



## **FORM ADV PART 2A- APPENDIX 1 WRAP FEE BROCHURE**

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This brochure provides information about the qualifications and business practices of First Allied Advisory Services, Inc. If you have any questions about the contents of this brochure, please contact us at 800-223-0989. 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.

First Allied Advisory Services, Inc. is a registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

This wrap fee brochure details important disclosure information about certain wrap fee programs that we offer. We do offer other wrap fee programs that are not discussed in this brochure.

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



## Item 2- Summary of Material Changes

The following items explain material changes that you should be aware of as a current or prospective client of First Allied Advisory Services, Inc. advisory programs or services. If you would like a full copy of any of our current Form ADV disclosure brochures at no cost to you, please contact your advisor or First Allied Advisory Services at 800-223-0989.

Summarized below are the material changes that have been made to our Form ADV disclosure brochures since our March 2017 annual amendment:

- **Executive Officer Update** – First Allied Advisory Services, Inc.  
Effective March 1, 2018, Brett Harrison was named Chief Executive Officer of First Allied Advisory Services, Inc.
- **Executive Officer Update** – First Allied Advisory Services, Inc.  
Effective March 1, 2018, Mimi Bock was named President of First Allied Advisory Services, Inc.
- **Executive Officer Update** – First Allied Advisory Services, Inc.  
Effective March 1, 2018, Kevin Keefe is no longer Chief Executive Officer of First Allied Advisory Services, Inc.



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## Introduction

### *Background*

First Allied Advisory Services, Inc. ("FAAS"), a Delaware corporation, is an investment adviser registered with the Securities and Exchange Commission ("SEC"). Being registered does not mean that FAAS is endorsed by any regulatory authority; it simply means that FAAS is required to follow the rules established by the SEC. Representatives of FAAS' investment adviser are required to be registered for advisory business in the state of their principal place of business. For advisory business in Texas, the investment adviser representative would also be required to be properly registered in that state prior to the solicitation of any advisory business in that state. Throughout the remainder of this text, "we," "us," and "our" refers to FAAS.

Most representatives of FAAS are also registered as independent contractor registered representatives with First Allied Securities, Inc. ("First Allied"), an affiliated registered broker-dealer, a registered municipal advisor with the SEC, and member FINRA/SIPC, which allows them to offer brokerage products and services to clients. Compensation for brokerage products and services is a commission based on each transaction executed. Representatives of First Allied are registered to conduct brokerage business in each state where clients reside. Some representatives of FAAS are also registered with affiliated broker-dealers or registered investment advisers, or unaffiliated registered investment advisers. Please see the representative's Form ADV Part 2B for specific information about the companies each individual is registered with.

FAAS was founded in 2007 and is owned by First Allied Holdings, Inc. ("Holdings"). On September 25, 2013, a majority interest in Holdings, was purchased by RCS Capital Holdings, LLC, a member of the American Realty Capital group of companies, from several private equity funds controlled by Lovell Minnick Partners, LLC. On May 23, 2016, RCS Capital Corporation ("RCS"), had a change in ownership and a name change. As a result of this change, RCS is no longer a publicly held corporation. Instead, RCS is a privately held corporation owned by a group of companies. The RCS name has changed to Aretec Group, Inc. Holdings is also the parent company of First Allied Securities, Inc., FASI Insurance Services, Inc., First Allied Retirement Services, Inc., and other affiliated entities that offer financial products and services (see Other Financial Industry Activities and Affiliations section of Item 9- Additional Information).

FAAS is not a custodian of any accounts. Accounts are custodied at Pershing, LLC ("Pershing"), Fidelity Investments ("Fidelity") or other approved custodians. The use of other custodians is limited, and may be allowed on a case by case basis with the approval of our management team and may only be approved for certain representatives. The majority of FAAS' advisory accounts are introduced to custodians through First Allied.

### *Our Corporate Structure*

FAAS has approximately 588 producing investment adviser representatives ("IARs") as of December 31, 2017. Our producing IARs are independent contractors and business owners. Each IAR is responsible for maintaining his own client relationships. The IARs contract with us to utilize our advisory programs in an effort to help their clients meet financial goals and needs. We provide services to you through these advisory programs.

You pay us fees for our programs and services. We pay a portion of these fees to your IAR. The IAR's share of the fee may vary from one advisory program to another. This presents a conflict of interest for our IARs because they may have an incentive to recommend advisory programs that may be more profitable to them. Additional information about this conflict of interest is included in Item 9- Additional Information, starting on page 11. The fees we retain may also be different between IARs, depending on their agreement with us.

Our back office operations are split between San Diego, CA, El Segundo, CA, Des Moines, IA, and St. Cloud, MN. Our IARs have branch offices across the United States. Each of our IARs is supervised by another individual registered with our firm. The supervisor is called a designated registered principal ("DRP") or designated supervisory principal ("DSP"). DRPs are registered individuals that have contracted to work with us, and are often producing IARs and representatives themselves. DSPs are our employees and are generally located in our San Diego, CA, office.

### *Devotion of Resources*

Most FAAS IARs are independent contractor registered representatives with First Allied. If your IAR is a registered representative, they may divide their time between broker-dealer activities and advisory activities and have responsibilities to both FAAS advisory clients and First Allied brokerage clients. Depending on your IAR's individual business mix and client base, they may spend more or less time devoted to broker-dealer activities than other IARs. In addition to broker-dealer activities and responsibilities, your IAR may also be engaged in one or more outside business activities. These outside activities may or may not be related to the financial industry. Your IAR will provide you with a copy of their Form ADV Part 2B brochure supplement, which describes their business background and outside business activities.

### *Our Advisory Activities*

Through our IARs, we offer a variety of investment advisory programs and services for a fee. The following list includes some of our more common offerings:

- Assistance in selecting a portfolio manager
- Ongoing evaluation and review of portfolio managers



- Evaluation and review of portfolio composition
- Management of accounts
- Financial planning
- Consultation on client assets
- Active portfolio management

Portfolio management includes designing and implementing a portfolio through buying and selling stocks, bonds, mutual funds, options, managed futures, insurance products, private placements, and other securities. Our employees, including your IAR, may personally buy and sell the same securities that you buy and sell. This conflict of interest is discussed fully in the Code of Ethics, Participation or Interest in Client Transactions and Personal Trading section in Item 9- Additional Information.

Our IARs are permitted to offer you advisory programs that are managed by the IAR, other FAAS IARs, or by unrelated third-party managers. IARs may rely on research or model portfolios provided by an affiliated third-party manager, Cetera Investment Management LLC (“CIM”).

We consider your investment goals and needs when recommending any advisory program or service. Your IAR will collect information from you regarding your risk tolerance, investment objective(s), and investment time horizon and other factors that will assist us in determining your investment objective for each account. You may have multiple accounts with us, with differing investment objectives, particularly if you intend to use certain accounts for specific purposes (such as transferring assets to a young child, many years in the future). If you would like multiple accounts to be managed under one investment objective, please ask your IAR to discuss the advisory programs we offer on the Guided Portfolio Solutions and My Advice Architect platforms, which are described in other brochures.

Our intention is to provide you with programs and services that will help you to meet your goals and needs. We will gather personal information when helping you choose a program or service. This information may include:

- Your investing experience
- How soon you need the money
- Your retirement goals
- Your current financial situation and future needs
- Your annual income
- Your ability to lose money
- Your ability to withstand market fluctuation
- Your personal instructions on how to invest

**Please contact your IAR if this information changes so that your IAR can review your existing accounts to see if any changes need to be made.** We encourage you to meet with your IAR annually to review your portfolio(s). You may impose reasonable investment restrictions in any of our advisory programs by written notification to and acceptance of both us and the third-party manager (if applicable).

We offer both wrap and non-wrap programs. A wrap program is one in which you pay a single “wrapped” fee for both investment advisory and brokerage execution services. This wrap fee is not based on the number of transactions made in your account. It is based on the size of the account(s) we manage for you. If you invest in a non-wrap program, you are may be subject to charges for each transaction in addition to the advisory fee. Because wrap programs do not have fees or charges associated with each transaction, wrap fees may be greater for similar services than non-wrap fees. Clients paying wrap fees may pay a higher percentage of the account value on an ongoing basis for similar services as non-wrap clients. Non-wrap clients may pay a higher or lower overall fee for the same services, depending on the number of trades in their account during a billing period. Clients may request fee information on similar programs from their IAR.

Our IARs may also host or offer education seminars to clients and prospective clients. In certain cases, these seminars may be “sponsored” by unaffiliated or affiliated companies who reimburse our IARs for the cost of these events. For more information about these reimbursements, please reference the Client Referrals and Other Compensation section of Item 9- Additional Information. Clients and prospective clients are not charged fees for attending educational seminars hosted by our IARs.

#### *Information on All Advisory Programs*

Regardless of which advisory program or service you choose, your IAR will work with you to collect suitability information that will aid in the creation of recommendations. This suitability information is maintained on internal systems and documents. Your IAR is required to submit the completed suitability information to his supervisor for review and approval. It is your responsibility to notify your IAR if your financial circumstances change so that your IAR may work with you to determine if a change in your investment(s) may benefit you. Regardless of the program chosen, your IAR is responsible for ongoing review of your account(s), regular communication with you, and determining that the portfolio selected is appropriate for you based on your investment objective(s).

Custody of all accounts will be at Pershing, Fidelity, or another approved custodian. The custodian will provide you with confirmations of all transactions and monthly or quarterly account statements. You may have the option of directing the custodian to not send you trade confirmations. This suppression will not impact the delivery of account statements.

Certain wrap programs that we offer are described in Item 4- Services, Fees and Compensation, starting on this page. We offer additional wrap programs that are not detailed in this brochure and we also offer several non-wrap programs that are detailed in other disclosure brochures. Your IAR can provide you with these other brochures upon request. Some wrap programs that we offer are similar to the non-wrap programs that we offer. Your IAR will work with you to decide which program will best serve your needs.



### *Managed Assets*

Every year we calculate the amount of assets that we manage. As of December 31, 2017, we managed:

- \$5,798,110,787 in discretionary assets
- \$40,647,661 in non-discretionary assets

Discretionary assets are the assets with which we have the authority to determine whether to buy or sell securities. This authority is called a trading authorization and is described in more detail in the Investment Discretion section of Item 9- Additional Information. Non-discretionary assets are assets in accounts that we provide recommendations on, as to the purchase or sale of specific securities. We do not place orders to buy or sell non-discretionary assets without first receiving your authorization.

## Item 4- Services, Fees and Compensation

### *Fee Overview*

The fees that you pay for advisory programs or services will depend on several different factors. The fees for advisory programs are generally based on the “Assets Under Management.” This means that the account is charged a fee based on the account balance as of a certain date. These fees are negotiable between you and the IAR offering the service.

Most of our programs that require an account charge an advisory fee, paid quarterly, based on the account’s balance on the last day of each calendar quarter (March 31, June 30, September 30, and December 31). If the last day of the calendar quarter falls on a day that the New York Stock Exchange is closed, we use the account balance on the last business day of the calendar quarter to calculate the advisory fee. This fee is generally charged in advance (or pre-paid) for the management to be provided over the next calendar quarter. We will only charge you an advisory fee for the portion of a quarter that the account is under management. For new accounts, we will bill the account when it is opened for the remaining days in the quarter. For accounts that are terminating management during a quarter, we will automatically credit you back any pre-paid fees for the portion of the quarter remaining after management has terminated.

Advisory fees are generally deducted from the account. The account statements you receive from the custodian will reflect the deduction of these fees. Fees are deducted from the client account in the month following quarter end. For some programs, fees may be paid to us by check, as outlined in the advisory agreement. In this case, we will send an invoice to the client for the fees owed. Some clients may choose to pay their fees via credit card.

In the event a deposit of \$10,000 or more on a single day or withdrawal of \$10,000 or more on a single day occurs in an Elite program account, we will calculate the fee owed or refund due and adjust the normal fee charged at the end of the calendar quarter. In certain of the other programs that we offer, in the event a deposit or withdrawal of \$5,000 or more on a single day in one investment account occurs, we will calculate the fee owed or refund due and adjust the normal fee charged at the end of the calendar quarter. For MAC program accounts, a net deposit or withdrawal of \$20,000 or more in a single quarter will trigger the fee adjustment.

Some assets in your managed account may not be included in the calculation of your advisory fee. For example, assets that you recently paid a commission on may be exempt from this advisory fee. In certain situations, we allow you to “hold” the asset in your advisory account, but this asset would not be charged an advisory fee. If your account is billed on assets under management, the advisory fee is generally split between a program (or platform) fee and a management fee.

### *Program Fees*

The program fee varies depending on which program or service you select. The program fee is an annual percentage of assets under management, billed quarterly. The program fee is paid either to FAAS entirely, or is split between us and a third-party manager. A portion of the program fee is also paid to service providers that we hire to help us administer the advisory program selected, including First Allied. This program fee is not negotiable. However, the program fee may be different based upon your IAR’s relationship with us. For example, we may allow your IAR to have a lower program fee because his clients’ combined accounts exceed a certain amount of assets under management. If your IAR has a lower program fee, this will not change the total advisory fee you pay, but it may present a conflict of interest (we address this conflict of interest in Item 9- Additional Information, starting on page 11). Program fees are subject to change without notice, but these changes do not affect the fee that you pay to us.

### *Management Fee*

The management fee is paid to the IAR servicing the account. You and your IAR will negotiate this fee for each program account and it may not be the same for each account. It may also be different than the fees your IAR has negotiated with other clients, or the fees other IARs have negotiated with other clients for similar services. We retain a portion of the management fee as compensation for various services that we provide to your IAR and to you.

Once negotiated with you, your IAR’s management fee is fixed. However, your IAR’s costs associated with managing your account may vary depending on the investment choices that he decides are appropriate for your account. This creates a conflict of interest because your IAR has an incentive to manage the account in a manner that will maximize his compensation rather than manage the account without regard to compensation payable to him. This difference in your IAR’s compensation will not affect the advisory fee



that you pay to us. We help mitigate this conflict of interest by requiring that your IAR adheres to his fiduciary obligation of managing accounts solely based on the best interests of clients and by establishing a maximum advisory fee for each advisory program.

#### *Total Advisory Fee*

You and your IAR will agree on your total advisory fee for each account prior to establishing the account. The total advisory fee is the sum of the program fee and the management fee. At any time, you and your IAR may agree to amend the original fee and submit a new advisory agreement with a different fee schedule. There are maximum allowable advisory fees for each program and we will not allow you to be charged more than this amount. The maximum allowable advisory fee will differ between programs, but is consistent for all IARs and all clients in each program. This maximum advisory fee is noted on the investment advisory agreement and in this section.

#### *Fee Schedules*

Each advisory program that requires an investment account has its own fee schedule. The fee schedule will outline the program fee and the management fee. Generally, the management fee is negotiable with your IAR. The program fee is paid to us and is non-negotiable. The amount of your advisory fee, as a percentage, may remain the same regardless of the size of your account, or the percentage may decrease as your account balance increases. Your advisory fee will not increase, as a percentage, as your account balance increases.

#### **My Advice Architect Program**

FAAS is a co-sponsor to the My Advice Architect Program (Program) and is responsible for supervising the activities of the investment adviser representatives who use the Program for clients. For a more detailed description of the Program and the role of FAAS and its investment adviser representatives, please see our affiliate's and Cetera Advisory Services' Form ADV Part 2A.

#### **SEI Investment Management Corp. ("SEI") Program**

We have entered into an agreement that allows your IAR to offer portfolio management services in a SEI account. SEI is a company that creates mutual funds and mutual fund portfolios. SEI is an unaffiliated registered investment adviser. In the SEI program, your IAR selects the mutual fund allocation for your SEI program account. SEI program accounts are custodied at SEI Private Trust Company, a firm related to SEI Investment Management Corp.

The fee schedule for SEI program accounts is below. Your advisory fee for your SEI program account(s) is negotiable and may be less than the amounts listed below.

Account Size	Program Fee (annually)	Management fee (annually)	Total Advisory Fee (annually)
Up to \$250,000	0.00%	1.50% - 2.00%	1.50% - 2.00%
\$250,000 - \$500,000	0.00%	1.25% - 1.50%	1.25% - 1.50%
\$500,000 - \$1,000,000	0.00%	1.00% - 1.25%	1.00% - 1.25%
\$1,000,000 - \$2,500,000	0.00%	0.85% - 1.00%	0.85% - 1.00%
Over \$2,500,000	0.00%	0.75%	0.75%

In addition to the SEI program advisory fee noted, you may pay other fees associated with the SEI program, including an annual custodial fee. SEI is not compensated via a program fee. Instead, SEI receives compensation through the SEI mutual funds that are included in your portfolio. You may pay less overall if you were to invest in SEI funds in a different program or directly with SEI. SEI program accounts are billed according to SEI's procedures.

#### **Prime Asset Management II ("PAM II") Program**

The PAM II program allows your IAR to manage your assets with limited or full trading authorization. This trading authorization may be limited to investment company securities (limited trading authorization) or extend to any security traded on a national or regional exchange (full trading authorization). IARs who wish to have full trading authorization in your account must receive your permission on the investment advisory agreement. Since PAM II program accounts are managed by our IARs, we require that an investor profile be completed prior to the opening of any PAM II program account. In addition to the responsibilities listed above, when you invest in the PAM II program, your IAR will be responsible for managing the account as necessary.

The minimum account size for the PAM II program is \$50,000. Under certain circumstances, this minimum can be waived by us. You should know that we offer a non-wrap version of the PAM program that has a different program minimum and fee structure than PAM II. Your IAR should consider which version of the PAM program would suit you better. If you would like more information about the non-wrap version, please request it from your IAR.

The following table details the advisory fee schedule for the PAM II program. The management fee may be discounted upon agreement with your IAR. Your IAR may have an agreement with us whereby the program fee is less than the amounts listed below.

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$150,000	0.45%	2.05%	2.50%
\$150,000 - \$250,000	0.30%	2.20%	2.50%



\$250,000 - \$400,000	0.30%	1.95%	2.25%
\$400,000 - \$750,000	0.10%	2.15%	2.25%
\$750,000 - \$900,000	0.10%	1.65%	1.75%
\$900,000 - \$2,000,000	0.05%	1.70%	1.75%
Over \$2,000,000	Negotiable	Negotiable	Negotiable

### **FTJ Fund Choice (“FTJ”) Program**

We have entered into an agreement that allows your IAR to offer you the FTJ Program. FTJ Fund Choice, LLC is an unaffiliated registered investment adviser that provides re-balancing of model portfolios of mutual funds. Your IAR is the manager of your portfolio. These accounts are custodied at Huntington National Bank, LLC or TD Ameritrade, Inc.

Your IAR will receive compensation from FTJ for providing you with services in the FTJ program. Clients may pay lower fees for accounts over \$5 million. Your total advisory fee for your FTJ program account(s) may be less than the amounts listed below.

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$5,000,000	0.30%	1.70%	2.00%
Over \$5,000,000	Negotiable	Negotiable	Negotiable

### **Legacy Programs (no longer offered to new investors)**

The following programs were previously offered by IARs of First Allied and are closed to new investors. However, many of the investment models that were previously available in the following programs are currently available through either our Allocation Series or Manager Series programs. If you are interested in any of these investment models, please ask your IAR to provide you with a disclosure brochure describing the Allocation Series and Manager Series programs.

### **ETF Select**

ETF Select is designed as a comprehensive asset allocation strategy giving clients exposure to an actively managed blend of stocks, bonds, and alternative assets. ETFs are used to obtain asset class exposures. ETFs offer many advantages over mutual funds including precision, tax efficiency, liquidity, and lower expenses. In the ETF Select strategy, assets are strategically allocated across a wide range of asset classes, utilizing primarily ETFs, through a comprehensive investment process. There are five investment models available for ETF Select, ranging from the Income portfolio, which has an allocation of 20% equities and 80% fixed income, to the Equity Growth portfolio that is allocated to almost 100% equities. This program is managed by Columbus Macro, LLC.

### **Yield Select**

The Yield Select strategy invests in highly liquid U.S.-listed securities, including equities, American Depositary Receipts (“ADRs”), and closed-end funds (“CEFs”). Its primary objective is to offer a balance between current income and future growth, with a bias toward risk management. The portfolio will be comprised of two parts: the first invests in CEFs representing both equity and fixed income asset classes and the second invests in individual stocks that have a high current dividend yield plus the potential for dividend growth. Between the two pieces, the goal is to establish a portfolio of approximately 40 positions that is diversified by asset class, sector and size that will generate current income through dividends, interest income and royalty payments plus offer the potential for long-term appreciation. This program is managed by Columbus Macro, LLC.

### **U.S. Large Cap Select (“USLCS”)**

USLCS is a separately managed account strategy investing in highly liquid U.S.-listed equities. Columbus Macro, LLC manages this investment model for investors seeking a risk-managed approach that strives to build and maintain wealth. USLCS seeks to outperform the S&P 500 index with a bias toward downside risk management. The strategy is designed to accommodate growing concern about market risk while still providing the participation in growth that is available through equity investing. In USLCS accounts, Columbus Macro, LLC employs a disciplined methodology to identify opportunities to purchase stocks in large U.S. companies that the portfolio management team believes are poised for enhanced performance with a favorable risk/reward tradeoff.

### **Fund Allocator**

The Fund Allocator strategy (now named Mutual Fund Select) is a managed mutual fund strategy that utilizes custom market models from Columbus Macro, LLC to produce asset allocations to facilitate construction and management of your portfolio. Fund Allocator relies on dynamic management to combat market volatility, and utilizes mutual funds within each asset class screened and ranked by Columbus Macro, LLC. Fund Allocator is designed to provide you with long-term, risk-adjusted returns. The mutual funds in Fund Allocator represent 13 different asset classes and you have the option of choosing between 10 different asset allocation models (including 5 tax-sensitive models). Occasionally, Columbus Macro, LLC will utilize other securities, such as ETFs, in the Fund Allocator investment models in order to provide exposure to an investment theme more efficiently.

### **Managed Account Command (“MAC”) Program**

The MAC program is our custom version of Pershing’s Managed Account Solutions (“PMAS”) platform. PMAS provides us with software that allows your IAR to create a proposal and select a third-party manager to manage your account. The MAC program allows you and your IAR to choose from a variety of managers and strategies. These strategies are either equity strategies or fixed



income strategies. The selected manager will be responsible for the trading in your MAC account. The manager is granted full trading authorization in the account, meaning that you will not be contacted prior to trades being executed in the account. Each strategy selected will require its own account. The selected manager will vote proxies for MAC accounts. You may revoke this authorization at any time by sending us written instructions naming another person who will vote proxies in the account(s). Records of how your proxies are voted are maintained by the manager.

#### **Elite Program**

The Elite program is a multi-manager platform offering mutual funds, exchange-traded funds (“ETFs”), and separately managed stock portfolios. The Elite program consists of three distinct types of strategies, one employing mutual funds and exchange-traded funds (Mutual Fund & ETF strategy), another using individual equities (Individual Equity strategy), and a third using only mutual funds (FundMAP strategy). The majority of the offerings under this program are no longer open to new investors. However, certain eligible clients with a 403(b) account may still qualify for this program.

#### **Elite Asset Management (“Elite”) 403(b) Program**

The Elite 403(b) program is a multi-manager platform offering mutual fund portfolios. The Elite 403(b) program is managed by unaffiliated third-party asset managers and is only open to clients with an eligible employer-sponsored 403(b) plan. Brokerage, clearance, and custodial services are offered by Fidelity Brokerage Services, LLC.

The fee schedule for Elite 403(b) program accounts is below. Your advisory fee for your Elite 403(b) program account(s) is negotiable and may be less than the amounts listed below.

Account Size	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Up to \$500,000	0.45%	1.30%	1.75%
\$500,000 - \$1,000,000	0.40%	1.10%	1.50%
Over \$1,000,000	0.40%	0.60%	1.00%

#### ***Other Fees***

In addition to the fee schedules listed above, there are additional account maintenance related fees that may apply to your account. For more information relating to account maintenance fees, please refer to the Service Fee Schedule provided to you with your new account paperwork.

All Accounts may invest in mutual funds that make a distribution payment referred to as a 12b-1 fee. The clearing/custodial firm has been instructed to credit any 12b-1 fees received to the client’s Account. As a result, neither First Allied nor the Advisor shall receive 12b-1 fees from mutual funds purchased in the Accounts. Either you or your IAR may designate certain holdings as **not** eligible to be included in the calculation of the advisory fee. Typically, this occurs when your IAR has recently received a commission on the purchase of the holding.

In addition, your account will be subject to other fees charged by the custodian of your account. Electronic funds and wire transfer fees, transfer taxes, account maintenance fees, margin fees, transaction charges, exchange fees, and odd lot differentials are examples of fees that may be charged by the custodian. These fees are charged by the custodian and are not included in the advisory fee that you pay to us for management of your account. In some cases, certain of these custodian fees may be paid by your IAR, on an account by account basis. Your IAR is not required to pay these fees on your behalf and your IAR may elect to not pay for any or all fees for each of his clients’ accounts. First Allied may receive a portion of these fees in its capacity as introducing broker-dealer. An account service schedule detailing all these fees will be provided to you upon account opening.

Based on the activity in your account, you may pay more or less for a managed account than if you had a brokerage account or an account directly with a mutual fund company. Your IAR should be able to discuss with you the benefits of opening a managed account versus a brokerage or mutual fund account.

First Allied has enrolled in Pershing’s Fundvest® program, which gives our IARs the ability to purchase more than 4,600 mutual funds on either a no-load basis or a load-waived at net asset value basis. This program is maintained by our clearing/custodial firm, Pershing. Pershing, at their sole discretion, may add or remove mutual funds from the FundVest Program without prior notice. In the FundVest Program, transaction costs are waived on purchases that would normally carry a transaction charge, which may provide your Advisor with an incentive to recommend a FundVest Mutual Fund.

Mutual funds that participate in Pershing’s FundVest Program will be assessed by Pershing a short-term redemption fee if sold within three months. Similar short term redemptions fees may be charged by mutual funds, whether or not they participate in the FundVest Program. These fees are in addition to any Pershing short-term redemption fee. This fee is only applicable for certain Pershing accounts. Your IAR may have the option of paying all or some of these short-term redemption fees on your behalf, as outlined above.

Fixed income transactions may include the commission in the price of the security. This is a principal transaction. We will obtain your signed consent prior to settlement for a principal transaction and disclose to you any compensation we receive for the transaction.



## *Cash Sweep Program*

**FDIC Insured Bank Deposit Sweep Account.** Under two programs, the FlexInsured Account Program and the Insured Deposit Sweep Account Program, (FDIC-Insured Programs) First Allied permits available cash balances in eligible accounts, including cash balances derived from the sale of securities, dividend payments, interest credited from bonds and cash deposits, to be automatically deposited (swept) into interest bearing deposit accounts at one of more participating program banks (Program Banks). Deposits made through a FDIC-Insured Program are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each Program Bank and up to \$2,500,000 for combined deposits at Program Banks. For the purposes of determining available FDIC coverage, funds deposited in a particular Program Bank are aggregated with all other deposits held by you (outside of the FDIC-Insured Programs) in the same insurable capacity at that Program Bank. It is your responsibility to monitor the insurable deposits that you may have with any Program Bank (including deposits outside of the FDIC-Insured Programs). Funds deposited through the FDIC-Insured Programs are not eligible for SIPC protection.

**FlexInsured Account Program.** The FlexInsured Account is the default sweep vehicle for non-retirement advisory accounts. For its role in offering the FlexInsured Account program, First Allied earns additional compensation in the form of a fee from Participating Banks based on the amount of money on deposit from all FlexInsured Account participants. The fees received by First Allied vary but will never exceed 2% on an annualized basis, as applied across all FlexInsured Accounts. In our discretion, we may reduce our fee and vary the amount of the reductions among clients. Additionally, the fees First Allied receives may vary from Program Bank to Program Bank and will affect the interest rate paid to you. The interest you earn may be lower than interest rates available to depositors making deposits directly with a Program Bank or other depository institutions.

**Insured Deposit Sweep Account.** The Insured Deposit Sweep Account (IDSA) is the default sweep vehicle for advisory IRAs. For its role in offering the IDSA program, First Allied receives a per account fee each month. The compensation paid to First Allied under the IDSA program does not vary among IDSA participants and is not affected by amounts actually deposited through the IDSA program. First Allied's compensation under the IDSA program is determined by a fee schedule indexed to the current Federal Funds Target (FFT) Rate. The monthly fee paid to First Allied increases and decreases by \$0.07 with every 1 basis point (a basis point is equal to 0.01%) change in the FFT Rate. In cases where the FFT Rate is a range of rates, the FFT Rate will be deemed to be the midpoint of the range rounded to the nearest thousandth of a decimal. Using this calculation, First Allied may be paid a maximum monthly per account fee of \$17.50. Although it is generally anticipated that First Allied's fee under the IDSA program will be offset by amounts paid by the Program Banks, First Allied reserves the right to withdraw the monthly account fee, or portion thereof, in the event or to the extent that the amount received from the Program Banks and paid over to First Allied is less than Firm's fee for the same period.

Some non-retirement accounts established before May 21, 2018, utilize a money market fund previously designated as an alternative sweep option for non-retirement accounts (Prior MMFs). These Prior MMFs are no longer available as a new sweep selection; however, clients that previously chose the Prior MMFs may continue to use them until a new selection is made. First Allied receives from Pershing distribution assistance in the form of annual compensation up to .78% for assets held in a Prior MMF. For a list of the money market fund options available in the cash sweep program, please consult your Advisor.

The compensation First Allied receives from the FDIC-Insured Programs and the Prior MMFs defrays its costs associated with the FlexInsured Account program and the IDSA program and is also a source of revenue. This compensation presents a conflict of interest to First Allied because First Allied has a financial benefit when cash is invested in the FDIC-Insured Programs and the Prior MMFs. However, this compensation is retained by First Allied and is not shared with your Advisor, so your Advisor does not have a financial incentive to recommend that cash be held in the FDIC-Insured Programs or a Prior MMFs as opposed to investing in securities.

Cash in ERISA accounts is not eligible for investment in the FDIC-Insured Programs. For ERISA advisory accounts, First Allied offers a specific money market fund or funds, which provide a yield on your daily account balances, as a cash sweep default option. First Allied and Advisor do not receive any compensation in connection with cash in ERISA accounts that are swept into any money market fund that First Allied designates for ERISA accounts.

An investment in a money market mutual fund, unlike bank deposits, is not insured or guaranteed by the FDIC or any other governmental agency, and it is possible to lose money by investing in a money market mutual fund. Money market mutual funds are covered by SIPC, which protects against the custodial risk (not a decline in market value) when a brokerage firm fails by replacing missing securities and cash up to a limit of \$500,000, of which \$250,000 may be cash.

A money market mutual fund generally seeks to achieve a competitive rate of return (less fees and expense) consistent with the fund's investment objectives, which can be found in the fund's prospectus. Rates in the money market fund option offered as a cash sweep option will vary over time and may be higher or lower than the rate paid on other sweep options (including the FDIC-Insured Programs) or other money market mutual funds not offered as a cash sweep option. First Allied may earn more by designating the Flex Insured Account or the IDSA as the default sweep option for your account. Accordingly, First Allied has a conflict in selecting cash sweep options.



For detailed information regarding the terms and conditions of the products, including balance limitations, see First Allied's cash sweep disclosure document entitled Sweep Program General Terms and Conditions or your applicable money market fund prospectus. We may change the products available for your selection.

#### *Loan Advance Accounts*

A Tri State Capital Bank (Tri State) pledged account is collateral for a loan held through Tri State. A customer may borrow money from Tri State by pledging securities held and custodied in their Pershing brokerage account. Unlike a margin account, these borrowed funds cannot be used to purchase additional securities. If you decide to enter into loan arrangement with this banking entity, you should carefully consider the following:

- You are borrowing money that will have to be repaid to the bank.
- Pledge arrangement arrangements are only available for non-qualified accounts.
- You, as the borrower, are using the cash and securities that you own in the account as collateral.
- You will be charged an interest rate that is subject to change.
- Tri State can force the sale of securities or other assets in the pledged account at any time and without notice to cover any deficiency in the value of the securities pledged for the loan. Tri State can decide which securities to sell without consulting you.
- First Allied and our representatives have a conflict of interest when you obtain a loan from Tri State. This conflict occurs because First Allied and the representative will receive a portion of the interest charged on the loan. First Allied reduces this conflict by reviewing the borrower's accounts to determine whether or not the use of Tri State is appropriate and in line with the borrower's goals and objectives.
- Tri State is responsible for reviewing the loan application and any other documents that Tri State may require to obtain the loan. Tri State, in its sole discretion, will determine the credit worthiness of the applicant, including the amount of the loan.
- Prior to establishing a loan with Tri State, you should carefully review the loan agreement, loan application and any other forms required by the bank in order to process your loan.

Prior to establishing a loan with Tri State, you should carefully review the disclosure form provided by First Allied.

#### *Verification of Fees*

You are always responsible for verifying that the fee you are charged is accurate. The custodian will not determine whether the fee is properly calculated. Should you find an error, please contact your IAR immediately. If you are not satisfied with the action your IAR takes, you may contact us at the number on the cover page of this document.

## Item 5- Account Requirements and Types of Clients

Most programs we offer have account minimums (if the program requires an account). We offer wrap programs with a minimum as low as \$25,000. If you have questions about the wrap or non-wrap programs not described in this brochure, please ask your IAR to provide you with our other wrap fee brochures. At our discretion, we may allow you to open an account without meeting the stated minimum. If the account will be managed by a third-party manager, the third-party manager must be willing to take the account below the minimum. Some of our IARs impose minimum levels above those that we set. You and your IAR should discuss your level of investable assets to determine which programs are best suited for you.

Certain account registration types prohibit investments in securities other than mutual funds. Should your account registration type restrict the kinds of securities that are purchased in your account, the performance of the account may not match the performance of the investment model selected. Should your account have one of these account registration types, your IAR will consider which investment models are best for you.

Our IARs open accounts for individuals, high net worth individuals, banking institutions, pension plans, profit sharing plans, charitable organizations, and other corporations and businesses. The majority of these accounts are opened for individuals not considered high net worth individuals. Our clients may have both advisory accounts and brokerage accounts. Our representatives may offer you advisory services, brokerage services, or both, depending on your needs.

## Item 6- Portfolio Manager Selection and Evaluation

A review is conducted of each third-party manager or platform that provides management services to our clients. We call this process "due diligence." Our due diligence process starts with the third-party manager completing a comprehensive questionnaire designed to provide us with information about the third-party manager and its investment process. We review each third-party manager based on guidelines we have developed to allow us to offer you reputable management, based largely on its answers to the questionnaire.

Along with reviewing the questionnaire, a more detailed review of the critical data is conducted, including:

- The ownership structure
- Employees, including investment professionals, marketing and client service staff



- Regulatory, legal, and compliance issues of the third-party manager
- The third-party manager's performance, both current and historical
- In some cases, the third-party manager's financial statements

We have an internal review committee that reviews this information and decides if the third-party manager will be approved to manage our program accounts. We also conduct interim reviews of the third-party managers we have previously approved. Our review process follows the same general guidelines as the initial process, including the third-party manager completing a questionnaire. Unless material information is discovered during this review, additional approval is not required to continue the relationship with the third-party manager.

If you select a program in which one or more of our IARs acts as the portfolio manager, you will be provided with a Form ADV Part 2B brochure supplement that will describe the investment methodology of the IARs that provide portfolio management services to your account. The IARs that provide portfolio management services to you may have a different investment methodology than some of our other IARs.

## Item 7- Client Information Provided to Portfolio Managers

The information about you that we provide to other parties depends on the advisory program selected. Non-public information is information about you that is not available to the public. Your social security number, your net worth, and your annual income are examples of non-public information. Public information is information about you that is readily accessible to the public. Public information may include your name, phone number, and address.

For all accounts, including those in the programs described in this brochure, your IAR will have access to all of the non-public information you provided when opening the client account. This information is protected in accordance with our Privacy Policy. A copy of our Privacy Policy is available on our website ([https://www.firstallied.com/uploads/11/04/Privacy\\_Policy.pdf](https://www.firstallied.com/uploads/11/04/Privacy_Policy.pdf)), and is provided to you after you open an account with us and annually thereafter.

## Item 8- Client Contact with Portfolio Managers

Your IAR serves as the contact point for any questions or changes you have related to your accounts. The third-party managers are not generally available for you to speak with. However, your IAR may be able to facilitate contact with a manager on your behalf.

## Item 9- Additional Information

### **Conflicts of Interest**

Your IAR will receive compensation as a result of your participation in the programs described in this brochure. The amount of this compensation may be more or less than the amount of compensation your IAR would receive if you were to pay separately for investment advice, brokerage, and other services. However, we attempt to design all of our advisory programs with pricing competitive with what a client might pay for investment advice, brokerage, and other services separately.

Your IAR may receive a higher percentage of management fees for certain programs. This presents a conflict of interest in that your IAR may benefit from recommending certain programs based on the difference in compensation he receives rather than selecting investments without regard to compensation payable to him. If your IAR qualifies for reductions in the program fee paid to us, this results in additional compensation to your IAR. To mitigate this conflict of interest, we require that any program you invest in must be suitable for your investment goals and financial needs. If your IAR qualifies for reductions in the program fee paid to us, which results in additional compensation to your IAR, your total advisory fee will not exceed the stated maximum for the programs.

In certain cases, we may be compensated by unaffiliated third-parties based on the amount of assets our IARs may place with them. This represents a conflict of interest in that your IAR may be incentivized to recommend the services of the third-party from which additional compensation may be received. In other cases, your IAR may incur fewer expenses from the third-party as a result of the amount of assets the IAR has placed with the third-party. Generally, the fees that the third-party charges will be lower as the amount of assets that is placed with them increase. Therefore, your IAR may be incentivized to recommend the services of the third-party.

Your IAR may also be registered as an independent contractor registered representative with First Allied. This may create a conflict in that your IAR may be able to choose between offering you advisory programs or services and brokerage products or services. The amount and manner of compensation that your IAR receives in either of these capacities presents a conflict of interest. To mitigate this conflict of interest, we require that any advisory program or advisory service that you are offered is suitable for your investment goals and financial needs. First Allied conducts suitability reviews for brokerage product solicitations.

Furthermore, your IAR may also be registered with other affiliated investment advisers and/or broker-dealers that are part of Cetera Financial Group's network of investment advisers and broker-dealers. This may represent a conflict of interest since your IAR may be incentivized to offer certain services through one entity over another. However, as a fiduciary, your IAR is required to act in your best interest. For more information on Cetera Financial Group, please see Item 9- Additional Information.



Your IAR may have a financial interest in certain securities. We do not permit our IARs to solicit for or use discretionary trading authority in any purchases or sales in a security in which that IAR has a material financial interest. Your IAR may purchase or sell the same security he solicits for or uses discretionary trading authority for his client accounts as long as he does not have a material financial interest in the security. This presents a conflict of interest. Our Code of Ethics mitigates this conflict by detailing policies designed to ensure that clients are not disadvantaged by an IAR's trading activity.

You may be eligible to receive breakpoints, or discounts, on the fees that you pay to purchase or hold mutual funds in your account if your total investment in one or more particular mutual fund sponsors reaches certain levels. In certain cases, you can aggregate your investments in different accounts to reach these levels. We have established surveillance systems designed to help us monitor your total investments in each mutual fund sponsor. However, the person granted trading authorization over your account may select mutual funds that prevent you from reaching a breakpoint level and taking advantage of a price break. In addition, if your account is managed by a third-party, we do not have the ability to ensure that your breakpoint levels will be a consideration in their investment decisions. For more information about breakpoints for the specific mutual funds you may hold in your account, please reference the mutual fund prospectus.

Pershing allows clients to enroll in the Fully Paid Securities Lending program, which allows clients to lend certain securities to Pershing. Pershing earns revenue from lending these securities and a portion of that revenue is shared with the clients and their financial advisors. If you elect to participate in this program, your IAR will receive compensation from Pershing. The receipt of this extra compensation creates a conflict in certain advisory programs in which your IAR acts as the portfolio manager. The conflict surrounds whether this extra compensation to your IAR would cause him to hold a security in your account that he otherwise would have liquidated if he was not receiving this extra compensation. This conflict is mitigated by our requirement that investment decisions made by your IAR are always in your best interests, as well as the fact that if your account holds these positions, your IAR's compensation will increase nominally, but the security will also generate income for your account. Not all accounts or client will qualify for this program.

Pershing receives revenue from money market funds that First Allied makes available as a cash sweep option, and for nonretirement accounts that choose to invest cash in such a money market fund Pershing shares some of that revenue with us as described in Item 4 at Cash Sweep Program.

Though our advisory programs are generally only available through our IARs, similar programs or investment advice may be available from other investment advisers. In addition, you have the option to obtain similar investment products through investment advisers that are not affiliated with us. These services may cost you more or less if obtained elsewhere.

Certain of our IARs and employees have an ownership interest in Holdings, which presents a conflict of interest with respect to their selection of advisory programs and services in that certain programs and services are more profitable to Holdings and its subsidiaries than other programs and services. As owners of Holdings, these individuals have an interest in its highest profitability. We help mitigate this conflict by requiring that all IARs and employees abide by our Code of Ethics, which is described more fully in the Code of Ethics section of this Item.

One of our IARs, Michael Wegner, is part owner of the holding company that owns Howard Capital Management. This presents a conflict of interest for Mr. Wegner, other IARs in his office, and other IARs at FAAS because the selection of Howard Capital Management as the manager of an account would financially benefit Mr. Wegner. We help mitigate this conflict by ensuring that all our IARs have the option to select managers other than Howard Capital Management and by reviewing each management agreement prior to engagement to confirm that the selection of Howard Capital Management is suitable.

### **Performance-Based Fees**

Performance-based fees are fees that are based on a share of capital gains on or capital appreciation of the assets in an account. Your IAR is not permitted to charge performance-based fees.

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

#### *Types of Risk*

Various types of risk are involved when investing in securities. Economic risk, market risk, currency risk, inflation risk, liquidity risk, and credit risk are examples of the types of risks to which your account may be subject.

#### *Assessing Risk*

While some types of risk can be mitigated by investment strategies, these risks cannot be eliminated completely. Your IAR will work with you to make sure that you are comfortable with the risks associated with the type of investments that are in your account.

#### *Risk of Loss*

You should know that all types of securities investing involve risk, sometimes substantial risk. Your account value can both increase and decrease over time. You should not invest in any product if you are not prepared to bear a potential loss. Past performance does not guarantee future results.

#### *Liquidity Risk*

Liquidity is a financial institution's capacity to meet its cash and collateral obligations without incurring unacceptable losses.



Liquidity risk is the risk to an institution's financial condition or safety and soundness arising from its inability to meet its contractual obligations. Some investments used in FAAS programs have limited liquidity, including REITs and interval funds. Some illiquid investments periodically offer to repurchase shares from shareholders. These repurchase offers may have limitations on the total number of shares being repurchased, so an individual investor may not be able to sell shares. If an investment is liquidated pursuant to a repurchase offer, penalties may also be assessed or you may not receive the full value of your investment. You should read the prospectus for any investments.

#### *Our IARs*

If your account is managed by one of our IARs, his specific management style is not discussed in this document. You can find information about your IAR's management style and method(s) of analysis in his Form ADV Part 2B disclosure document, which he will provide to you with this brochure. Generally, our IARs use various securities to allocate your portfolio according to a strategy's investment objective. These securities may include stocks, bonds, mutual funds, exchange-traded funds, unit investment trusts, certificates of deposit, Treasury securities, insurance products, alternative investments, and other securities.

Each of our IARs is permitted to use his own method(s) of analysis. Many of them use asset allocation software to help them determine objectives and risk tolerance. This software seeks to optimize your portfolio and diversify risk across asset classes appropriately. Some asset allocation software can even aid in selecting specific securities. IARs are not obligated to use the same asset allocation software as other IARs use. Some IARs analyze securities individually to determine if those securities should be included in your account.

Our IARs may create investment models based on investment advice provided by Cetera Investment Management LLC ("CIM"), an affiliated registered investment adviser. This advice could include basic asset allocation advice, or market research.

#### *Third-Party Managers*

If your account is managed by a third-party manager, the third-party manager is responsible for its own methodology and investment strategy. Information about each third-party manager's method of analysis and investment strategies is available in the third-party manager's disclosure brochure, which will be provided to you by your IAR.

#### **Disciplinary Information**

FAAS and its IARs have been the subject of various regulatory and disciplinary findings by various states and regulatory bodies. The information in this section may impact your decision to do business with us.

In 2011, FAAS entered into a Consent Agreement with the Securities Division of the State of Indiana, whereby FAAS resolved allegations regarding violations of the Indiana Uniform Securities Act, Ind. Code 23-19-1, concerning the registration of certain investment adviser representatives in the State of Indiana. Without admission or finding of a violation, FAAS paid a fine in the amount \$9,000, and a reimbursement payment of the cost of the investigation in the amount of \$1,000.

In addition to the incidents above, certain FAAS IARs have been censured or censured and suspended by non-SEC regulators for violations related to suitability deficiencies, supervision deficiencies, marketing approval deficiencies, improper disclosure of outside business activities, continuing education deficiencies, delinquency of payment of state taxes, insurance deficiencies, sales of unregistered securities. In one case, a FAAS IAR's insurance application was denied by a state.

#### *Affiliated Broker-Dealer*

In August 2017, First Allied Securities, without admitting or denying the findings, consented to the sanctions and to the entry of findings that it disadvantaged certain retirement plan and charitable organization customers that were eligible to purchase Class A shares in certain mutual funds without a front-end sales charge. The findings stated that these eligible customers were sold share classes that carried higher fees than they were actually required to pay. The findings also stated that the firm failed to reasonably supervise and maintain adequate written policies and controls regarding the application and detection of sales-charge waivers to eligible mutual fund sales and failed to notify and train its financial advisors regarding their availability. As a result of the firm's failure to apply available sales-charge waivers, the firm estimates that eligible customers were overcharged by approximately \$769,054 for mutual fund purchases made since July 1, 2009.

In November 2016, First Allied Securities, without admitting or denying the findings, consented to the sanctions and to the entry of findings that it failed to maintain a process reasonably designed to supervise its registered representatives' recommendation of multi-share class variable annuities (VA's) to its customers and provide sufficient training to its registered representatives and principals on their sale. The findings stated that the firm failed to identify red flags related to long-term income riders with multi-share class VA's and establish, maintain, and enforce a reasonable supervisory system and written supervisory procedures related to their sale, including L-share contracts. FINRA also found that the firm offered and sold various structured products to retail customers without having in place a sufficient supervisory system, including written supervisory procedures, reasonably designed to detect and prevent unsuitable sales of structured products. The firm failed to adequately enforce the firm's procedure requiring supervisory post-trade reviews of structured product transactions, and to fully implement a system and enforce its procedures requiring all registered representatives to complete training prior to soliciting structured products.



Also in November 2016, FINRA found that the firm engaged in sales of inverse, leveraged and inverse-leveraged exchange traded funds (Non-Traditional ETFs). While it provided some training to its registered representatives on these products and imposed certain minimum requirements with respect to customer risk tolerances and objectives, it did not create and implement supervisory procedures that were adequate to monitor their holding periods. The firm failed to implement supervisory procedures to adequately ensure suitability in sales of non-traditional ETFs, and failed to identify or investigate patterns of non-traditional ETFs held for longer than one day. In addition, FINRA determined that the firm failed to supervise the use of consolidated account reports and failed to enforce its books and records requirements for consolidated account reports.

In October 2015, First Allied Securities, without admitting or denying the allegations, entered into an Acceptance, Waiver and Consent that was accepted by FINRA, whereby First Allied Securities accepted FINRA's findings that First Allied Securities failed to identify and apply sales charge discounts to certain customers' eligible purchases of unit investment trusts (UITs). First Allied Securities had no written supervisory procedures regarding sales charges on UITs and the firm relied primarily on its registered representatives to ensure that customers received the appropriate UIT sales charge discounts, despite the fact that the firm did not effectively train representatives and their supervisors to identify and apply such sales charges. First Allied Securities agreed to accept a censure, a fine of \$325,000, and was ordered to \$689,647.34 in restitution to customers. In March 2015, First Allied Securities consented to a civil penalty in the amount of \$6,690.80 by the State of Nevada, Securities Division for operating unregistered branch office locations.

In January 2013, First Allied Securities, without admitting or denying the allegations, entered into an Acceptance, Waiver and Consent that was accepted by FINRA, whereby First Allied Securities accepted FINRA's findings that First Allied Securities had inadequate supervisory systems and procedures designed to ensure that it delivered the appropriate disclosure documents to clients purchasing unit investment trusts and/or exchange-traded funds. First Allied Securities had engaged a vendor to deliver the written prospectuses to clients, however, First Allied Securities retained ultimate responsibility to ensure the clients received the appropriate documents. First Allied Securities agreed to accept a censure and fine of \$40,000.

In late 2009, the SEC filed an enforcement action against a former First Allied Securities representative. The SEC alleged that the representative engaged in unauthorized and fraudulent trading in two customer accounts. The SEC also issued a "Wells Notice" to First Allied Securities which alleged that First Allied Securities violated certain SEC rules and that it failed to reasonably supervise this registered representative. After considering the surrounding circumstances, First Allied Securities determined that it was in its best interests to settle the matter. The alleged rule violations were in connection with First Allied Securities' supervision of the representative and deficiencies in its e-mail retention system. As part of the settlement, First Allied Securities agreed to accept a censure and pay disgorgement and interest (approximately \$1.46 million) and a fine (\$500,000). In addition, the SEC's order required First Allied Securities to cease and desist from committing or causing any future violations of certain books and records provisions. First Allied Securities also agreed to hire an independent consultant to review its policies and procedures and its system for implementing policies and procedures. First Allied Securities consented to the issuance of the order without admitting or denying the SEC's findings. A copy of the SEC order is available online at <http://www.sec.gov/litigation/admin/2010/34-61655.pdf>.

First Allied Securities has been censured by multiple state insurance authorities for failure to renew state insurance licenses. First Allied Securities, as a firm, has also been found to have failed to supervise adequately in certain instances, by non SEC regulators. Some of the firms that First Allied Securities has purchased have also been censured by regulatory bodies.

#### *Additional Information*

More information on all of these items, and other items not summarized above, can be found on FINRA's BrokerCheck® (<http://brokercheck.finra.org>). The Form ADV Part 2B brochure supplement that your IAR will provide to you along with this document contains information regarding any disciplinary items that we deem material to your decision to select your IAR to provide you with advisory services. Additional information about your IAR's disciplinary history can also be viewed on BrokerCheck®.

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

##### *Broker-Dealer Affiliation*

First Allied is an affiliated a broker-dealer that we use to introduce accounts to custodians. First Allied, a New York corporation, is a broker-dealer registered with the Financial Industry Reporting Authority ("FINRA") and a registered municipal advisor with the Securities and Exchange Commission ("SEC"). Being registered does not mean that First Allied is endorsed by any regulatory authority; it simply means that First Allied is required to follow the rules established by FINRA for brokerage business and the Municipal Securities Rulemaking Board ("MSRB") for advisory business on municipal bond proceeds and debt reserve accounts. For municipal advisors, the rules are created through the MSRB and registration is required through the SEC, though FINRA enforces these rules. First Allied, headquartered in San Diego, CA, was founded in 1994. Because First Allied is also owned by Holdings, many of its officers and principals are engaged in business both with First Allied and us. Some of our officers spend up to 90% of their time on First Allied activities, and the remaining 10% on FAAS activities. Other officers devote 100% of their time to FAAS activities.

Holdings is currently owned by RCS Capital Holdings, LLC., which is wholly owned by Aretec Group, Inc., a privately held corporation owned by a group of companies. As a broker-dealer, First Allied places trades for clients for the purchase and sale of stocks, bonds, options, mutual funds, variable insurance products, and private placements. Since the majority of our IARs are



registered with First Allied, these services may be available to you if your IAR is a registered representative. Because most of our IARs are registered to offer you both advisory programs and services and brokerage products or services, a conflict of interest exists. The conflict involves the determination of whether advisory business (fee-based) or brokerage business (commission) is more suitable for the client. Because most of our IARs can offer both, your IAR could be conflicted about which business to recommend to you. We attempt to mitigate this risk by reviewing the suitability of the advisory program selected by each client. Ultimately, our IARs will discuss with you which type of business will best help you meet your goals.

You may have brokerage accounts with First Allied. The main differences between an advisory account and a brokerage account are the form of payment, the use of discretionary authority, and our level of responsibility to ensure the transaction is appropriate for you. In an advisory account, you will pay an advisory fee based on the amount of assets in the account; in a brokerage account, you will pay a commission for each transaction. In an advisory account, you may grant us, your IAR, or a third-party discretionary trading authorization that allows us to place securities transactions on your behalf without notifying you prior to placing the transaction; in a brokerage account, we will discuss each transaction with you prior to placing the transaction. Having discretionary trading authorization allows us, your IAR, or the third-party to act quickly on your behalf should there be an opportunity that would benefit you. With a brokerage account, you have the opportunity to approve each trade before it is placed on your behalf.

As a broker-dealer, First Allied buys and sells securities in its own accounts in order to facilitate the trading activities of its clients. First Allied also buys and sells securities on behalf of other clients. First Allied's main activities include retail and institutional client services. First Allied generally uses its own execution services for advisory clients and brokerage clients, for accounts custodied at Pershing, though for certain advisory programs, third-party execution services are used.

#### *Other Related Financial Industry Entities*

One of the affiliates to Holdings, Cetera Financial Holdings Inc., also owns multiple other investment advisers, including Cetera Investment Management LLC ("CIM"). We use research and model portfolios provide by CIM in many of our programs. A conflict of interest exists due to these affiliations. We attempt to mitigate this risk by ensuring that policies and procedures are in place requiring our IARs to exercise their fiduciary responsibilities when recommending investments to clients. Client fees are not increased if IARs use CIM research or model portfolios, and CIM receives no compensation when their services are used by FAAS IARs. Our IARs' recommendations must only take into account what programs or services are best for each client.

Holdings also owns First Allied Retirement Services, Inc. ("Cetera Retirement Plan Specialists") and FASI Insurance Services, Inc. ("FAIS"). Cetera Retirement Plan Specialists is a pension administration firm that provides pension services to pension plan sponsors. Our IARs do not receive any compensation for referring clients to Cetera Retirement Plan Specialists. Cetera Retirement Plan Specialists owns Associates in Excellence, which is another pension administration firm that provides pension services to pension plan sponsors.

FAIS is an insurance general agency that offers insurance products through licensed agents. Many agents offering insurance through FAIS are also First Allied registered representatives.

Holdings and all of its subsidiaries are part of Cetera Financial Group. Cetera Financial Group is the retail advice platform of Aretec Group, Inc. that delivers the benefits of scale to its family of independent broker-dealer firms and registered investment advisers. Cetera Financial Group includes the following companies: Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Financial Specialists LLC, Cetera Investment Advisers LLC, Cetera Investment Management LLC, Cetera Investment Services LLC, Summit Brokerage Services, Inc., Summit Financial Group Inc., First Allied Securities, Inc., First Allied Advisory Services, Inc., and Cetera Advisory Services LLC.

Our principals, employees and representatives may have responsibilities to any of these listed affiliates. Certain administrative and payroll expenses for employees of any affiliate may be allocated among some or all of the affiliates. Allocation of these expenses is not determined by assets referred to any affiliate.

#### *Other Financial Industry Activities*

In addition to the related entities noted above, we also conduct business with other investment advisers that are owned or operated by registered representatives of First Allied and investment advisers that are owned by other persons. These investment advisers may enter into an agreement with us to offer our programs or use our services. We are not responsible for supervising or managing these investment advisers beyond their representatives' activities with First Allied.

Some of our IARs may work in bank or credit union locations. We do not supervise any IAR's bank or credit union responsibilities. If the bank or credit union will receive any fees that you pay, our IARs are required to disclose this to you. Some of our IARs may be real estate agents. Activities related to real estate are not undertaken as part of the IAR's representation of us. In addition to being investment adviser representatives, some of our IARs are also accountants. We do not supervise their accounting activities. Any tax advice you receive from your IAR is part of an outside business activity and is totally separate from the IAR's affiliation with us.

Some of our IARs may be involved in other outside businesses. Activities related to these outside businesses are not undertaken as part of the IAR's representation of us. The amount of time that IARs devote to outside business activities varies. Your IAR's material



outside business activities are reported on the Form ADV Part 2B Brochure Supplement that your IAR will deliver to you when he starts discussing advisory programs and services with you.

Your IAR's outside business activities, including without limitation, bank or credit union responsibilities, real estate, accounting, tax and legal activities, are not endorsed or supervised by, or the responsibility of, us or First Allied or any of our affiliates.

We are involved in several industry advocacy groups. These groups generally provide a forum for industry professionals to gather and discuss current and proposed regulations. Our membership in these groups helps us to better educate and supervise our IARs.

## **Code of Ethics**

### *Overview*

Pursuant to SEC rule 204A-1, we have adopted a Code of Ethics ("COE") to establish rules of conduct for all supervised persons. Supervised persons are individuals that are associated with our firm who are involved with offering or providing advisory services. Supervised persons may also include our home office employees. Your IAR is a supervised person. The COE recognizes our IARs' fiduciary responsibility to clients. The COE instructs our IARs to conduct their affairs in such a manner as to avoid:

- Serving their own interests ahead of clients' interests
- Taking inappropriate advantage of their position
- Engaging in unacceptable actual or potential conflicts of interest

A copy of our COE is available upon request by calling our Compliance department at 800-223-0989.

We do not permit our IARs to solicit for or use discretionary trading authority in any purchases or sales in a security in which that IAR has a material financial interest. Our supervised persons may, however, invest in the same securities that the IAR or another supervised person recommends to clients. This presents a conflict of interest. This conflict is mitigated by the policies and procedures set forth in our COE and Compliance Manual. Our IARs are not permitted to disadvantage clients while trading their own accounts. We also have surveillances in place designed to enforce our policies and procedures.

Our supervised persons are not permitted to recommend or use discretionary trading authority on behalf of clients at or about the same time that the IAR or another supervised person in the IAR's branch office or responsible for supervising the IAR buys or sells the same securities for their own account(s). We have established surveillance systems that check trading patterns between supervised persons and clients. These surveillances are designed to ensure that even if a supervised person unintentionally trades in the same security as a client, the client will not be disadvantaged.

## **Brokerage Practices**

### *Soft Dollar Benefits*

Some firms in the industry receive benefits in exchange for delivering business to a broker-dealer, mutual fund sponsor, insurance company, or other third-party. These benefits are known as "soft dollars." Soft dollar benefits are generally defined as benefits (besides normal fees) received from a firm in exchange for doing business with the firm. These benefits may include access to software, hardware, research, and/or office space. We do not receive any soft dollar benefits from choosing the broker-dealer through which we effect trades, nor from the mutual funds or insurance in which we invest.

### *Directed Brokerage*

We do not permit clients to direct us to execute transactions through a specified broker-dealer other than First Allied. We believe that First Allied allows us to achieve "best execution" because of their business relationships with Pershing, our access to First Allied's trading department, our ability to rely on First Allied's financial stability, and First Allied's overall service to us and our IARs. "Best execution" factors include timeliness of execution, trader expertise, pricing, and responsiveness. In addition, certain advisory programs are only available through us and our affiliates and these programs allow your IAR to offer you a product or service that you cannot obtain elsewhere, although other investment advisers may offer similar programs.

Although First Allied is able to negotiate competitive pricing from Pershing that it believes is beneficial to its clients, First Allied's clearing relationship with Pershing provides FAAS with certain economic benefits for its advisory program accounts that it would not have through an unaffiliated broker-dealer. For example, as described in Item 4, First Allied marks-up certain brokerage-related account charges and fees that are assessed to all client advisory accounts at Pershing. First Allied also maintains two bank deposit sweep programs. These programs create financial benefits for First Allied as described in Item 4. First Allied also receives additional compensation from Pershing for non-retirement account assets that are swept into a money market fund sweep option as described in Item 4. The additional compensation received by First Allied creates a conflict of interest with FAAS clients.

### *Aggregation of Client Trades*

In an effort to both obtain best execution and deliver the best possible service to you, we will aggregate client trades when appropriate. Aggregating trades is generally defined as "bunching" or combining trade orders for the same securities. Aggregating trades will not affect the transaction charges on such transactions. We try to average price our trades, which means that all clients that purchased the same security at the same time receive the same price, regardless of the number of shares. It is not always possible to average price trades, and some clients may receive a better price than other clients based on execution.



When an aggregated trade order cannot be filled completely, we will generally attempt to distribute the shares received proportionately based on the number of shares that were meant for each account. In certain circumstances average pricing an order that has not been filled entirely may not be in the best interest of each client. In these instances, we will allocate the shares among the clients in a manner we believe to be fair to each client. We are under no obligation to aggregate trade orders or to average price transactions.

### Review of Accounts

As mentioned previously, each of our IARs is supervised by another of our representatives or an employee. Advisory accounts are also reviewed by an IAR's supervisor. We have created several different surveillances to aid in this supervision. The surveillances include checks for:

- registration status of the IAR
- loss in equity of accounts
- inappropriate use of discretionary trading authority
- purchase of low-priced securities
- trading activity in personal accounts
- having an excessive margin balance
- being over-concentrated within the account
- trading volume
- correlation between account allocation and investment objective and risk tolerance

Many of these surveillances are run daily and others are run monthly or quarterly. The frequency of the surveillance is determined by the nature of the underlying event. Not all of the surveillances listed above are used on all advisory accounts. We take into account who is managing your advisory account. If one of our IARs is the manager, all of these surveillances will be used. If a third-party manager is managing your account, some of these surveillances will not be used.

After the end of each calendar quarter, we create and send performance reports to each client that is invested in our PAM II program. These reports have performance information about either one account or multiple accounts of the same investor.

The reports we create will differ slightly based on which program you have selected. Generally, we will list the beginning balance of the period, the ending balance of the period, the percentage change in asset level between the beginning and end of the period, and any deposits or withdrawals during the period. There is also information about your account's holdings as of the end of the period, a list of one or more comparable benchmarks, and important disclosure information.

The following indexes and benchmarks will be listed on the performance reports we provide to PAM II clients:

- S&P 500 Index- an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors), designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.
- MSCI EAFE Index- a free float-adjusted market capitalization index that is designed to measure equity market performance of developed markets, excluding the U.S. and Canada).
- Barclays Capital U.S. Aggregate Bond Index- an unmanaged index composed of the Barclays Government/Credit Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index and is generally representative of the U.S. bond market.
- Consumer Price Index- an index of prices used to measure the change in the cost of basic goods and services in comparison with a fixed-base period.

In the PAM II program, your IAR also has the ability to select an additional index or a blended benchmark to which your account will be compared. This index or benchmark must be approved by us before your IAR is permitted to use it on your performance reports.

Your IAR may also provide you with reports created by Albridge Wealth Reporting Solutions ("Albridge"). Albridge is a reporting vendor we have contracted with to enable your IAR to create reports for your accounts. These reports may encompass different information than the quarterly performance reports we deliver to you and may include information about brokerage accounts, variable annuities and alternative investments. There may be discrepancies in the pricing of securities between Albridge reports, the performance reports we prepare for you, and the statements you receive from your custodian. These discrepancies may be the result of different calculation and reporting methods between Albridge, our reporting vendors, and your custodian. If you have a question about a discrepancy or any other aspect of any of these reports, you should direct it to your IAR. If you are not satisfied with your IAR's explanation, please contact us at 800-223-0989.

The custodian of your account will also send account statements to you on a monthly or quarterly basis. Although the information we provide in the performance reports we deliver to you has been retrieved from sources believed to be reliable, we urge you to compare the holdings listed on the custodian's statement to those listed on reports we or our IARs may deliver to you. Should you note any discrepancies, please contact us at 800-223-0989. In addition, the reports that we deliver to you should not be relied upon for tax calculations or any other legal representation.

### Client Referrals and Other Compensation

Solicitors are individuals who introduce clients to an investment adviser with which the solicitor is not affiliated. Solicitor's arrangements allow individuals to receive compensation for referring a client to us. The compensation paid to a solicitor is a portion of the advisory fee that you pay. All solicitation arrangements that our IARs are involved in must be approved by us.



### *Solicitors to FAAS*

We have solicitor's arrangements with persons who are not our IARs. If a solicitor is going to receive any portion of the advisory fee that you pay, the solicitor will provide you with disclosure when he refers you to an IAR. You will sign this disclosure, acknowledging that you know a payment is being made for the introduction. We conduct a background check on solicitors to ensure they have not been disqualified from the securities industry. We mitigate any conflicts of interest in relation to these arrangements by ensuring that you will not pay higher fees because of the solicitor's agreement.

### *FAAS Acting as a Solicitor*

Our IARs have the ability to refer, or "solicit," clients to other investment advisers. Our IARs can solicit advisory business for both affiliated investment advisers and unaffiliated investment advisers. Both affiliated and unaffiliated investment advisers must be approved by us before any of our IARs are permitted to refer clients to them. If our IARs are soliciting advisory business for any investment adviser, this will be disclosed to you through a disclosure statement and a written acknowledgement. The investment advisers that we solicit for provide a variety of management services, as outlined in each investment adviser's disclosure brochure. In general, they provide management strategies and investment models to advisory clients. The investment adviser will pay a portion of the advisory fee, as disclosed to you in the written acknowledgement, to us for soliciting clients. We will share a portion of this fee with your IAR. In exchange for this fee, the IAR is providing services including investor profiling, selection of managers, and ongoing account monitoring.

In certain cases, we may be compensated by unaffiliated third-parties based on the amount of assets our IARs may place with them. This represents a conflict of interest in that your IAR may be incentivized to recommend the services of the third-party from which additional compensation may be received. In other cases, your IAR may incur fewer expenses from the third-party as a result of the amount of assets the IAR has placed with the third-party. Generally, the fees that the third-party charges will be lower as the amount of assets that is placed with them increase. Therefore, your IAR may be incentivized to recommend the services of the third-party.

Certain investment advisers to whom we solicit may make donations to charitable organizations as an award to us or our IARs. The award criteria may vary between investment advisers, but this award may incent our IARs to solicit to investment advisers offering a donation rather than those that do not. This conflict is mitigated by our requirement that any advisory program or advisory service that you are offered is suitable for your investment goals and financial needs and by our restriction on any of our IARs financially benefiting directly from any donations made by investment advisers either on their behalf or as a result of any solicitations.

### *Other Compensation Payable to FAAS*

We and our affiliates offer a wide variety of approved products to our IARs to serve your needs. We have designated a subset of approved products as "Product Sponsors." Product Sponsors offer an assortment of approved products. They also train and educate our registered representatives on products and industry-related topics. Product Sponsors pay extra compensation to us and our affiliates; however, clients do not pay more to purchase these products through us than clients would pay to purchase them elsewhere. This extra compensation is based in part on the total amount of assets that our IARs refer to their products and services. There may be a financial incentive to promote certain products because of this extra compensation. Because IARs do not receive a direct financial benefit from recommending Product Sponsors to you, we believe that these relationships do not compromise the advice provided by our representatives.

Sometimes we receive payments from firms that are not Product Sponsors to recognize our sales efforts. All companies may pay us and our affiliates in connection with the sale of certain products. This compensation may include such items as gifts valued at less than \$100 annually, an occasional dinner or ticket to a sporting event, or reimbursement in connection with educational meetings or marketing or advertising initiatives. They may also pay for training, educational meetings or training events, conferences, and entertainment for our registered representatives and/or clients, as permitted by industry rules. In the cases where our IARs host seminars for clients or prospective clients, no fees are charged to attendees. Additional disclosure and a listing of companies who pay additional compensation to us may be obtained at [www.firstallied.com](http://www.firstallied.com) or by contacting us at 800-223-0989. Some investments pay higher commissions than others. Commissions on equities are usually greater than those on bonds. Investments in limited partnerships generally pay higher commissions than investments in equities.

### **Custody**

As mentioned previously, we do not custody your account assets. Your account assets are custodied by Pershing, Fidelity, or another approved custodian. In addition to the reports that you will receive from us, the custodian will also send account statements to you either quarterly or more frequently. You should review the account statements carefully and compare these account statements with the reports we or our IARs send to you. Should you note any discrepancies, please contact us at 800-223-0989.

Occasionally, IARs may accept stock certificates from clients and forward them to First Allied for delivery to the client's account with the custodian. In the course of business development, we may obtain custody in other forms that are not disclosed here but will be disclosed to our independent auditor. Because of these activities, we meet the regulatory definition of having custody of client securities and are required to hire an independent accounting firm to review our procedures. This audit is conducted each year. More information about the results of the audit can be found through the SEC's Investment Adviser Public Disclosure website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), by selecting "Investment Adviser Firm" and typing our name into the "Firm Name."



We ask that any checks you write for deposit into your accounts be made payable to the custodian and **not** made payable to FAAS, First Allied or your IAR.

## **Investment Discretion**

### *Overview*

We do not have discretion over your assets. However, when you invest in one of our advisory programs we may attain a trading authorization. Depending on which advisory program you choose, you will grant us one of two levels of trading authorization:

- Limited trading authorization
- Full trading authorization

### *Limited Trading Authorization*

Limited trading authorization is automatically granted to your IAR when you invest in the PAM II, SEI, or FTJ programs. Limited trading authorization allows your IAR or us to make decisions on your behalf regarding purchases and sales of approved investment company securities. Investment company securities include mutual funds, unit investment trusts, closed-end funds, and exchange-traded funds. By signing the account agreement for the PAM II, SEI, or FTJ programs, you are granting limited trading authorization to your IAR.

### *Full Trading Authorization*

Of the programs described in this brochure, our IARs can only have full trading authorization in the PAM II program. Full trading authorization allows your IAR to make decisions on your behalf regarding purchases and sales of equities, fixed income products including bonds and certificates of deposit, options, and any other security traded on a national exchange, including investment company securities. You must initial the account agreement appropriately to grant full trading authorization.

## **Voting Client Securities**

We do not accept authority to vote client proxies. However, your IAR is permitted to aid you in the completion of the client proxies you receive. Generally, you will receive proxies directly from the custodian or transfer agent.

## **Financial Information**

### *Prepayment of Fees*

We do not require nor solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Generally, advisory fees for account management are paid quarterly in advance.

### *FAAS' Financial Condition*

We are required to inform you of any financial conditions that are reasonably likely to impair our ability to meet contractual commitments to you. Currently, there are no financial conditions that would impair our ability to meet our contractual commitments to you. Should any arise, we will notify you according to SEC guidelines.