

**First Montauk Securities Corp.**

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**PORTFOLIO ADVISORY  
STRATEGIES PLATFORM**

**Disclosure Document**

**This brochure provides clients with information about First Montauk Securities Corp., the Portfolio Advisory Strategies Platform, and the programs available through the Platform that should be considered before becoming a client of a Platform program. This information has not been approved or verified by any governmental authority.**

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## **I. Introduction**

First Montauk Securities Corp. (“FMSC”) is registered as a broker/dealer and investment adviser with the Securities and Exchange Commission. This brochure discusses the Portfolio Advisory Strategies Platform (“Platform”) through which FMSC offers clients a choice of various discretionary and non-discretionary investment advisory programs (“Programs”). Clients utilizing Programs through the Platform may include individuals, banks, pension plans, trusts, charitable organizations, corporations, and other business entities. Clients who wish to open an account in a Program will enter into an agreement with FMSC (“Client Agreement”) that sets forth the services that FMSC will provide and the fees charged.

## **II. Investment Advisory Services**

As described below, FMSC provides clients with access to various Programs through the Platform. FMSC generally offers access to one or more Programs in the following categories:

- (i) Unified Managed Asset Allocation and Investment Management;
- (ii) Mutual Fund Advisory
- (iii) Variable Annuity Advice
- (iv) Exchange Traded Funds
- (v) Multi-Strategy Asset Management
- (vi) Separate Account Management
- (vii) Alternative Asset Management

As set forth in more detail below, in the Unified Managed Asset Allocation and Investment Management Program FMSC investment adviser representatives (“FMSC Representatives”) provide investment advice regarding the purchase and sale of securities in client accounts on a discretionary or non-discretionary basis. With respect to the remaining categories of Programs, FMSC Representatives assist clients in selecting Programs sponsored or administered by third party investment advisers.

With respect to all Programs, an FMSC Representative collects information about a client’s investment objectives, financial circumstances, risk tolerance and any reasonable investment restrictions that the client wishes to place on the management of the client’s account. Based on this information the FMSC Representative determines the suitability of the Programs for the client and helps the client with account opening documentation. FMSC Representatives periodically review client accounts in the Programs and communicate with clients. The FMSC Representatives update each client’s financial status, goals, objectives and restrictions as necessary. Supervisors of the FMSC Representatives periodically review accounts as well.

### **A. UMAA**

The Unified Managed Asset Allocation and Investment Management Program (“UMAA”) is sponsored by FMSC. Under this Program, FMSC Representatives provide advice to clients regarding the purchase and sale of securities on either a discretionary or non-discretionary basis, as set forth in the Client Agreement. Clients also will complete documentation necessary to open a brokerage account at FMSC through FMSC’s clearing broker/dealer National Financial Services, LLC (“Custodian”). The UMAA Program replaces the Montauk Complete Program.

For discretionary accounts, clients grant the FMSC Representative discretion to manage the client’s account by purchasing, selling or otherwise trading securities or other investments without discussing the transactions in advance with the client. For non-discretionary accounts, the FMSC Representative makes securities

recommendations to the client about purchasing, selling or otherwise trading in securities or other investments, but will not implement any investment recommendation without the client's authorization. The securities in which clients may invest include, but are not limited to, common or preferred stocks, bonds, options, government securities, money market mutual funds, exchange-traded funds and alternative investments. Any restrictions on the management of the account imposed by the client or by any written investment policies or guidelines may cause the FMSC Representative to deviate from the investment decisions he or she otherwise would make in managing or providing recommendations to the account.

The minimum amount of assets required to open an account in the UMAA Program is \$50,000. Should the market value of an account fall below the stated minimum, FMSC will have the right to require that additional monies be deposited to bring the account value up to the required minimum or close the account.

FMSC utilizes the services of one or more third parties to provide certain administrative services to accounts in the UMAA Program, which may include investor profiling tools, investment due diligence, performance reporting systems, back-office support, and client billing tools.

FMSC uses various methods of analysis and sources of information when providing advice to accounts in the UMAA Program. The security analysis methods include fundamental and technical analysis. The main sources of information used are financial newspapers and magazines, research materials prepared by third parties, corporate rating services, annual reports, prospectuses, filings with the SEC and company press releases.

Each FMSC Representative who participates in the UMAA Program utilizes his or her own investment styles, strategies, and types of investments in managing accounts in the UMAA Program. These investment styles may utilize long-term purchases, short-term purchases, and option writing. These strategies may also include engaging in short-selling and utilizing margin when purchasing securities, subject to the client's suitability and completion of the required documentation and acceptance by FMSC and/or Custodian (see **Execution, Reporting and Custody** below). Certain FMSC Representatives may recommend investments in alternative investments, including in hedge funds and other private placement securities, for clients that are qualified to make such investments. Investments in these products will generally not be made on a discretionary basis.

Each investment style, strategy, and investment entails varying degrees of risk. For more information about certain risks see **Risk**, below. Clients are urged to consult with their FMSC Representative to discuss the risks associated with the FMSC Representative's particular investment style and strategy employed in their accounts. There can be no assurance that an FMSC Representative's particular investment style or strategy will be successful or that clients will not suffer losses. Results generated by each FMSC Representative in the UMAA Program will differ, and an individual FMSC Representative's results will differ from client to client. Investment performance is not guaranteed, and FMSC or an FMSC Representative's past performance with respect to a client's account or other accounts does not predict future performance.

#### B. Third Party Programs

The other Programs available through the Platform are sponsored or administered by third-party investment advisers ("Third Party Programs"). All Third Party Programs available through the Platform are approved for inclusion by the FMSC Investment Advisory Services Group. Before becoming available through the Platform, the Investment Advisory Services Group or a subcommittee thereof will review each Third Party Program and its investment adviser sponsor/administrator to determine if it meets certain minimum criteria. This review will generally include a review of the investment adviser's disclosure statement, any Third Party Program brochure, other materials provided by the investment adviser and/or materials obtained from third

parties. All Third Party Programs on the Platform are reviewed periodically to determine whether their inclusion on the Platform continues to be warranted. A Third Party Program may be removed from the Platform based on any number of events, including termination of the contract between FMSC and the investment adviser, legal or financial difficulties, loss of key personnel, change in investment methodology, change in marketing focus, or continuing substandard performance results.

Based on information provided by the client, generally including investment objectives, financial circumstances, risk tolerance and investment restrictions, a FMSC Representative may present to the client one or more Third Party Programs. Only Third Party Programs available through the Platform will be presented. Clients are solely responsible for making the final decision to select the Third Party Program(s) in which to invest. In addition to signing a Client Agreement with FMSC, clients will also sign an agreement with the third-party investment adviser ("Program Agreement"). In certain Third Party Programs, FMSC may also be a party to the Program Agreement. FMSC will typically deliver the Program Agreement to the client and will assist the client in completing any other documents required to open an account under the applicable Third Party Program(s).

Accounts in the Third Party Programs are managed as set forth in documents prepared by the applicable third party investment adviser. A complete description of each Third Party Program, including the minimum account size or other conditions for opening an account in the Program, is set forth in the applicable third party investment adviser's Form ADV, Part II and/or Third Party Program brochure, the applicable Program Agreement and other applicable account opening documents. Part II of Form ADV and/or other applicable disclosure documents describing the Third Party Program and/or the third party investment adviser will be provided to clients interested in these Third Party Programs and in particular third party investment advisers. The third party investment adviser is solely responsible for the content of its Form ADV, Part II (or Third Party Program Brochure as applicable) and any other documents prepared by the third party investment adviser or at the direction of the third party investment adviser.

FMSC will not manage or have any discretionary authority over the assets in the accounts participating in Third Party Programs. After assisting the client in opening an account in the selected Third Party Program(s), the FMSC Representative periodically reviews reports provided to the client; periodically contacts the client to review the client's financial situation and objectives; communicates information to the third party investment adviser as warranted; and assists the client in understanding and evaluating the services provided by the third party investment adviser. Clients will be reminded to notify their FMSC Representative of any changes in their financial situation, investment objectives, or account restrictions. Clients may also contact the applicable third party investment adviser.

The list of approved Third Party Programs is under periodic review and revision and is therefore subject to change. Clients should consult their FMSC Representative directly to obtain the most current list. In certain circumstances, certain Third Party Programs may not be available to all clients.

The types of Third Party Programs available under the Platform generally can be categorized as follows:

- *Mutual Fund Advisory Programs* – These Third Party Programs capitalize on the knowledge, due diligence and professional money management of independent registered investment advisers who provide disciplined asset allocation and diversification, ongoing monitoring and regular rebalancing using mutual fund investments. Under these Third Party Programs, the FMSC Representative typically assists the client in selecting: i) an investment strategy or a model portfolio consisting of mutual funds; ii) asset allocation classes; and/or iii) particular mutual funds. The third party investment adviser will generally either rebalance the funds, asset classes, or model portfolios selected by the client on a predetermined schedule or actively manage a portfolio of mutual funds in

accordance with the client's stated general strategy or objectives. Any re-balancing or reallocation may involve capital gains and/or losses for each transaction, and in non-tax deferred accounts, may result in additional taxes and/or tax reporting. Certain of these Third Party Programs may require client authorization for portfolio rebalancing services.

- *Variable Annuity Advice Programs* - These Third Party Programs provide asset allocation and diversification, ongoing monitoring and regular rebalancing within variable annuity products. Under these Third Party Programs, the FMSC Representative typically assists the client in selecting: i) an investment strategy or a model portfolio consisting of mutual funds available within the variable annuity product; ii) asset allocation classes; and/or iii) particular mutual funds available within the variable annuity product. The third party investment adviser will generally either rebalance the funds, asset classes, or model portfolios selected by the client on a predetermined schedule. Certain of these Third Party Programs may require client authorization for portfolio rebalancing services.
- *Exchange Traded Funds Services* – These Third Party Programs capitalize on the expanding market of exchange-traded funds while leveraging the due diligence and professional money management of independent registered investment advisers who provide asset allocation, dynamic or tactical investing services using exchange-traded funds. Under these Third Party Programs, the FMSC Representative typically assists the client in selecting: i) an investment strategy or a model portfolio consisting of exchange-traded funds; ii) asset allocation classes; and/or iii) particular exchange-traded funds. The third party investment adviser will either rebalance the funds, asset classes, or model portfolios selected by the client on a predetermined schedule or actively manage a portfolio of exchange-traded funds in accordance with the client's stated general strategy or objectives. Any re-balancing or reallocation may involve capital gains and/or losses for each transaction, and in non-tax deferred accounts, may result in additional taxes and/or tax reporting.
- *Separate Account Management Programs* – These Third Party Programs offer a client the opportunity to place assets in separate discretionary accounts managed by third party professional money managers. A bundled asset-based fee typically covers money management, trading, and asset custody. In these Third Party Programs, the third party investment adviser sponsoring or administering the program evaluates other money managers and selects certain of those advisers to participate as money managers available through the program. The sponsoring or administering investment adviser may also be included as a money manager in the program. In these Third Party Programs either (i) the FMSC Representative reviews the list of the participating money managers and assists the client in selecting one or more money managers from that list to manage the client's designated assets; or (ii) the third party investment adviser recommends money managers to the client based on information provided to it. The money manager(s) selected by the client will manage the client's designated assets and typically assume discretionary authority over trading. In certain of these Third Party Programs, clients may also select various mutual funds, exchange-traded funds or private investment funds available through the Third Party Program. Clients make the final decision with respect to the selection of money managers and the selection of funds, as applicable.
- *Multi-Strategy Asset Management Programs* – These Third Party Programs offer the ability to combine multiple investment strategies in a single account. Similar to the Separate Account Management Programs described above, a bundled asset-based fee typically covers money management, trading, and asset custody. In these Third Party Programs, the third party investment adviser sponsoring the program evaluates other money managers, mutual funds, and/or other investments and selects certain of them to be available through its program. The sponsoring investment adviser may also be included as a money manager in the program. In these Third Party Programs either (i) the FMSC Representative reviews the list of the available strategies, models, money managers and/or investments and assists the client in making appropriate selections from the applicable list; or (ii) the third party sponsor recommends available strategies, models, money managers and/or other investments to the client based on information provided to it. The money

managers typically provide buy/sell directions to an overlay portfolio manager who provides services to the client's account on a discretionary basis, including trading in accordance with the money managers buy/sell directions, rebalancing, and wash sales.

- *Alternative Asset Management Strategy Programs* – These Third Party Programs provide a highly customized investment program, which may only be available to accredited investors. Portfolios are generally allocated among different investment managers and invested in individual equity and fixed-income securities by the third party investment adviser. A portion of the client's portfolio may be invested, on a non-discretionary basis, in one or more alternative investments in lieu of allocating assets separately to an investment manager. These alternative investments may include an investment in privately placed hedge funds, managed-future programs, real estate investment trusts or other pooled investment vehicles, publicly traded mutual funds or exchange traded funds or index-lined debt securities. These alternative investment strategies involve substantial risk, including liquidity risk and risk of loss of principal. FMSC reviews these Third Party Programs and its investment adviser to see if it meets certain criteria for inclusion on the Platform, but generally relies on the investment adviser to conduct due diligence on the investments available through the respective Third Party Program. For more information, clients should consult the disclosure documents provided by the third party investment adviser.

FMSC is not responsible for the performance of any third party investment adviser or money manager (each a "Third Party Adviser") or for any Third Party Adviser's compliance with applicable laws or regulations. Each Third Party Adviser is solely responsible each account managed by the Third Party Adviser. If a client selects more than one Third Party Adviser, the Third Party Advisers may engage in contrary transactions with respect to the same security. FMSC shall not be responsible for the management of any account in Third Party Programs, including the conformity of the management of any account to any information provided by clients. Without limiting the generality of the foregoing, FMSC shall not be responsible for any act or omission of any Third Party Adviser or any misstatement or omission contained in any document prepared by or with the approval of any Third Party Adviser or any loss, liability, claim, damage, or expense, whatsoever, as incurred, arising out of or attributable to such misstatement or omission.

### C. Risk

All trading in accounts is at the client's risk and the value of the assets is subject to a variety of factors, such as the liquidity and volatility of the securities markets. All securities investments involve financial risk for which the client is responsible and portfolio transactions may give rise to tax liability for which the client is also responsible. Clients receive no written or verbal guarantees regarding performance. Clients may lose money by investing through any Program included in the Platform.

Each FMSC Representative or Third Party Adviser, as applicable, utilizes different investment styles, strategies, and types of investments in managing Program accounts. **Each investment style, strategy, and investment entails varying degrees of risk.** Clients should consult with their FMSC Representative to discuss the risks associated with the particular investment style and strategy utilized by the FMSC Representative or Third Party Adviser, as applicable. With respect to Third Party Programs, clients are also urged to read the disclosure documents prepared by the Third Party Advisers. There can be no assurance that any particular investment style or strategy will be successful or that clients will not suffer losses. Investment performance is not guaranteed, and past performance does not predict future performance.

For more information about the risks applicable to a specific management style, please consult with your FMSC Representative and see the Third Party Advisers' Form ADV, Part II (or other applicable disclosure document, fund's prospectus or other offering document, as applicable.) Some of the risks associated with various investment strategies and types of investments include the following:

**Asset Class Risk:** There are certain risks associated with investing in certain types of asset classes. For example, investments primarily in securities of small and mid-sized companies have historically had greater share price volatility than investments in large companies. In addition, investments in these types of securities may be less liquid, which may negatively affect an investor's return. Investing in high yield bond asset classes may involve greater credit risk and volatility than other types of bonds. Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation, foreign taxation, and differences in auditing and financial reporting standards. Foreign securities may also be less liquid. These risks may result in greater share price volatility. Investing in developing economies presents increased risks not associated with other foreign investments, such as sudden economic and political developments, substantial currency fluctuation, foreign taxation, and significant differences in auditing and financial reporting standards. Emerging market securities may also be less liquid or the securities may be unable to be sold without a substantial drop in price, if at all.

**Alternative Investments:** Alternative investments are not available to and not suitable for all clients. Investing in alternative investments, including single-strategy hedge funds or funds that invest in hedge funds, involves substantial risk. The investment may generate substantial losses, including an entire loss of capital invested. The investments are speculative and intended for investors who are capable of and willing to bear the high economic risks of the investment, which can include: loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices; lack of liquidity in that there may be no secondary market for the investment and none expected to develop; volatility of returns; risks related to international investing and trading on foreign exchanges; and lack of diversification. Alternative investments can involve complex tax structures, investors may experience delay in tax reporting and an investor's tax liability may exceed cash distributions. Fees are typically higher than with other investments and may offset trading profits. Hedge funds are not subject to many of the regulations and standards applicable to registered investment companies. Single-strategy hedge funds may be highly concentrated in certain types of securities, economic and/or industrial sectors and/or specific securities. Funds of hedge funds may have restrictions on redemptions both at the fund and sub-fund level, which could negatively impact liquidity. Funds of hedge funds may use leverage to invest in single-strategy hedge funds. Single strategy hedge funds also may employ leverage through a number of measures, which could increase any loss incurred. The more leverage employed, the more likely a substantial change will occur, either up or down, in the value of the investment. Futures trading normally requires low margin deposits to permit an extremely high degree of leverage. Thus, hedge funds involved in futures trading may experience immediate and substantial loss or gain due to relatively small movements in the price of a futures contract. FMSC does not do an independent due diligence review of alternative investments available through Third Party Programs.

**Options.** Trading uncovered options involves significant risks and may result in a total loss of the purchase price.

**Concentration of Investments.** Certain strategies may at times concentrate account assets in one, or relatively few, industry sectors. In addition to the potential concentration of accounts in one or more sectors, certain accounts may hold concentrated positions in specific securities. Therefore, at times, an account may hold a relatively small number of securities positions, each representing a relatively large portion of assets in the account. Losses in one or more large positions, or a downturn in one or more industry or market sectors, in which account assets are concentrated could materially adversely affect a client's performance for a particular period and could have a materially adverse effect on a client's overall portfolio.



**Short Selling.** Certain strategies involve selling securities short. In a short sale, an individual client may sell securities it does not own. Because of the repayment obligation, a short sale theoretically involves the risk of unlimited loss: the price at which the client must buy “replacement” securities could increase without limit.

**Real Estate Investment Trusts (known as REITs).** Investing in REITs involves additional risk due to potential adverse developments affecting REITs, the real estate industry and real property, such as economic recession, changes in interest rates, oversupply, competition from other management companies, property acquisition risks, development overruns, project completion delays, rising borrowing costs and tightening of available capital, defaults and insolvencies of major tenants, property damage, security threats, natural disasters, environmental clean-ups and liability lawsuits. The impact of these risks on the share price of funds that concentrate in REIT investments can be high.

### **III. Execution, Reporting, and Custody**

#### **A. UMAA and Third Party Programs When FMSC Acts as Broker-Dealer**

FMSC acts as broker-dealer with respect to most UMAA Program accounts. In addition, FMSC acts as broker-dealer with respect to certain, but not all, Third Party Programs, as described in the applicable Program Agreement and Third Party Program disclosure document(s). Finally, FMSC generally acts as broker-dealer with respect to Montauk Complete Program accounts and accounts in other programs previously offered by FMSC.

When FMSC acts as broker-dealer with respect to a Program, the applicable transaction charges only apply to (or wrap fee only covers) transactions executed through FMSC as broker-dealer. Thus, in these Programs, clients authorize and direct that transactions for the purchase or sale of securities and other investments in accounts be effected through FMSC. Transactions will be effected through a broker or dealer other than FMSC only when required by applicable law. In instances where a transaction is executed through a broker or dealer other than FMSC, the account may incur a higher transaction fee, commission, and/or other charges, as applicable.

FMSC brokerage accounts are carried by National Financial Services LLC, Member NYSE/SIPC (“Custodian”). Custodian or one of its affiliates provides brokerage and custody services for the accounts and receives and credits to these accounts all interest, dividends, and other distributions that it receives on the assets in the accounts. Custodian reviews execution quality and provides reports regarding execution quality to FMSC, who reviews the reports. Certain investments, such as investments in hedge funds and other private fund investments, may be held in accounts at other custodians. FMSC will generally not act as a broker-dealer with respect to these investments.

Each month in which there is activity in the account (or if there is no activity, on a quarterly basis) clients will receive an account statement, which includes a summary of transactions, an inventory of holdings, and other information. Clients also will receive a confirmation of each transaction executed in the account, unless otherwise stated in writing. In addition, clients may have access to online quarterly performance reports or otherwise receive quarterly performance reports.

As set forth in the brokerage documents, in connection with certain accounts, FMSC will “sweep” available cash balances in Program accounts into a money market mutual fund subject to (i) the eligibility of the account; (ii) selection of an available fund by the client, (iii) FMSC’s and Custodian’s then applicable policies and procedures, which may be amended from time to time, and (iv) the fund prospectus. FMSC and/or Custodian or its affiliates may receive a 12b-1 distribution fee in connection with such investments as well as additional compensation based on account balances held in such funds. Such compensation is in

addition to the Program fees. Clients should refer to the money market fund's prospectus for information about the fund and applicable fees. Clients as well as other shareholders of the money market fund will bear a proportionate share of the expenses of the fund.

In other accounts, available cash balances will be held as free credit balances. Custodian may pay interest on any free credit balances in the account(s) at such rate or rates and under such conditions as are established from time to time by Custodian and/or FMSC for such account(s) in accordance with all applicable laws, rules and regulations. Custodian may determine not to pay interest on free credit balances (i) representing either uncollected funds or funds that are deposited and subsequently withdrawn prior to the expiration of the minimum time period required by Custodian, or (ii) where prohibited by applicable law, rules or regulations. Client understands that Custodian or one of its affiliates may receive a "spread" on these balances resulting from the difference between the rate of return that Custodian earns on the free credit balances and interest rate that Custodian pays to the accounts. Any spread received by Custodian or its affiliates will be in addition to the Program fees. Custodian or its affiliates may share a portion of this compensation with FMSC.

FMSC may, but shall not be obligated to, aggregate orders for the account with orders for other clients. FMSC will allocate securities so purchased or sold, as well as the expense incurred in the transaction, in a manner that it considers to be equitable and consistent with its fiduciary obligations to all its clients. Clients authorize FMSC to assign to their account the average price resulting from such aggregated trades.

In accordance with applicable law and regulation, FMSC may on rare occasions execute principal trades for the account. In addition, FMSC may effect "agency-cross" transactions (i.e., transactions for which FMSC acts as broker for both the client and the counterparty to the transaction) for the account in accordance with applicable law and regulations. Because FMSC may receive compensation from the other party to such transaction, FMSC may have a potentially conflicting division of loyalties and responsibilities in effecting agency-cross transactions. Clients may revoke this authorization to effect agency cross transactions at any time by written notice to FMSC.

For accounts owned by retirement plans subject to the provisions of ERISA that pay transaction charges to FMSC, FMSC will rely on and operate in accordance with U.S. Department of Labor Prohibited Transaction Exemption 86-128 ("PTE 86-128"). By relying on PTE 86-128, FMSC may serve as a fiduciary to such retirement plans and receive separate transaction charges in connection with effecting securities transactions for those plans. One of the conditions of PTE 86-128 is that a plan's authorizing fiduciary be provided with a copy of PTE 86-128, a form providing an election to terminate the plan fiduciary's previously-granted authorization to effect transactions in the account, and instructions on the use of the form. Thus, a copy of PTE 86-128 and a form termination letter and instructions on its use are generally attached to the Client Agreement.

#### B. Other Third Party Programs

In other Third Party Programs, the broker-dealer(s) is selected by the client, the investment adviser or the money manager, as set forth in the applicable Third Party Program documentation. The Third Party Adviser is solely responsible for the selection of broker-dealers and best execution in these Third Party Programs.

#### **IV. Fees and Other Compensation**

##### **A. UMAA**

The fees paid by clients in the UMAA Program are set forth in the Client Agreement. Clients generally pay a UMAA Program Fee based on the value of the assets in the account for investment advisory services provided by FMSC and custodial services provided by Custodian. Accounts are assessed transactions charges in addition to the UMAA Program Fee. The UMAA Program Fee is charged on a quarterly basis in advance. The UMAA Program Fee rate charged each quarter is one-fourth the annual Program Fee rates set forth in the Client Agreement. The maximum UMAA Program Fee that can be charged for new accounts in the UMAA Program is set forth below.

##### UMAA Program Fee Maximum Fee Rate Schedule

Total Market Value of Account	Annual Program Fee Rate
\$ 50,000 - \$100,000	2.50%
\$100,001 - \$250,000	2.30%
\$250,001 - \$500,000	2.10%
\$500,001 - \$750,000	1.80%
\$750,001 - \$1,000,000	1.50%
\$1,000,001 - \$2,000,000	1.20%
Over \$2,000,000	negotiable

Except in instances where the client negotiates a single fee rate applicable regardless of the value of the assets in the client's account, the UMAA Program Fee rate will be blended, i.e., as the value of the assets reaches various thresholds, the assets above each threshold will be charged successively lower UMAA Program Fee rates. Regardless of the actual quarterly UMAA Program Fee rate or the value of the assets in the account, each account may be subject to a minimum fee as set forth in the Client Agreement. The imposition of the minimum fee may cause the effective UMAA Program Fee rate (expressed as a percentage) to be greater than the fee rates specified in the Client Agreement.

The UMAA Program Fee does not cover brokerage charges, custody services provided by any custodian other than Custodian, nor does it cover certain costs or charges that may be imposed by FMSC or third parties, including costs associated with exchanging foreign currencies, odd-lot differentials, IRA custodial fees, transfer taxes, exchange fees, wire transfer fees, postage fees, and other fees or taxes required by law. The FMSC Representative servicing the account will receive a portion of the UMAA Program Fee. In addition, any third party providing administrative services will also receive a portion of the UMAA Program Fee, generally based on the value of the assets in the account.

UMAA Program Fee rates are subject to negotiation between FMSC and each client depending on the amount of assets the client has in the UMAA Program, the nature and extent of account relationships between FMSC and the client, the type of service requested and other factors that FMSC deems relevant to the advisory services relating to the UMAA Program. The actual UMAA Program Fee rate paid by a client will be set forth in the Client Agreement. The UMAA Program Fee may be modified or changed by FMSC upon advance written notice to the client.

The initial UMAA Program Fee will be due in full on the date the account is accepted by FMSC (the "Effective Date") and will be based on the opening market value of the assets in the account on that date. The period which this payment covers and for which the UMAA Program Fee will be pro-rated will run from

the Effective Date through the last day of the then current calendar quarter. Thereafter, the UMAA Program Fee will be calculated based on the value of the assets in the account, reduced by any margin loan balance, on the last business day of the prior quarter and will be due within seven (7) business days of the next quarter. Clients may deposit cash or securities into the account at any time. However, FMSC reserves the right not to accept particular securities into an account or it may impose a waiting period before certain securities may be deposited. Clients may withdraw account assets on notice to FMSC, subject to the usual and customary securities settlement procedures. A pro-rata UMAA Program Fee may be charged based on the value of contributions over \$10,000. No portion of any prepaid UMAA Program Fee will be refunded to the account based on the value of partial withdrawals.

Accounts are assessed transaction charges as set forth below.

#### Transaction Charge Schedule

The transaction charges applicable to accounts are as follows:

Equities	\$20.00 plus 0.05 per share for trades over 5000 shares
Options	\$25.00 plus \$1.50 per contract
Fixed Income	\$35.00
Mutual Funds	\$15.00
UITs	\$30.00
Alternative Investments	\$75.00

FMSC shares a portion of the transaction charges with Custodian. In certain instances, an FMSC Representative may agree to pay the transaction charges that are charged to an account, if set forth in the Client Agreement. The portion of the Program Fee that the FMSC Representative receives will not change because he or she has agreed to pay the transaction charges for the account. Thus, this arrangement creates a conflict of interest as the FMSC Representative may have an incentive not to trade in such an account so as not to incur transaction charges. The FMSC Representative may stop paying the transaction charges at any time upon notice to the client. At such time, the account will be charged as set forth above.

Depending on the trading level in the account and the applicable Program Fee rate, the combination of the Program Fee and the transaction charged paid by the account may exceed 3.00% when expressed as a percentage of the value of the assets in the account. This level of total fees may be higher than the Program Fee rate charged by other advisers for similar services for a wrap fee or all-inclusive fee. Thus, similar services may be available elsewhere at a lower fee.

The UMAA Program may cost the client more or less than purchasing advisory and brokerage services separately depending on the cost of the services if provided separately, the trading activity in the client's account, the size of the client's account and the fee structure negotiated with FMSC.

#### B. Montauk Complete and other Prior Programs

Clients who signed agreements under programs previously offered by FMSC, including the Montauk Complete Program, agreed to fee schedules or arrangements in their Client Agreements that are different than the UMAA Program Fee and transaction fee schedules described above. Some of these clients pay a wrap fee, which covers the advisory services provided by FMSC, execution of transactions through FMSC, and custody services provided by Custodian. The wrap fee rates paid by these clients were subject to negotiation, but generally do not exceed a maximum of 3.00% per year. Other clients may pay Program Fee

and transaction charges that may be more or less than the UMAA Program Fee and transaction charge schedules set forth above. Any client who wishes to change the client's current fee agreement to conform with the UMAA Program Fee plus transaction charge schedules for the UMAA Program above may do so by contacting his or her FMSC Representative.

### C. Third Party Programs

Fees for services provided in connection with Third Party Programs are set forth in the applicable Program Agreement and other account opening documents prepared by the third party investment advisers. These fees are generally subject to negotiation and the total fees paid by the client typically range from 1.50% to 3.00% of the value of the assets in the account per year, depending upon the program selected, the size of the account and the services covered. Under some Third Party Programs an all-inclusive fee covers account management, brokerage, clearance, custody and administrative services. In other Third Party Programs the account may be charged separately for such services. The amount of the fees, the services provided, the payment structure, termination provisions and other aspects of each Third Party Program are detailed and disclosed in the third party investment adviser's Part II of Form ADV, the Third Party Program's wrap fee disclosure brochure (if applicable), or other applicable disclosure document, and in the Program Agreement and account opening documents.

FMSC may receive a portion of the fees paid to the third party investment adviser or may receive a fee in addition to the fees paid to the third party investment adviser as set forth in the Client Agreement, Program Agreement and/or other account opening documentation. The fees paid to FMSC generally cover the advisory services provided by FMSC and the FMSC Representative; however, if FMSC is also acting as broker-dealer with respect to Third Party Program accounts, they also cover brokerage, custody and certain administrative services. The compensation received by FMSC (which it shares with the FMSC Representative) with respect to a each account in a Third Party Program will be set forth in the Client Agreement, Program Agreement or in a separate disclosure statement and generally ranges from 0.50% to 2.25% of the value of the assets in the account per year. The amount of the fee received by FMSC may be determined in accordance with an agreement between FMSC and the third party investment adviser or it may be separately determined by FMSC, depending on the particular Third Party Program. For additional information about a specific Third Party Program, clients should consult the third party investment adviser's Form ADV, Part II, Third Party Program disclosure brochure and/or the client's FMSC Representative.

Each Third Party Program under which a client pays a fee covering advisory services and brokerage services may cost the client more or less than purchasing advisory and brokerage services separately depending on the cost of the services if provided separately, the trading activity in the client's account, the size of the client's account and the fee structure negotiated with the third party investment adviser and/or FMSC.

### D. Other Fees and Compensation

When an account pays an asset-based fee to FMSC that covers execution of transactions effected through FMSC, the asset-based fee does not cover brokerage commission or other charges resulting from transactions not effected through FMSC, custody services provided by any custodian other than Custodian, or certain costs or charges that may be imposed by FMSC or third parties, including costs associated with exchanging foreign currencies, odd-lot differentials, IRA fees, transfer taxes, exchange fees, wire transfer fees, postage fees, other fees or taxes required by law, costs associated with temporary investment of client funds in a money market account, or any internal management operating fees or expenses imposed or incurred by a mutual fund or other pooled investment vehicle in which an account may be invested.

Certain securities, such as over-the-counter stocks and fixed income securities, are traded primarily in “dealer” markets. In such markets, securities are directly purchased from, or sold to, a financial institution acting as a dealer, or “principal.” Dealers executing principal trades typically include a “mark-up,” “mark-down,” and/or spread in the net price at which transactions are executed. When FMSC executes a transaction for an account in which a security is traded in the dealer markets, FMSC will typically execute the transaction as agent through a dealer unaffiliated with FMSC. In rare circumstances and in accordance with applicable law, FMSC or one of its affiliates may execute the transaction as principal. For wrap fee accounts and accounts paying an asset-based fee for brokerage, FMSC will not charge commissions or other fees in connection with the transaction, although the client’s account will bear the cost (including any mark-up, mark-down, and/or spread) imposed by the unaffiliated dealer if FMSC is acting as agent. As a result, principal trades executed through unaffiliated dealers are likely to include the payment of compensation to dealers other than FMSC or its affiliates in addition to the Program Fees. If FMSC or one of its affiliates executes a transaction for a client’s account as principal, FMSC or one of its affiliates may receive a spread in the net price in connection with such transaction to the extent permitted by applicable law.

In addition to the Program Fees, each fund (including mutual funds, exchange-traded funds and closed-end funds) in which a client may invest also bears its own investment advisory fees and other expenses. The funds available through the Program may be available directly from the funds pursuant to the terms of their prospectuses or other offering documents and without paying the Program Fees. Further, to the extent that cash used for investment in the Program comes from redemptions of client’s mutual fund investments outside of the Program, there may be tax consequences or additional cost from sales charges previously paid and redemption fees incurred. Such redemption fees would be in addition to the Program Fees on those assets.

Custodian and/or FMSC may receive payments from certain mutual funds pursuant to a 12b-1 distribution plan or other such plan as compensation for distribution or administrative services and are distributed from the fund’s total assets. FMSC Representatives may receive a portion of these fees. The 12b-1 fee arrangements will be disclosed upon request of a client and are available in the applicable fund’s prospectus. FMSC may also receive fees in connection with free credit balances in FMSC brokerage accounts.

FMSC and its affiliates also have compensation arrangements with certain mutual fund families and other product providers, which may be purchased in advisory accounts. For more information, see **Information about FMSC**, below.

#### E. FMSC Representative Compensation

FMSC will share a portion of the UMAA Program Fee or a portion of the fee it receives in connection with a Third Party Program with the applicable FMSC Representative. The compensation received by the FMSC Representatives will vary among Programs, and may be higher or lower with respect to the UMAA Program. Thus, the FMSC Representative recommending a Program to a client may receive more compensation as a result of that recommendation than if the client participated in other Programs available through the Platform. If the client pays a wrap fee under the applicable Program, the client may pay less if the client pays separately for investment advice, brokerage, and other services in a different Program. Thus, the FMSC Representative may have a financial incentive to recommend certain Programs over other Programs or services offered by FMSC.

#### V. Termination

Clients may terminate their participation in a Program at any time upon written notice. In the UMAA Program a *pro rata* portion of the UMAA Program Fee paid by the client in advance will be refunded to

clients based on the number of days left in the quarter following receipt of the notice of termination by FMSC. Fees will be refunded in Third Party Programs as set forth in the applicable Program Agreement or account opening documentation, but will typically be refunded on a *pro rata* basis based on the number of days left in the quarter following receipt of notice by the third party investment adviser. Notwithstanding the above, a client may terminate the Client Agreement without penalty within five (5) business days after the Client Agreement has been signed by the client and accepted by FMSC.

## **VI. Information about FMSC**

### **A. FMSC Activities and Affiliations**

FMSC's principal business is a full service general securities broker-dealer. The principal business of its executive officers is the day-to-day management of its broker-dealer activities. This principal business and other non-investment advisory services account for approximately 85% of FMSC's business.

FMSC may recommend to clients that they buy or sell securities or investment products in which FMSC or a related person has some financial interest. FMSC may also buy or sell for itself or its related persons, including its Representatives, and FMSC's related persons and Representatives may buy for themselves, securities that are recommended to clients. FMSC has adopted a Code of Ethics and related policies and procedures designed to prevent personal or proprietary trading that interfere with the best interests of clients. These procedures include requirements that persons who have access to information regarding clients' securities holdings or trading activity ("Access Persons") place the interests of clients first and avoid taking inappropriate advantage of their position. Access Persons must also report their securities holdings and trading on a regular basis and report any violations of the Code of Ethics. They also are prohibited from revealing confidential information about clients and their accounts, except to persons whose responsibilities require knowledge of the information. In addition, Access Persons must pre-clear certain trades. A copy of FMSC's Code of Ethics is available upon request.

FMSC may give advice, take action, or hold or deal in securities for some clients or accounts, including FMSC's own accounts, which differs from the advice it gives, action it takes, or securities it holds or deals for other clients. These differences may be a result of a variety of factors, including individual financial information, cash flows in the account and differences in investment objectives or strategies.

Certain FMSC Representatives provide financial planning and/or consulting services to clients, which may include cash flow analysis, insurance needs and policy analysis, income tax planning, investment analysis, estate planning and retirement planning. For more information about FMSC's financial planning and consulting services, see FMSC's Form ADV, Part II. Certain FMSC Representatives also provide services through the Montauk SMA Program which is not part of the Portfolio Advisory Strategies Platform. For more information about the Montauk SMA Program, see the Montauk SMA Program Brochure.

Outside of UMAA and other Program accounts, FMSC Representatives may recommend that qualified clients invest in hedge funds or other unregistered investment companies. FMSC is typically not acting in an investment advisory capacity when recommending such investments. Each such investment entails a high degree of risk as set forth in the applicable private placement documents. FMSC and the FMSC Representatives typically receive compensation in connection with the sale of such investments, which may include a portion of the performance fee collected by the fund manager.

Certain Program clients also may maintain brokerage accounts at FMSC for which FMSC does not act in an investment advisory capacity. FMSC Representatives are generally also broker-dealer representatives of

FMSC. The payment of commissions or an asset-based fee in these brokerage accounts is negotiated on an entirely separate basis from the payment of fees in Programs under the Platform.

FMSC is under common control with Montauk Insurance Services, Inc. a duly licensed insurance agency. Certain FMSC Representatives, in their individual capacities, are licensed insurance agents with Montauk Insurance Services, Inc. In those capacities, such investment professionals may, from time-to-time, recommend investments and/or insurance products outside of the Programs for which they may receive additional compensation. The opportunity to receive additional compensation for effecting securities transactions or selling insurance products outside of the Programs or purchasing certain securities in a Program that pay additional compensation may create a conflict of interest.

Certain FMSC registered broker-dealer representatives ("Registered Representatives") have chosen to set up and register their own investment adviser entities. (A Registered Representative who establishes a separate registered investment adviser is referred to as an "Independent Adviser"). The Independent Advisers offer financial planning and/or direct asset management services to their clients as set forth in the Independent Adviser's Form ADV, Part II or other applicable disclosure document. Certain Independent Advisers also manage private investment companies. Such services are separate and distinct from their capacity as FMSC Representatives. In addition, Independent Advisers may also provide investment advice through certain third party investment advisory programs, which may or may not be available through the FMSC Platform. FMSC may provide certain administrative services in connection with Independent Adviser's programs and may receive compensation for such services. FMSC does not provide investment advisory services in connection with these programs.

FMSC offers a large number of various variable insurance products, mutual funds, Real Estate Investment Trusts ("REITS"), managed money platforms and Section 1031 Exchange real estate programs. These companies are all collectively referred to as ("Product Providers"). Because of the large quantity of available products, FMSC focuses on a select group of Product Providers to enable FMSC to efficiently utilize its training, marketing and sales support resources. FMSC also has compensation arrangements with certain Product Providers that participate in FMSC's Product Provider Program. Information about a Product Provider's participation in the Product Provider Program may or may not be disclosed in the Product Provider's respective prospectuses, Offering Circulars or Statements of Additional Information, and is subject to change.

The Product Provider Program was instituted in 2001 to develop strategic marketing relationships with a limited number of Product Providers. Participation in the Product Provider Program provides these Product Providers with access to FMSC's national network of Registered Representatives for marketing, product support, training and education. This access may include participation in sales conferences, training and educational seminars, access to sales information and representative lists, and other various enhanced methods of communication with our independent financial consultants. In addition, FMSC may publicize products of these Product Providers within various marketing means and web sites, including links to these companies' own web sites. The Product Providers may provide sales support and help create targeted marketing campaigns for FMSC's Registered Representatives. Certain Product Providers are provided with an opportunity to attend our annual sales, training and education conferences at which they receive significant marketing exposure to the Registered Representatives in attendance.

There is no additional commission or other compensation paid to a Registered Representative for recommending an investment in a Product Provider's product. Registered Representatives may choose to recommend a product from any approved Product Provider, regardless of participation in the Product Provider Program. The primary factor in making a recommendation to a client is the determination that the



recommendation is suitable for the client and consistent with each client's stated investment objectives and needs.

The Product Providers make cash payments to FMSC to participate in the Product Provider Program. The funds are used to help defray the costs of due diligence as well as our annual sales, marketing and education seminar, called "The Montauk Masters". Participating companies are encouraged to attend The Montauk Masters and generally given an opportunity to make presentations to the Registered Representatives on products, marketing strategies, and changes in the industry and/or regulatory environment. Registered Representatives attend these seminars at no cost to them, including in certain instances the cost of travel to and from the event. There is no requirement for a Registered Representative to market or sell a service or product of any participating Product Provider in order to attend The Montauk Masters program. For more information about the specific Product Provides and the compensation received in past years, please see [www.montaukfinancial.com](http://www.montaukfinancial.com).

FMSC and its Registered Representatives may also receive other reimbursements from Product Providers. For example, a Product Provider may sponsor its own conference or seminar for educational purposes to which certain Registered Representatives are invited. The Product Provider may reimburse or pay for the travel and other related expenses incurred by Registered Representatives to attend such conferences or seminars. In addition, Product Providers may also pay for certain expenses incurred by a Registered Representative or an FMSC branch office in connection with lunches, dinners, client seminars or other events for clients and other miscellaneous expenses incurred by Registered Representatives.

#### **B. Management and Advisory Personnel**

FMSC's executive management and all individuals that render investment advisory services on behalf of FMSC must have earned a college degree and/or have substantive investment-related experience that is substantially equivalent. FMSC Representatives must also meet and maintain any applicable state licensing requirements. The following brief biographical information describes personnel at FMSC who are either principal executive officers of who have supervisory responsibility with regard to the Programs.

##### **Victor K. Kurylak**

Born 1957

##### **Post-Secondary Education:**

Princeton University-1979, B.S., Engineering

##### **Recent Business Background:**

First Montauk Securities Corp., President, COO, 2004 – 2005; President, CEO, 2005 – present.

Terra Nova Trading, LLC, Associate, 2001- 2003

Madison Consulting Group/Summit Insurance, Executive V.P., 1995-2000

##### **Celeste Leonard**

Born 1956

##### **Post-Secondary Education:**

Montefiore School of Nursing 1976, Certification

##### **Recent Business Background:**

First Montauk Securities Corp., Chief Compliance Officer, 2006 - present

Smith Barney Citigroup, Director of Sales Practice, 2004 - 2006

Neuberger Berman, LLC, Senior Vice President-Business Control Management, 2004

CIBC Oppenheimer Corp., Executive Dir./National Dir. of Branch Supervision, 1996 - 2004

**Justin Pinto**

Born 1975

**Post-Secondary Education:**

Brookdale Community College, - 1997, Associate Degree, Science

S.U.N.Y. Albany, - 2000, B.S., Chemistry

***Recent Business Background:***

First Montauk Securities Corp., Vice President, Investment Advisory Services, 2008 - Present

First Montauk Securities Corp., Advisory Services Coordinator, 2003 - 2007

Carter Wallace Inc., Quality Control, 2000 - 2001

**VII. Disciplinary Event Disclosure**

In August 2007, FMSC reached a settlement with FINRA over allegations that it failed to record all terms and conditions on order tickets of transactions in corporate bonds. FMSC was censured and fined \$10,000. In January 2007, FMSC reached a settlement with the NASD over allegations that certain of its employees circumvented the firm's written supervisory procedures regarding customer mailing addresses and address changes. FMSC was censured and fined \$10,000. In September 2006, FMSC entered into a Consent Order with the State of New Jersey Bureau of Securities relating to an investigation into the sale of certain high yield bonds to its clients from 1998 to 2001, and the subsequent resale of those securities to other customers in 2001. As a result, FMSC paid a civil monetary penalty of \$475,000 and retained the law firm Goldbeck Roth as an independent consultant to review its business practices and procedures for branch office supervision, suitability standards, and monitoring of agent sales activities. In January 2006, FMSC reached a settlement with the NASD over allegations that it had an inadequate AML program in place and had supervisory procedures that were not reasonably designed to achieve compliance with securities laws and regulations regarding TRACE reporting. FMSC was censured and fined \$50,000. In March 2004, FMSC reached a settlement with the NASD over allegations that it failed to adopt and implement supervisory procedures to ensure that its research reports disclosed material facts regarding a securities issuer. FMSC was censured, fined \$75,000 and suspended from issuing research reports for three months. FMSC also agreed to hire an independent consultant to review and make recommendations regarding its supervisory procedures concerning research reports. In August 2002, FMSC reached a settlement with the NASD over allegations that it had failed to establish and enforce written supervisory procedures regarding its mutual fund business. FMSC was censured, fined \$45,000 and required to update its written supervisory procedures.

**VIII. Solicitation Arrangements**

FMSC may enter into agreements with third parties that will solicit clients for FMSC and receive compensation for solicitation efforts. In such instances, the third party solicitor will receive either a percentage of, or a set fee from, the fee charged to the client. The fee shall not result in any additional charges to the client. If a solicitor is used in connection with a client's account, the structure and arrangement of the solicitation agreement, as well as the compensation paid to the solicitor, will be fully disclosed to the client, which disclosure will be acknowledged in writing by the client when participating in a Program.

**IX. Proxy Voting**

FMSC does not vote proxies or take other any action or render advice to clients with respect to the voting of proxies solicited by, or with respect to, the issuers of any securities. If FMSC receives any proxy materials that pertain to securities held in client accounts, FMSC will forward the materials to the client or any person designated by client to vote the proxies at client's written request.

## **X. Privacy Policy**

FMSC collects certain nonpublic personal identifying information about its clients (such as their name, address, social security number, etc.) from information provided on client questionnaires, applications and other forms as well as communications (electronic, telephone, written or in person) with them or their authorized representatives (such as their attorney, accountant, etc.). FMSC also collects information about clients' brokerage accounts and transactions (such as purchases, sales, account balances, inquiries, etc.).

FMSC restricts access to its clients' nonpublic personal information to those employees who need that information to service the client's account. In addition, FMSC maintains physical, electronic and procedural safeguards that comply with applicable federal or state standards to protect the nonpublic personal information of its clients.

FMSC does not disclose the nonpublic personal information collected about its clients to any third party except in furtherance of its business relationship with them and then only to those persons necessary to effect the transactions and provide the services that are authorized by the client (i.e., the broker/dealer, custodian, independent investment advisers, etc.) or as otherwise permitted by law.

As permitted by law, FMSC may disclose certain information about its clients to third parties that perform administrative or marketing services or participate in joint marketing programs with FMSC. These third parties are prohibited from using or sharing the information for any other purpose. If a client decides at some point to either terminate our services or become an inactive client, FMSC will continue to adhere to our privacy policy with respect to that client account.