withdraw fees from the accounts. Client assets must be maintained in an account at a “qualified custodian.” IAC is not affiliated with any custodian. The selected custodian will hold the client assets in a brokerage account, and buy, and sell securities when instructed. We do not open the account for the client, although we may assist the client in doing so.

### How We Select Custodians

The IAR may recommend a custodian who will hold client assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for client accounts)
- Capability to facilitate transfers, and payments to, and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below

### Client Brokerage and Custody Costs

The custodians used generally do not charge the client separately for custody services. However, they are compensated by charging client commissions, or other fees on trades that it executes, or that settle into client accounts.

The custodian’s commission rates applicable to IAC client accounts were negotiated based on the condition that our clients collectively maintain a minimum total assets in accounts at the custodian. This commitment benefits the client because the overall commission rates clients pay are lower than they may be otherwise. In addition to these fees, the custodian charges clients 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 client accounts.

These fees are in addition to the commissions or other compensation clients pay the executing broker-dealer. Because of this, in order to minimize client-trading costs, we have the custodians execute most trades for client accounts. We have determined that having the custodians execute most trades is consistent with our duty to seek “best execution” of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above.

### Products and Services Available to IAC from Custodians

The custodians provide IAC and our clients with access to institutional brokerage services — trading, custody, reporting, and related services — many of which are not typically available to the custodians’ retail customers. Custodians also make available various support services. Some of those services help IAC manage or administer our clients’ accounts while others help IAC and IARs manage and grow our business. Custodians’ support services generally are available on an unsolicited basis (we do not have to request them) and at no charge to us as long as our clients collectively maintain a minimum total of client assets with custodian. The following is a more detailed description of the custodians’ support services:

## **Services That Benefit Client**

Custodians' 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 custodians include some to which IAC might not otherwise have access to or that would require a significantly higher minimum initial investment by our clients.

## **Services That May Not Directly Benefit Client**

Custodians also make available to IAC other products and services that benefit the firm but may not directly benefit clients or their accounts. These products and services assist IAC in managing and administering our client accounts. They include investment research of their own and that of third parties. IAC may use this research to service all or a substantial number of our client accounts. In addition to investment research, the custodians also make 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 client accounts
- Assist with back-office functions, recordkeeping, and client reporting

## **Services That Generally Benefit Only IAC**

Custodians also offer other services intended to help IAC and IARs manage and further develop their business. 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 benefit providers, human capital consultants and insurance providers

Custodians may provide some of these services. In other cases, they will arrange for third-party vendors to provide the services to IAC. Custodians may also discount or waive their fees for some of these services or pay all or a part of a third-party's fees. Custodians may also provide IAC with other benefits, such as occasional business entertainment of our personnel.

## **Our Interest in Custodians' Services**

The availability of these services from custodians benefits IAC because we do not have to produce or purchase them. IAC does not have to pay for custodians' services so long as our clients collectively keep a total of at least \$10 million in accounts at each custodian. Beyond that, these services are not contingent upon IAC committing any specific amount of business to custodians in trading commissions or assets. The \$10 million minimum may give IAC an incentive to recommend that the clients maintain their account with the custodian, based on our interest in receiving the custodian services that benefit our business, rather than based on client interest in receiving the best value in custodial services and the most favorable execution of their transactions. This is a potential conflict of interest, but we do not believe it is material.

We believe, however, that our selection of custodians is in the best interests of our clients. Our selection is supported primarily by the scope, quality, and price of each custodian's services (see *"How We Select Custodians"*) and not custodian services that benefit only IAC.

## **Brokerage for Client Referrals**

IAC does not receive client referrals from any custodian. IAC may receive referrals from custodians to introduce IARs to IAC. This could present a conflict of interest if a particular custodian referred many IARs to the firm, which could influence the firm's decisions to recommend a particular custodian.

## **Directed Brokerage**

IAC does not generally direct brokerage business away from the custodian chosen for the selected Investment Advisory Program. The commissions and/or transactional fees charged by separate brokers may be higher or lower than those charged by the program's custodian. Depending on the advisory program chosen, the client may be allowed to direct brokerage to his/her chosen broker-dealer to execute some or all transactions. In that case, the client will negotiate the terms and arrangements for the account with that broker-dealer, and IAC will not seek better execution services or prices from another broker-dealer or be able to aggregate client transactions for execution through other broker-dealers with orders for other accounts managed by IAC. As a result, the client may pay higher commissions or transaction costs, or greater spreads, or receive less favorable net prices on transactions for the account than would otherwise be the case. Subject to its duty of best execution, IAC may decline a client's request to direct brokerage if, in IAC's sole discretion, such directed brokerage arrangements would result in undue operational difficulty or costs.

## **Review of Accounts**

The firm conducts ongoing account reviews for its programs where it provides continuous advisory services. Financial Plans and Consulting Services Agreements are periodically reviewed as received. IAC has designated certain individuals as Compliance Specialists as well as the Chief Compliance Officer who conduct ongoing reviews. The IAC Advisory Ops also assists with reviews of accounts and IAR strategies.

Through the compliance software system, the firm's Compliance Specialists or others delegated as appropriate, review daily trades and multiple exception reports. Exception reports include monitoring account volatility versus stated risk objective, size of transaction versus total account value, the amount of activity in the account, along with any margin and options alerts or other risk factors. The firm's Risk Mitigation Committee conducts periodic reviews of third-party managers and alternative investments.

Investment advisory clients are encouraged to discuss their needs, goals, and objectives with their IAR and to keep their IAR informed of any changes that may occur. IARs shall contact ongoing investment advisory clients at least annually to review their previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the custodian for their account. Those clients to whom IAC provides investment advisory services will also receive a report that may include relevant account and market-related information such as an inventory of account holdings with account performance on a quarterly basis. Those clients to whom IAC provides financial planning or consulting services typically do not receive regular reports on their accounts after the financial planning or consulting services have been concluded.

## **Client Referrals and Other Compensation**

IAC may accept referrals from individuals who are trained in the Firm's policies for referring business. Clients will be notified of the referral before entering into an agreement with the Firm.

Occasionally, bank-domiciled IARs may run a campaign for bank employees to encourage them to promote their Investment Center. The campaigns may reward the employee with a small payment of cash in compliance with Regulation R. Each client is given a copy of the referral notice prior to or at the time of entering into any advisory contract.

## **Custody**

IAC does not maintain custody of client assets on which we advise. Although we may be deemed to have custody of client assets if client give us authority to withdraw fees from the client's account, client assets must be maintained in an account at a "qualified custodian." The custodian will hold client assets in a brokerage account, and buy, and sell securities when instructed. The custodian will send quarterly or more frequent account statements directly to the client. The client should carefully review the custodian statement.

For most advisory programs, IAC sends quarterly performance reports that will show the clients' positions. The clients should compare this statement received from IAC with the statement received from the custodian.

## **Investment Discretion**

### **Investment Advisory Services (Non-Discretionary or Discretionary)**

Clients may open an account by signing an Investment Advisory Agreement with IAC on either a non-discretionary or a discretionary basis. Non-discretionary means the client controls all the investment decisions and activity for his/her investment account.

IAC grants discretionary authority to an IAR after an approval process, and after the client signs an authorization form. Discretionary means the client has authorized the IAR to initiate trades or transactions on behalf of the client. The client Agreement or Investment Policy Worksheet will also specify any of the client's or IAR's trading or investment limitations. A client who gives discretion to an IAR must have complete trust in the IAR, as the arrangement can be risky. However, any decisions an IAR makes must be in the client's best interest and in line with the client's goals. Clients wishing to allow the IAR to have discretion over the account assets would sign an agreement using the Wealth Advisor or PIM Program. Each client account may be offered different advice or services depending on the specific needs of the client and the expertise of the IAR.

## **Voting Client Securities**

Most clients are responsible to vote the proxies for the securities in their accounts. The custodian will provide transmission of proxy and other security holder communications. With few exceptions, IAC does not vote proxies on behalf of clients. Proxy materials received on behalf of a client are to be sent directly to the client, or to a designated representative of the client, who is responsible for voting the proxy. When IAC or its IARs do vote proxies, the CFA Institute guidelines are followed. For more details on the proxy-voting policies of IAC, the client will contact the IAR on his/her account.

## **Financial Information**

Because IAC does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance, we are not required to attach the firm's balance sheet. IAC is not aware of any condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Neither Investment Advisors Corp. nor a management person has been the subject of a bankruptcy petition at any time.