



# **FORM ADV PART 2A- APPENDIX 1 PRIVATE CLIENT SERVICES WRAP BROCHURE**



PRIVATE  
CLIENT  
SERVICES

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This wrap 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 wrap brochure, please contact us at 800-223-0989. The information in this wrap 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 brochure details important disclosure information about certain programs that we offer. We do offer other 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. Each year you will receive either a summary of material changes that were made to our Form ADV disclosure brochures over the previous year or an updated brochure. You can always request a full copy of any of our current disclosure brochures by calling 800-223-0989.

The material changes that have been made to our Form ADV disclosure brochures since our annual amendment in March 2016 are summarized below:

- ***Ownership Change –RCS Capital Corporation***

On May 23, 2016, the parent company of First Allied Holdings, Inc., 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.

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## Introduction

First Allied Advisory Services, Inc. (“FAAS”), a registered investment adviser, offers several advisory programs to investors. This wrap brochure details FAAS’ Private Client Services (“PCS”) advisory program. The PCS program is available to high-net-worth investors seeking comprehensive investment management. Envestnet Asset Management, Inc. (“Envestnet”) provides the technology platform for all PCS program accounts. Envestnet is an unaffiliated registered investment adviser. FAAS offers other wrap and non-wrap programs that are described in separate brochures. Your advisor will provide you with brochures describing these programs upon request. Throughout the remainder of this text, “we,” “us,” and “our” refers to FAAS.

### *FAAS’ Background*

FAAS, a Delaware corporation, is an investment adviser registered with the 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 for investment advisers established by the SEC. Representatives of FAAS’ investment adviser are required to be registered for advisory business only in the state of their principal place of business. For advisory business in Texas and/or Louisiana, 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. Most representatives of FAAS are also registered as independent contractor registered representatives with First Allied Securities, Inc. (“First Allied”), an affiliated broker-dealer, registered municipal advisor, and registered investment adviser, to allow 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 FAAS’ parent company, First Allied Holdings Inc. (“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., Legend Advisory Corporation, Legend Equities Corporation, and other affiliated entities that offer financial products and services (see Other Financial Industry Activities and Affiliations section of Item 9- Additional Information, starting on page 9 for more information).

FAAS is not a custodian of any accounts. PCS program accounts are custodied at Pershing, LLC (“Pershing”). Accounts for other wrap and non-wrap programs that FAAS offers are custodied at Pershing, Fidelity Investments (“Fidelity”) or other approved custodians. The use of Fidelity and 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 730 investment adviser representatives (“IARs”). Our 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 9. 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 and Chesterfield, MO. 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 office.

### *Our Principal Officers*

Adam Antoniadis is the Chief Executive Officer of Holdings. He formerly served as First Allied’s Chief Executive Officer from 2011 to 2014, as President from 2009 to 2011, and as President, Chief Executive Officer, and Corporate Secretary from 1994 until 2004. Mr. Antoniadis served as President of Advanced Equities Financial Corp from 2004 to 2009. Prior to his employment at First

Allied, Mr. Antoniadis was employed by Bishop Saxony Corporation as Corporate Secretary and with Berkeley Safe Deposit as Head Currency Trader.

Kevin M. Keefe is the President and Chief Executive Officer of First Allied. Prior to joining First Allied, Mr. Keefe served as Executive Vice President and head of Wealth Management for AIG Advisor Group, where he also served as the Chief Executive Officer of their corporate registered investment adviser. Mr. Keefe also spent five years at LPL Financial where he was responsible for a variety of advisor-facing areas of the firm including wealth management, financial planning, sponsor relations, and investment research. Mr. Keefe earned the Chartered Financial Analyst (CFA®) designation in 1997.

Luanne Graham has been the RIA Chief Compliance Officer of First Allied Securities since February 2007. Since July 2010, Ms. Graham has also been the Chief Compliance Officer of First Allied Advisory Services. She serves as RIA Chief Compliance Officer for Girard Securities since January 2016 and Chief Compliance Officer for Tower Square Investment Management since December 2015. Ms. Graham previously served as Chief Compliance Officer of First Allied Asset Management, a registered investment adviser, Asset Planning Solutions, a broker-dealer, and Ken Stern & Associates, a registered investment adviser. Ms. Graham holds the Investment Adviser Certified Compliance Professional® (IACCP®) designation.

#### *Devotion of Resources*

Most FAAS IARs are independent contractor registered representatives with First Allied. If your IAR is a registered representative, he may divide his 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, he 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 his Form ADV Part 2B brochure supplement, which describes his 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 representatives, 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 section of Item 9- Additional Information, starting on page 9.

Our IARs are permitted to offer you advisory programs that are managed by the IAR or by a third-party manager. The third-party manager may be a related or an unrelated party. The only available manager for the PCS program is an affiliated registered investment adviser, Tower Square Investment Management ("TSIM"). Certain of our other programs allow you or your IAR to select from a variety of third-party managers. For more information about these other programs, please ask your IAR to provide you with our other disclosure brochures.

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), or you may elect to have multiple accounts managed under one investment objective.

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 withstand losing money
- Your ability to withstand market fluctuation

**Please contact your IAR any time 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 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, starting on page 9. 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. Your IAR is also responsible for the ongoing review of your account(s) and regular communication with you. Our IARs provide investment advice only with respect to limited types of investments.

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

The PCS program is a wrap fee program. 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 non-wrap programs that we offer are similar to the 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 September 30, 2016, we managed:

- \$4,686,161,948 in discretionary assets
- \$80,294,833 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, starting on page 9. 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 the client’s 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.

For the PCS advisory program, we 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 assets are under management. For new PCS program relationships, we will bill based on the amount of assets for the remaining days in the quarter. If you terminate management, 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 directly from one or more of the investment account(s) under management. The account statements you receive from Pershing will reflect the deduction of these fees.

Generally, the PCS program is implemented across more than one investment account. The advisory fee will cover the entire PCS relationship and may be allocated evenly or unevenly amongst one or more investment accounts. Fees are deducted from the account(s) in the month following the end of the calendar quarter. For certain advisory programs not described in this brochure, fees may be paid to FAAS by check, as outlined in the advisory agreement. In these cases, we will send an invoice to the client for the fees owed.



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. 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. With approval from our management, 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 based on the amount of assets under management, the advisory fee is generally split between a program (or platform) fee and a management fee.

#### *Program Fees*

The program fee for the PCS program is paid to us and is split between us, TSIM, and various service providers that we hire to help us administer the PCS program, including First Allied. The program fee is not negotiable. However, the program fee may be different based upon your IAR’s relationship with FAAS and/or its affiliates. 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 reduced 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 9). Program fees are subject to change without notice, but these changes do not affect the fee that you pay to us.

TSIM’s portion of the program fee is fixed. However, TSIM’s costs associated with managing the PCS program accounts vary depending on the investment choices that TSIM decides are appropriate for your accounts. This creates a conflict of interest because TSIM has an incentive to select investments that will maximize its compensation rather than selecting investments without regard to compensation payable to TSIM. This difference in TSIM’s compensation will not affect the advisory fee that you pay to us. We help mitigate this conflict of interest by requiring that TSIM adheres to its fiduciary obligation of selecting investments solely based on the best interests of clients. We address this conflict of interest in detail in Item 9- Additional Information, starting on page 9.

#### *Management Fee*

The management fee is paid to the IAR servicing the PCS program accounts. You and your IAR will negotiate this fee at the household level. The fee that you and your IAR agree upon may 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.

#### *Total Advisory Fee*

You and your IAR will agree on your total advisory fee for the PCS program prior to establishing the relationship. 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 statement of investment selection with a different total advisory fee listed. There are maximum allowable advisory fees for the PCS program and we will not allow you to be charged more than this amount. The maximum allowable advisory fee is consistent for all IARs and all clients using PCS. This maximum total advisory fee is noted in the fee schedule listed 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 total advisory fee, as a percentage of the value of your assets under management in the PCS program, may remain the same regardless of the amount of your assets in the PCS program, or the percentage may decrease as your asset balance increases. Your total advisory fee will not increase, as a percentage, as the amount of your assets under management in the PCS program increases. The amount of assets in each of your investment accounts that are included in the PCS program are combined to calculate the breakpoint pricing listed in the fee schedule.

#### **Private Client Services (“PCS”) Program**

We created the PCS program to provide high-net-worth clients the opportunity to have some, or all, of their assets managed in one place. We have hired TSIM to act as an overlay manager in the PCS program. An overlay manager coordinates the various investments included in PCS program portfolios with client-specific needs in order to implement a single, holistic investment solution for each individual client. TSIM will work with you and your IAR to determine the most optimal allocations of your investable assets.

The PCS program establishes a portfolio that will be invested in an array of stocks, bonds, exchange-traded funds, closed-end funds, mutual funds, and/or other securities directly or through strategies managed by TSIM or other third-party managers. In addition, certain option and/or structured product strategies may also be utilized, which have unique risk profiles. Information about the risks specific to the PCS program can be found in TSIM’s disclosure brochure, which accompanies this brochure. The fee schedule for the PCS program is:

PCS Asset Level	Program Fee (annually)	Management Fee (annually)	Total Advisory Fee (annually)
Under \$1,000,000	0.75%	1.25%	2.00%
\$1,000,000 - \$5,000,000	0.70%	1.05%	1.75%
\$5,000,000 - \$10,000,000	0.65%	0.60%	1.25%
Over \$10,000,000	0.60%	0.40%	1.00%

### *Other Fees*

Mutual funds often charge investors additional advisory or management fees for the services provided by the fund manager. A portion of these fees (called distribution fees, shareholder service fees, mutual fund trailers or 12b-1 fees) are generally paid to First Allied and your IAR. In the PCS program, neither First Allied nor your IAR retains these fees; instead, these fees, if charged, are rebated back to clients.

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(s). 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.

### *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). The PCS program has a relationship minimum of \$500,000. We generally will not accept clients into the PCS program that do not meet this minimum. Generally, the PCS program is implemented across more than one investment account and the program minimum can be met by adding together the amount of assets in all included investment accounts. At our discretion and on a case-by-case basis, we may choose to waive the stated minimum. You and your IAR should discuss your level of investable assets to determine which programs are best suited 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 initial data is conducted, including:

- The ownership structure
- Employees, including investment professionals, marketing and client service staff
- Regulatory, legal, and compliance issues of the adviser
- The manager's performance, both current and historical
- In some cases, the investment adviser'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.

TSIM is the only choice for overlay manager for the PCS program. By investing in the PCS program, you are choosing TSIM as the party who will make investment decisions for your investment account(s). Other programs that we offer give you the ability to choose from a selection of managers. These other programs are detailed in separate disclosure brochures that your IAR can provide to you upon request.

When managing each PCS relationship, TSIM may utilize its own investment models, investment models created and managed by third-party managers, or strategies managed entirely by third-party managers. We have conducted due diligence in accordance with the process outlined above for TSIM. TSIM may also utilize due diligence conducted by Envestnet for third-party managers in the PCS program. Information about Envestnet's due diligence process is available in its disclosure brochure, which will be provided to you upon request.



## Item 7- Client Information Provided to Portfolio Managers

For most of our advisory programs, the information that we provide to third-party managers varies depending on the amount of information the manager requests.

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.

If you invest in the PCS program, we may provide TSIM, other affiliates, Envestnet, and other third-party managers with identifying information about your account, including non-public information. 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 (<http://www.firstallied.com/privacyPolicy.php>), 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. TSIM is not generally available to speak with you. However, your IAR may be able to facilitate contact with TSIM on your behalf.

## Item 9- Additional Information

### Conflicts of Interest

Your IAR will receive compensation as a result of your participation in the PCS program 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.

In the PCS program, TSIM's compensation is directly affected by the investments it selects as the overlay manager because it receives a fixed portion of the program fee. If TSIM uses third-party managers' strategies for a PCS relationship, it pays the third-party manager a fee. The greater the portion of PCS program assets invested in third-party managers' strategies, the lower TSIM's profitability for overlay management of the PCS program. Therefore, TSIM has an incentive to use its own strategies in lieu of strategies formulated and managed by third-party managers. This conflict is mitigated by TSIM's requirement to act as a fiduciary and to select investments that are in the best interests of each client. For certain clients, more third-party strategies will be employed than others; for others, none will be employed. This is largely driven by functions beyond TSIM's control, including client suitability and investment goals, asset minimums for certain third-party manager strategies, client account sizes and structure (i.e. taxable vs. qualified). The greater the amount of assets in accounts and among accounts, the greater the likelihood that TSIM will utilize third-party managers. Because these factors often lead to different allocations among clients, TSIM's costs (and therefore net compensation) will differ between clients. However, the advisory fee that the client pays is not affected by TSIM's selection of investments.

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 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 10 on pages 14 and 15.

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.

Neither we nor our IARs accept mutual fund trailers in the PCS program. However, in certain other advisory programs that we offer, our IARs and First Allied do accept mutual fund trailers in accounts not subject to the Employee Retirement Income Security Act ("ERISA") or similar rules. Accounts subject to ERISA or equivalent rules include IRA, 401k, or other employer-sponsored retirement accounts. This presents a conflict of interest in that the receipt of these mutual fund trailers may give your IAR an incentive to recommend mutual funds based on compensation to be received in these other programs. We help mitigate this conflict of interest by ensuring that the mutual fund sponsor companies that we have agreements with each have versions of advisory-share class mutual funds that are available for use, when appropriate, to avoid these fees. Your IAR is not required to use advisory share class mutual funds in these other programs.

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.

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, and TSIM employees have an ownership interest in Holdings, which presents a conflict of interest with respect to their selection and management 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, starting on page 12.

### **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, interest-rate 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 increase or 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. You should read the prospectus for any investments.

### *Management Philosophy*

The PCS program is managed by TSIM. You can find information on TSIM's methods of analysis and investment strategy by reviewing its Form ADV disclosure brochure, which is attached to this brochure. Your IAR will also provide you with a copy of his Form ADV Part 2B brochure supplement, which contains important information about 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 late 2009, the Securities Division of the state of Indiana found FFP Advisory Services, Inc., and certain principal officers who are now principal officers of FAAS, to be in violation of code 23-2-1 of the Indiana Securities Act. The specific violations involved inadequate and incorrect disclosures for investments in various insurance products. These violations occurred when the principal officers were employed by FFP Advisory Services, Inc., a registered investment adviser. FFP Advisory Services, Inc. was never affiliated with First Allied or FAAS. After considering the circumstances, FFP Advisory Services, Inc. decided that it was in its best interests to settle the matter with the state of Indiana. As part of the settlement, FFP Advisory Services, Inc. agreed to pay a penalty of \$187,500 to the state of Indiana.

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 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>.

#### *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 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"), a registered municipal advisor and a registered investment adviser registered 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, the SEC for advisory 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. On November 1, 2011, First Allied Holdings, Inc. ("Holdings") purchased First Allied from AEFC, who owned First Allied since 2005. Because First Allied is 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 Aretex 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 and 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 each particular 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 that each 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 the PCS program, Envestnet's execution services are used.

##### *Other Related Financial Industry Entities*

In addition to us and First Allied, our parent company, Holdings, owns one other investment adviser: Legend Advisory Corporation. One of the affiliates of Holdings, Cetera Financial Holdings Inc., also owns multiple other investment advisers, including Tower Square Investment Management ("TSIM"). We use TSIM as a third-party manager 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. Our IARs' recommendations must only take into account what programs or services are best for each client.

In addition to Legend Advisory Corporation, Holdings also owns First Allied Retirement Services, Inc. ("Cetera Retirement Plan Specialists"), FASI Insurance Services, Inc. ("FAIS"), Legend Equities Corporation, LEC Insurance Agency, Inc., and Advisory Services Corporation. 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. Legend Equities Corporation is a broker-dealer registered with FINRA. LEC Insurance Agency, Inc. is an insurance general agency. Advisory Services Corporation is an administrative agent for a trust company. Neither we, nor First Allied offer any Legend Advisory Corporation, Legend Equities Corporation, and/or Advisory Services Corporation products or services.

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., Tower Square Investment Management LLC., Cetera Investment Services LLC., Investors Capital Corporation, Summit Brokerage Services, Inc., Summit Financial Group Inc., Girard Securities, Inc., VSR Financial Services, Inc., Legend Equities Corporation, Legend Advisory Corp., First Allied Securities, Inc., and First Allied Advisory Services, Inc.

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 a bank or credit union location. 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.

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 fund sponsors or insurance companies in which we invest.

### *Directed Brokerage*

In most of our advisory programs, 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.

### *Aggregation of Client Trades*

We are under no obligation to aggregate trade orders or to average price transactions. For trades in the PCS program, responsibility for execution of trades is taken by either Envestnet, First Allied, or the third-party managers selected by TSIM. Trades will be aggregated according to the trading policies and procedures of these entities.

## Review of Accounts

As mentioned previously, each of our IARs is supervised by another of our representatives or an employee. Advisory accounts are 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
- holding a disproportionate amount of a security in an 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 for each PCS relationship to our IARs. These performance reports will contain statistical information about your PCS program accounts. The reports we create will list the beginning balance for the period, the ending balance for 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 accounts’ holdings as of the end of the period, a list of one or more comparable benchmarks, and important disclosure information. Your IAR may make these quarterly reports available to you either in paper form or in electronic form.

For the PCS program, the following benchmarks will be listed on the performance reports:

- 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.
- TSIM blended benchmark- a combination of market indexes in varying percentages, depending on the underlying strategy chosen. TSIM’s blended benchmarks are built on proportional percentages of the S&P 500 Index, MSCI World Index, Barclay’s Capital U.S. Aggregate Index, Russell 3000 Value Index (an index designed to measure the performance of the broad value segment of U.S. equity value universe), Merrill Lynch High Yield Master Index (a market capitalization weighted index of all domestic and Yankee high-yield bonds with maturities of at least one year and a credit rating lower



than BBB-Baa3, but are not in default), and the 3-Month U.S. Treasury Bill rates. Not all of these indexes will be used for each blended benchmark. The exact indexes and percentage weighting is determined by the underlying strategies in which you are invested.

Both you and your IAR have the ability to create additional reports regarding your PCS program accounts upon demand. Certain of these reports also contain performance information. 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 described above and may include information about brokerage accounts, variable annuities and alternative investments. There may be discrepancies in the pricing of securities between Albridge reports, our performance reports, 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 by issuance of 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 Us*

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 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 and our affiliates 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 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 in the “Review of Accounts” section, we do not custody your account assets. PCS program assets are custodied by Pershing. Pershing will send account statements to you either quarterly or more frequently. You should review the account statements carefully and compare these account statements with any PCS performance reports or Albridge reports that your IAR may provide 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 PCS program accounts be made payable to Pershing and **not** made payable to FAAS, First Allied, TSIM, or your IAR.

### **Investment Discretion**

#### *Overview*

We do not have discretion over your assets. However, when you invest in the PCS program, you are granting full trading authorization to TSIM. Full trading authorization allows TSIM to make decisions on your behalf regarding purchases and sales of equities, mutual funds, exchange-traded funds, fixed income products including bonds and certificates of deposit, options, and any other security traded on a national exchange, as well as make investments in third-party managers’ strategies. The trading authorization granted in the PCS Investment Advisory Agreement allows either Envestnet, First Allied, or the third-party manager to execute trades for your account without your consent. Your IAR does not have trading authorization in the PCS program.

### **Voting Client Securities**

We do not accept authority to vote client proxies. However, for PCS program accounts, TSIM, third-party managers, and/or Envestnet (depending on the securities held) will vote proxies on your behalf in accordance with their policies and procedures. Please see the appropriate disclosure brochures for information about its policies and procedures for voting client proxies. Some third-party managers and Envestnet may hire another firm to vote proxies on its behalf. You may revoke voting authorization at any time by sending us written notice.

### **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. Advisory fees for the PCS program are paid quarterly in advance.

#### *Our 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.