



## ESI Financial Advisors

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July 7, 2017

Form ADV, Part 2A

### Item 1 – Cover Page

This Brochure provides information about the qualifications and business practices of Equity Services, Inc., doing business as ESI Financial Advisors. If you have any questions about the contents of this Brochure, please contact us at 1-800-344-7437 or [Securities\\_Resource\\_Services@nationallife.com](mailto:Securities_Resource_Services@nationallife.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

ESI Financial Advisors is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Additional information about ESI Financial Advisors also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

There have been no material changes to ESI Financial Advisors' Form ADV 2A brochure since its last annual amendment, dated March 30, 2017.

Currently, the Brochure may be requested by contacting ESI Financial Advisors at 1-800-344-7437 or via email to [Securities\\_Resource\\_Services@nationallife.com](mailto:Securities_Resource_Services@nationallife.com). Our Brochure is also available on our web site [www.Equity-Services.com](http://www.Equity-Services.com), also free of charge.

Additional information about ESI Financial Advisors is available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site provides information about any persons affiliated with ESI Financial Advisors who are registered as investment adviser representatives of ESI Financial Advisors.

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## Item 4 – Advisory Business

Equity Services, Inc. (“ESI”) is a registered broker/dealer, as well as a federally-registered investment adviser doing business as ESI Financial Advisors (“EFA” or “the Firm”). Equity Services, Inc. was founded in 1968 as an affiliate of National Life Insurance Company (“National Life”), which began doing business in 1848. NLV Financial Corporation is the sole shareholder of Equity Services, Inc., and the National Life Group companies, which include National Life Insurance Company, Life Insurance Company of the Southwest, and companies providing various services related to investment company securities branded as “Sentinel Investments.” EFA provides financial planning/consulting services and asset management services to individuals, corporations, trusts, estates, charitable organizations, and retirement plans including pension and profit sharing plans. EFA has been registered with the SEC since 1992. As of 12/31/2016, the Firm managed approximately \$1 billion in non-discretionary assets and approximately \$76 million in discretionary assets across all of its advisory programs.

Before investing in an advisory program, clients should decide if they are comfortable delegating the day-to-day management of their account(s). Investors in advisory programs typically:

- Desire advice and guidance when making investment decisions;
- When working with a discretionary manager, are at ease with a financial professional making their day-to-day investment decisions;
- Are willing to follow a disciplined investment strategy;
- Are comfortable paying quarterly, asset-based (percentage) fees for investments and advice rather than individual commissions or sales charges.

EFA offers a variety of advisory programs, many of which engage the services of third-party asset managers (“TPAM”) with discretionary trading authority, and some in which the client is required to authorize some or all trading activity in their account (as described in detail in the program descriptions below). **Clients should ensure they understand the nature of their advisory agreement with EFA and any other TPAM they may engage to provide asset management and/or financial planning services.**

Financial planning and consulting services are available through EFA and its network of Investment Adviser Representatives (“advisory representatives” or “IAR”) on a non-discretionary basis. Advisory representatives can offer financial planning services whereby the client receives a financial or investment plan, or similar service, for a fee. Services will generally include a written financial plan consisting of one or more of the following topics: investment planning, retirement planning, estate planning, wealth accumulation, business planning, etc. Depending on their needs, clients may select either a full financial analysis or an analysis of a specific financial area. In any event, the analysis will contain generic recommendations for the client and will not include specific product recommendations. Advisory representatives also offer financial consulting services.

EFA makes asset management services available to its clients. EFA offers asset management programs managed by multiple third-party investment advisers, as well as programs managed by the advisory representatives and the client on a non-discretionary basis.

EFA acts as the adviser or co-adviser on certain of its advisory program offerings, specifically:

- ESI Illuminations

- ESI Directions
- Assetmark (advisor model)
- Managers Choice
- Morningstar
- Saratoga Advantage Trust
- SEI

Within its ESI Illuminations Flagship Select and ESI Directions programs, EFA may exercise discretion (as described under Item 16 of this brochure) to rebalance accounts whose holdings, over time, cause or may cause the account to vary outside the acceptable risk range tolerance for the client's chosen investment objective.

EFA's asset management programs are designed to meet an individual's needs and goals based on an analysis of the client's liquidity, time frame, income and tax bracket, as well as an evaluation of the client's risk tolerance and return objective. The client's advisory representative will seek to review and update this information at least annually, or at the client's request. EFA asset management platforms may use different investment vehicles to meet a client's needs and goals. Depending on the program selected, the following types of investments may be included:

Exchange-listed securities	Variable annuities	U.S. government securities
Corporate debt securities	Certificates of deposit	Over-the-counter securities
Municipal securities	Options	Interests in partnerships
Mutual fund shares	Variable life insurance	(real estate, oil and gas interests, equipment leasing)

Investment strategies recommended are primarily long-term purchases. However, based on the client's needs and goals, short-term purchases and trading may be suitable, in some circumstances, as well as margin transactions or option writing (including covered options, uncovered options, or spreading strategies). Clients may impose restrictions on investing in certain securities or types of securities.

EFA offers investment advisory services through the following asset management programs:

### **ESI Illuminations**

Working with Envestnet|PMC, Inc. ("Envestnet"), EFA has developed a customized investment management platform called ESI Illuminations. EFA offers the following Envestnet asset management programs on the ESI Illuminations Platform: Third Party Strategist, Adviser as Portfolio Manager, Multi-Manager Accounts, and Separately Managed Accounts. These programs offer asset allocation/investment management and, depending on the program selected, utilize open-end no-load or load-waived mutual funds, separate account managers, exchange-traded funds ("ETFs"), as well as general securities to pursue the client's investment objectives. Clients complete a profile questionnaire which assists in determining which of up to thirteen possible portfolio models is appropriate based on indicated objectives, risk tolerance, and overall financial goals. Based on this information, an investment strategy is developed and documented.

Investment recommendations in the ESI Illuminations program ("the Program") may include mutual funds affiliated with Equity Services ("affiliated funds") and nonaffiliated mutual funds

that are available under the Program. Investing in an affiliated fund will result in additional compensation being paid to Equity Services and/or one of its affiliates. In many cases alternate funds available under the Program that provide the account with substantially similar exposure to the asset class or sector represented by an affiliated fund.

EFA and its advisory representatives do not have authority to implement investment transactions on a discretionary basis, except as noted in Item 16 of this brochure. Unless Envestnet, a third-party strategist, other separate account managers, or the representative have been given discretionary authority by the client, all transactions must be expressly approved by the client.

Custody of client assets is maintained by National Financial Services, LLC ("NFS") with accounts registered in the client's name. A copy of Envestnet's Form ADV Part 2A and EFA's Form ADV Part 2A is given to all ESI Illuminations clients. In addition, clients choosing a third party manager on the ESI Illuminations platform will receive a Form ADV 2A for the chosen manager.

Clients may place reasonable restrictions on the investments within the ESI Illuminations programs. This also includes the ability to place restrictions on the investments purchased through separate account manager(s). Contact your advisory representative for a form that will help facilitate these restrictions.

### **ESI Illuminations - Third-Party Strategist Programs**

In the Third Party Strategist program offered by Envestnet, EFA allows various asset management firms to offer actively managed portfolios, comprised of mutual funds or exchange-traded funds. These firms manage the accounts on a discretionary basis. EFA chooses which asset management firms are available to its clients as part of the Third Party Strategist program. EFA currently makes the following asset management firms available to its clients through the Third Party Strategist program: Envestnet|PMC, 3D Asset Management, BlackRock, Good Harbor, Morningstar Investment Services, Russell Investments, Sentinel Asset Management and Vanguard. Envestnet manages the programs pursuant to trade and rebalancing instructions provided by the Third Party Strategist.

The Envestnet|PMC-managed programs are branded ActivePassive Portfolios, Expedition, Expedition Plus, Flagship, Flagship Direct, and PMC Strategic ETF Solutions.

ActivePassive Portfolios blend two opposing yet complementary investment approaches: active and passive management. The ActivePassive Portfolios are comprised of various combinations of actively and passively managed mutual funds selected by Envestnet on a discretionary basis. The advisory representative and client will select from among fourteen available portfolios (seven tax sensitive, seven non-tax sensitive) based on the client's risk score. Selected mutual funds may include actively managed funds from the PMC funds, which is a proprietary fund family of Envestnet's affiliate, Envestnet Asset Management, Inc. Consult the appropriate PMC fund prospectus for more information regarding fees Envestnet Asset Management, Inc. may charge. Suggested minimum investment: \$25,000.

Expedition is an asset allocation program that offers seven ETF portfolio options, created and managed by Envestnet on a discretionary basis. The advisory

representative and the client will select from among the available portfolios based on the client's risk score. Suggested minimum investment: \$50,000.

Expedition Plus is an asset allocation program that offers fourteen portfolio options (seven tax sensitive, and seven non-tax sensitive portfolios), created and managed by Envestnet on a discretionary basis, which are comprised of a combination of mutual funds and ETFs. The advisory representative and client will select from among the available portfolios based on the client's risk score. Suggested minimum investment: \$50,000.

Flagship is an Envestnet managed, mutual fund-based asset allocation program. The program includes a no-load, load-waived, no transaction fee universe of funds selected by Envestnet. The list will offer mutual fund choices in each asset class of the selected portfolio model. The advisory representative and client will select from among fourteen available portfolios (seven tax sensitive, seven non-tax sensitive) based on the client's risk score. Suggested minimum investment: \$50,000.

Flagship Direct is also a mutual fund based asset allocation program, where the advisory representative and the client will select from a limited list of recommended no-load, load-waived, no transaction fee mutual funds that have been screened by Envestnet. Envestnet is the discretionary manager of the program and may change the selected mutual funds over time. The advisory representative and client will select from among fourteen available portfolios (seven tax sensitive, seven non-tax sensitive) based on the client's risk score. Suggested minimum investment: \$50,000.

PMC's Strategic ETF Solutions offers ETF-based asset allocation models positioned at various points along the risk/return spectrum that correspond to the individual client's goals and objectives. PMC is the discretionary manager on the program, and may add, remove, or replace funds as it determines such measures to be appropriate. Suggested minimum investment: \$50,000.

3D Asset Management ("3D") makes available model portfolios, funded with exchange traded funds (ETFs), as part of the Third Party Strategist Platform. 3D offers twenty portfolios, five of which are tax-managed. The portfolios differ in their exposure to equities, with between 20% to 100% of any portfolio being invested in equities. Additionally, 3D seeks to provide expertise in ETF selection by building investment solutions which are intended to address both risk and return. 3D is the discretionary manager. Suggested minimum investment: \$100,000.

BlackRock makes available ETF and mutual fund portfolios as part of the Third Party Strategist Platform. BlackRock is the discretionary manager, and the BlackRock model portfolios are branded Core Asset Allocation, and Income Completion. Suggested minimum investment: \$10,000.

BlackRock Core Asset Allocation Models - A series of ETF-based model portfolios which are allocated across asset classes, sectors and align with specific risk profiles – ranging from all equity to all fixed income. BlackRock seeks to actively manage portfolios, while diversifying risk with broad asset class exposure, that may shift between domestic and global investments.

BlackRock Income Completion Models - A series of ETF and mutual fund-based portfolios which are designed to generate income. The portfolios are structured across

multiple income objectives and various risk profiles. Additionally, the portfolios may be further diversified by market volatility, interest rate or inflation risk.

Good Harbor makes available model portfolios through the Third Party Strategist Platform, which are managed using the Good Harbor U.S. Tactical Core Strategy®. The underlying premise of the Good Harbor U.S. Tactical Core Strategy® is that equity prices are driven by changes in investor risk premiums and that these premiums vary with the global business cycle. By gauging a combination of momentum measures, economic data and yield curve analysis, the model seeks to assess changes in risk premiums in order to participate in equities during rallies and move defensively to bonds when weaker market conditions are anticipated. Good Harbor is the discretionary manager. Suggested minimum investment: \$150,000.

Morningstar Investment Services (“Morningstar”) makes available mutual fund model portfolios as part of the Third Party Strategist Platform within ESI Illuminations. Morningstar is the discretionary manager and the Morningstar model portfolios are branded Asset Allocation Series, Retirement Income Series, Absolute Return, and ETF Portfolios. Suggested minimum investment: \$50,000.

Morningstar Asset Allocation Series - A series of five model portfolios which are diversified across asset classes, investment styles, and target a specific risk tolerance from conservative to aggressive growth. The models are also offered as tax sensitive models for non-qualified accounts in which Morningstar looks for asset classes that are more tax efficient and invest in municipal bonds to earn tax-exempt income.

Morningstar Retirement Income Series - This series has four model portfolios which are designed to meet the distribution needs of investors in various states of retirement. Each portfolio is diversified across multiple asset classes to help temper volatility and provide some downside protection relative to the broad equity market.

Morningstar Absolute Return Portfolio - This model seeks to provide modest, equity-like returns, and is designed to provide low correlations to the broad market.

Morningstar ETF Portfolios – These portfolios utilize research by Ibbotson Associates, Morningstar affiliate, to develop strategic portfolio allocations based on Ibbotson’s risk and return forecasts. To construct their portfolios, Morningstar seeks to combine low-cost “core” positions, which track broad asset classes, with more nimble “explore” positions, which often track narrower segments of the markets.

Russell Investments makes available mutual fund model portfolios as part of the Third Party Strategist Platform within ESI Illuminations. Russell Investments is the discretionary manager and offers five core model strategies with a range of investor risk profiles: conservative, moderate, balanced, growth, and equity growth. The model portfolios are funded with Russell Investments mutual funds, and each risk profile has a corresponding standard portfolio and tax-managed portfolio. Additionally, Russell Investments offers portfolios funded with no-transaction fee funds (Class S and/or Class I shares) available for accounts above \$300,000. These portfolios may also be developed in standard or tax-managed versions. Suggested minimum investment: \$50,000.

Sentinel Asset Management, Inc. (“Sentinel”) makes available the Sentinel Income Strategy program, which seeks to utilize mutual fund model portfolios designed to provide a diversified approach to general income through total returns. The program is intended for clients seeking



income over a medium to long-term duration, and/or returns that will keep pace with inflation. Sentinel is the discretionary manager of the portfolios. Suggested minimum investment: \$100,000.

Vanguard makes available model portfolios comprised of ETFs as part of the Third Party Strategist Platform within ESI Illuminations. Vanguard is the discretionary manager and offers four investment models intended for different investor risk profiles:

Vanguard Core Portfolios are offered as part of Envestnet's Wealthbuilder program. The Core Portfolios include diversified domestic and international equity and bond Vanguard ETFs®. The underlying ETFs comprising the Core Portfolios hold all or a representative sampling of securities that make up an index. Suggested minimum investment: \$10,000.

S&P Domestic Equity offers diversified options that seek to track S&P benchmarks for the domestic equity allocation of assets. Suggested minimum investment: \$25,000.

Center for Research in Security Prices (CRSP) Series portfolios offer domestic equity, fixed income, and balanced options in constructing and maintaining diversified portfolios for financial advisors' underlying clients. Suggested minimum investment: \$25,000.

Russell Domestic Equity Series portfolios seek to construct and maintain diversified portfolios that seek to track Russell benchmarks for the domestic equity allocation of assets. The following portfolios are available through the Series: US Equity Allocations, International Equity Allocations, US Fixed Income Allocations, and Hedged International Fixed Income Allocations. Suggested minimum investment: \$25,000.

### **ESI Illuminations - Adviser as Portfolio Manager**

This program offers access to portfolios comprised of mutual funds and ETFs recommended to clients by the adviser, using the tools and technology available from Envestnet. Clients opening accounts after March 30, 2016 must execute an Advisory Agreement in which they grant EFA discretion to rebalance their account. Clients who opened accounts prior to March 30, 2016 may elect to provide the rebalancing discretion to the Firm by completing a written authorization document. For such discretionary accounts, model portfolios are constructed and rebalanced by EFA and its advisory representatives in accordance with the client's Advisory Agreement. For non-discretionary accounts, the client must provide consent, prior to execution, for any transactions in their account. EFA has branded this program as Flagship Select.

Flagship Select is an asset allocation program where the advisory representative will recommend appropriate mutual funds and/or ETFs to build the portfolios, and the client may choose to purchase the recommended mutual funds and/or ETFs. The program generally includes a no-load, load-waived, no transaction fee universe of funds. The program may also include load mutual funds (for example, transfers of existing positions into the program). The Firm may waive advisory fees on load mutual fund positions for certain periods of time depending on the holding period of the transferred position. Suggested minimum investment: \$50,000.

### **ESI Illuminations - Multi-Manager Accounts**

Voyager is a program that gives the client indirect access to one or more separately managed account managers in combination with mutual funds or ETFs. The portfolios are managed by

Investnet who receives direction by one or more sub-managers. The advisory representative and client will select from among fourteen available portfolios (seven tax sensitive, seven non-tax sensitive) based on the client's risk score. Suggested minimum investment: \$250,000.

### **ESI Illuminations - Separately Managed Accounts**

Navigator Select is a program that gives the client indirect access to one or more separately managed account managers who fund model portfolios with general securities. The IAR and the client choose separate account managers which are pre-screened by Investnet Portfolio Solutions. The separate account managers choose the general securities to fund the portfolios and have trading discretion. This program is closed to new investors.

### **ESI Directions ("Directions")**

The Directions program is an asset management program where the advisory representative will work with the client to select securities that are appropriate for the client's investment model. Investnet provides system tools which are used to analyze the information obtained through a client profile questionnaire and recommends an appropriate asset allocation model based on indicated objectives, risk tolerance and overall financial goals. Based on this information, the advisory representative and client select the appropriate securities for the account including, but not limited to: stocks, bonds, mutual funds, options, ETFs, UITs, CDs and/or structured products. The client executes an Advisory Agreement in which they grant EFA discretion to rebalance. Model portfolios are constructed and rebalanced by EFA and its advisory representatives in accordance with the client's Advisory Agreement.

Custody of client assets is maintained by NFS with accounts registered in the client's name. A copy of the Investnet Form ADV Part 2A and Equity Services, Inc.'s Form ADV Part 2A - Appendix 1 is given to all ESI Directions clients. Suggested minimum investment: \$100,000.

### **AssetMark**

In some instances, EFA may utilize the asset allocation services of AssetMark. Working with AssetMark, EFA, through its advisory representatives, will assist clients in establishing an investment strategy consistent with their investment objectives and risk tolerance. The creation of the investment strategy will be based on a client profile questionnaire that will help determine such factors as risk tolerance, investment objectives, and financial goals. AssetMark provides advisory services to EFA clients on a discretionary basis. Account administration, fee billing and performance reporting are provided via internet based software. EFA acts as co-advisor on AssetMark's advisor model portfolios, and shares in the fees collected by AssetMark. AssetMark utilizes the custodial services of AssetMark Trust Company, Pershing, or TD Ameritrade. The specific custodial arrangement is established under an agreement between the customer and the custodian, separate from the customer's agreement with AssetMark. Minimum investment:

Mutual Fund Models: \$50,000  
ETFs and privately managed accounts: \$100,000  
Multi-manager models: \$2,000,000

### **Managers Investment Group, LLC ("Managers")**

In some instances, EFA may utilize the asset allocation services of Managers. Working with Managers, EFA, through its advisory representatives, will assist clients in establishing an investment strategy consistent with their investment objectives and risk tolerance. The creation of the investment strategy will be based on a client profile questionnaire that will help determine such factors as risk tolerance, investment objectives, and financial goals. This program offers a mutual fund asset allocation program. Managers' transfer agent automatically rebalances accounts into their original allocations based on threshold levels, set by Managers, for allowable deviation from the original models. When investments deviate from this tolerance level, Managers' transfer agent will rebalance the portfolio back into its original allocation percentages. EFA acts as co-advisor and shares in the fees charged by Managers. BNY Mellon acts as custodian for the assets. Suggested minimum investment: \$50,000.

### **Morningstar Investment Services ("Morningstar")**

In some instances, EFA may utilize the asset allocation services of Morningstar. Working with Morningstar, EFA, through its advisory representatives, will assist clients in establishing an investment strategy consistent with their investment objectives and risk tolerance. The creation of the investment strategy will be based on a client profile questionnaire that will help determine such factors as risk tolerance, investment objectives, and financial goals. Once an investment strategy is agreed upon, assets will be invested in the either the Mutual Fund, ETF, or Stock Basket portfolios. Morningstar, as the discretionary manager, selects the various funds, ETFs, or stocks, initiates portfolio re-balancing; and provides detailed quarterly performance reports to the IARs and clients. EFA acts as co-advisor, and shares in the fees collected by Morningstar. Custodial services are provided by Fidelity, Charles Schwab, or BNY Mellon. Suggested minimum investments:

Mutual Fund Asset Allocation Strategies: \$50,000\*  
Mutual Fund Focused Strategies: \$50,000\*  
ETF Accounts: \$100,000  
Select Stock Baskets: Custom Series - \$250,000  
Strategist Series - \$100,000

\*\$250,000 for Institutional Income, and \$40,000 for individual 401k accounts.

### **Saratoga Advantage Trust ("Saratoga")**

In some instances EFA may provide clients with objective setting and allocation services utilizing the Saratoga Advantage Trust program. EFA, through its advisory representatives, prepares asset allocation recommendations for each client based on an investor profile questionnaire. Once an allocation is agreed upon, the client's assets are invested in the Saratoga Advantage Trust family of funds. Saratoga Capital Management, LLC, selects the sub-advisors for the various funds, recommends portfolio models based on the investor profile questionnaire, and provides detailed quarterly performance reports to the IARs and clients. Saratoga may also change model allocations based on their capital market assumptions. Clients may or may not choose to follow the model recommendations made by Saratoga Capital Management, LLC. EFA acts as advisor, and shares in the fees collected by Saratoga. Custodial services are provided by First National Bank for IRA assets, and by BNY Mellon for all other accounts. Suggested minimum investment: \$10,000. This program is closed to new investors.

## **SEI Investments ("SEI")**

In some instances, EFA may utilize the objective setting and asset allocation services of SEI Private Trust Company. Working with SEI, EFA, through its advisory representatives, will assist clients in establishing an investment strategy consistent with their investment objectives and risk tolerance based on a questionnaire and client profile. Once an investment strategy is agreed upon, assets will be invested in the SEI family of mutual funds or through separate account managers (known as the Managed Account Program and the Integrated Managed Account, respectively). SEI acts as sponsor, and SEI Investments Management Corporation is the discretionary investment manager for both the Managed Account Program and the Integrated Managed Account. SEI selects the sub-advisors for the various mutual funds, initiates quarterly portfolio re-balancing, and provides detailed quarterly performance reports to the clients and IARs. EFA acts as co-advisor, and shares in the fees collected by SEI. SEI Private Trust Company acts as custodian for the assets. No minimum investment; \$60 annual custody fee (assessed by SEI Private Trust Company) applies for account balances less than \$50,000.

## **Item 5 – Fees and Compensation**

When making the determination of whether one of EFA's advisory programs is appropriate for their needs, clients should bear in mind that fee-based accounts, when compared with commission-based accounts, often result in lower transaction costs during periods when trading activity is heavier, such as the year an account is established. However, during periods when trading activity is lower, such fee-based accounts may result in a higher annual cost for transactions. Thus, depending on a number of factors, the total cost under a fee account versus a commission account can vary significantly. Factors which affect the cost of maintaining an account include account size, amount of turnover within the account, type and quantities of securities purchased or sold, commission rates, and the client's tax situation. Clients should discuss any proposed program with their advisory representative and read this brochure carefully, as it explains the programs in detail.

The specific manner in which fees are charged by EFA is established in a client's written agreement with EFA. EFA will generally bill its fees on a quarterly basis. Clients may be charged for advisory services in advance or arrears each calendar quarter, depending on which advisory program they choose. Clients authorize the appropriate custodian to directly debit fees from their accounts, which are then paid out to EFA for services provided. Management fees for each program are described below.

Advisory fees in EFA's proprietary and third-party managed programs are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment managers, and other third parties, such as: advisory fees, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, IRA fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in each fund's prospectus. Clients may incur deferred sales charges on previously purchased mutual funds. Such charges, fees and commissions are exclusive of, and in addition to, EFA's advisory fee. Certain applicable fees may be avoided through the selection of mutual fund share classes which are not subject to such applicable fees, if clients are eligible for such reduced fee share classes. Clients also have the ability to purchase mutual fund shares directly from fund companies, without utilizing the services of an adviser. Transaction fees, service

fees, and IRA fees in brokerage accounts associated with the ESI Illuminations program may include a markup by Equity Services, Inc. from the actual fee charged by NFS.

Certain funds available in the ESI Illuminations program pay additional compensation to ESI, such as 12b-1 (trail) fees. This additional compensation is retained by the Firm and is not paid to the advisory representative managing the account. These fees and transaction charges present a conflict of interest because EFA has a greater incentive to recommend mutual funds that provide additional compensation in the form of 12b-1 fees to the Firm. In addition, the Firm has a greater incentive to recommend the Illumination programs over other programs that do not pay the Firm 12b-1 fees. Potential conflicts of interest are also discussed in Items 10 (Other Financial Industry Activities and Affiliations) and 11 (Code of Ethics) below.

ESI has a revenue sharing agreement with NFS through which the Firm receives additional compensation for the use of no-transaction fee funds in the ESI Illuminations and ESI Directions programs. As such, EFA has additional incentive to recommend programs that utilize such products over others which do not. Item 12 further describes the factors that EFA considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., transaction fees and commissions).

The Firm has other revenue sharing agreements with selected third-party asset managers ("TPAM"), collectively referred to as Strategic Partners, which pay additional material compensation in the form of a set amount or a percentage of assets under management. As a result, the Firm faces a conflict of interest to the extent that it has incentive to promote certain programs over others which may offer substantially similar services. Additional information regarding the Firm's Strategic Partners Program is provided under Item 10.

The following section details the fee schedules for each of the advisory programs offered by EFA. Please note that actual fees are subject to negotiation and may differ from the stated fee schedule as long as the actual fee is not above the maximum in the stated fee schedule.

## **ESI Illuminations**

For all ESI Illuminations products, clients are charged a quarterly asset management fee based on the average daily balance for the previous quarter. Billing is in arrears and based on the following fee schedule. Should a client close his/her ESI Illuminations account before the end of a quarter, he/she will have a pro-rata fee deducted from the final proceeds check. This pro-rata payment will reflect the number of days in the quarter that the assets were managed.

### **Third-party strategist programs (See (a) – (m) below):**

#### **(a) Active/Passive Portfolios**

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$250,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Next \$500,000	0.3125%	$0.3125\% \times 4 = 1.25\%$
Over \$1,000,000	0.2500%	$0.2500\% \times 4 = 1.00\%$
Minimum annual fee (per account): \$35.00		

(b) BlackRock

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Above \$1,000,000	0.3125%	$0.3125\% \times 4 = 1.25\%$
Minimum annual fee (per account): \$75.00		

(c) Expedition and Expedition Plus

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Above \$1,000,000	0.3125%	$0.3125\% \times 4 = 1.25\%$

(d) Flagship, Flagship Direct, and Flagship Select

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Over \$1,000,000	0.3125%	$0.3125\% \times 4 = 1.25\%$

(e) Navigator Select (program is closed to new investors)

Market Value	Quarterly Fee	Total Annual Fee
First \$1,000,000	0.6250%	$0.6250\% \times 4 = 2.50\%$
Next \$1,000,000	0.5500%	$0.5500\% \times 4 = 2.20\%$
Next \$3,000,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Over \$5,000,000	Negotiable	Negotiable

(f) PMC Strategic ETF Solutions

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Over \$1,000,000	0.3125%	$0.3125\% \times 4 = 1.25\%$

*Note: If PMC Strategic ETF Solutions is used as part of Fidelity's Charitable Investment Adviser Program, Fidelity adds an additional 0.60% fee for all levels.*

(g) Voyager

Market Value	Quarterly Fee	Total Annual Fee
First \$500,000	0.6250%	$0.6250\% \times 4 = 2.50\%$
Next \$500,000	0.5625%	$0.5625\% \times 4 = 2.25\%$
Over \$1,000,000	0.5000%	$0.5000\% \times 4 = 2.00\%$

(h) 3D Asset Management

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Over \$500,000	0.3750%	$0.3750\% \times 4 = 1.25\%$
Minimum annual fee (per account): \$600.00		

(i) Good Harbor

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.6250%	$0.6250\% \times 4 = 2.50\%$
Next \$250,000	0.5625%	$0.5625\% \times 4 = 2.25\%$
Next \$500,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$1,000,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Over \$2,000,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Minimum annual fee (per account): \$315.		

(j) Morningstar

Mutual Fund Accounts:

Market Value	Quarterly Fee	Total Annual Fee
First \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Next \$500,000	0.3500%	$0.3500\% \times 4 = 1.40\%$
Next \$1,000,000	0.3250%	$0.3250\% \times 4 = 1.30\%$
Over \$2,000,000	0.2750%	$0.2750\% \times 4 = 1.10\%$

ETF Accounts:

Market Value	Quarterly Fee	Total Annual Fee
First \$1,000,000	0.3500%	$0.3500\% \times 4 = 1.40\%$
Next \$4,000,000	0.3375%	$0.3375\% \times 4 = 1.35\%$
Over \$5,000,000	0.3250%	$0.3250\% \times 4 = 1.30\%$

(k) Russell Investments

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Over \$1,000,000	0.3125%	$0.3125\% \times 4 = 1.25\%$

(l) Sentinel

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Over \$1,000,000	0.3125%	$0.3125\% \times 4 = 1.25\%$

(m) Vanguard

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.5000%	$0.5000\% \times 4 = 2.00\%$
Next \$250,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Over \$1,000,000	0.3125%	$0.3125\% \times 4 = 1.25\%$

**ESI Directions**

Fees are payable in advance and are calculated based on the average daily balance of the previous quarter using the fee schedule below:

Market Value	Quarterly Fee	Total Annual Fee
First \$249,999	0.6250%	$0.6250\% \times 4 = 2.50\%$
\$250,000 - \$499,999	0.5000%	$0.5000\% \times 4 = 2.00\%$
\$500,000 - \$999,999	0.3750%	$0.3750\% \times 4 = 1.50\%$
\$1,000,000 and Over	0.3000%	$0.3000\% \times 4 = 1.20\%$

Should a client close their Directions account before the end of a quarter, they shall be reimbursed for those days remaining in the quarter for which asset management services will not be provided.

**AssetMark**

(Advisor Model) - Fees are payable in advance and are calculated based on the average daily balance of the previous quarter using the fee schedule below:

Mutual Fund Accounts:

Market Value	Quarterly Fee	Total Annual Fee
First \$250,000	0.4875%	$0.4875\% \times 4 = 1.95\%$
Next \$250,000	0.4500%	$0.4500\% \times 4 = 1.80\%$
Next \$500,000	0.4000%	$0.4000\% \times 4 = 1.60\%$
Next \$1,000,000	0.3250%	$0.3250\% \times 4 = 1.30\%$
Over \$2,000,000	0.2500%	$0.2500\% \times 4 = 1.00\%$

ETF and Privately Managed Accounts:

Market Value	Quarterly Fee	Total Annual Fee
First \$1,000,000	0.5125%	$0.5125\% \times 4 = 2.05\%$
Next \$2,000,000	0.4375%	$0.4375\% \times 4 = 1.75\%$
Next \$2,000,000	0.3875%	$0.3875\% \times 4 = 1.55\%$
Over \$5,000,000	0.3375%	$0.3375\% \times 4 = 1.35\%$

Should a client close their Assetmark account before the end of a quarter, they shall be reimbursed for those days remaining in the quarter for which asset management services will not be provided.



## Managers

Managers' transfer agent calculates the quarterly fees and automatically debits fees from the client's account. Billing is in arrears and based on an annualized fee of 1.5%.

Should an account close during a quarter, a pro-rata fee is deducted from the account. This pro-rata fee will reflect the number of days in the quarter that the assets were managed.

## Morningstar

Clients are charged a quarterly asset management fee by EFA, based on the value of the client's holdings at the end of each calendar quarter. Billing is in advance and based on the following schedule:

### Mutual Fund Accounts:

Market Value	Quarterly Fee	Total Annual Fee
First \$500,000	0.3750%	$0.3750\% \times 4 = 1.50\%$
Next \$500,000	0.3500%	$0.3500\% \times 4 = 1.40\%$
Next \$1,000,000	0.3250%	$0.3250\% \times 4 = 1.30\%$
Over \$2,000,000	0.2750%	$0.2750\% \times 4 = 1.10\%$

\$50,000 account minimum for Mutual Fund Asset Allocation Strategies and Mutual Fund Focused Strategies (\$250,000 for Institutional Income and \$40,000 for Individual 401(k) accounts). There is a \$15 annual maintenance fee for IRA accounts. The Annual Minimum Morningstar Advisory Fee is \$200.

### ETF Accounts:

Market Value	Quarterly Fee	Total Annual Fee
First \$1,000,000	0.3500%	$0.3500\% \times 4 = 1.40\%$
Next \$4,000,000	0.3375%	$0.3375\% \times 4 = 1.35\%$
Over \$5,000,000	0.3250%	$0.3250\% \times 4 = 1.30\%$

\$100,000 account minimum  
Annual Minimum Morningstar Advisory Fee \$310

### Select Stock Baskets:

Market Value	Quarterly Fee	Total Annual Fee
First \$1,000,000	0.4125%	$0.4125\% \times 4 = 1.65\%$
Next \$4,000,000	0.4000%	$0.4000\% \times 4 = 1.60\%$
Over \$5,000,000	0.3875%	$0.3875\% \times 4 = 1.55\%$

Custom Series – \$250,000 account minimum  
Strategist Series – \$100,000 account minimum

Annual Minimum Morningstar Advisory Fee (Custom Series): \$1375  
Annual Minimum Morningstar Advisory Fee (Strategist Series): \$550

Should a client close their Morningstar account before the end of a quarter, they shall be reimbursed for those days remaining in the quarter for which asset management services will not be provided.

## **Saratoga**

Clients are charged a quarterly asset management fee by EFA, based on the value of the client's holdings at the end of each calendar quarter. Billing is in advance and based on the following schedule:

Market Value	Quarterly Fee	Total Annual Fee
\$0 - \$99,999	0.5000%	0.5000% X 4 = 2.00%
\$100,000 - \$249,999	0.4500%	0.4500% X 4 = 1.80%
\$250,000 - \$499,999	0.4000%	0.4000% X 4 = 1.60%
\$500,000 - \$749,999	0.3125%	0.3125% X 4 = 1.25%
\$750,000 - \$999,999	0.2500%	0.2500% X 4 = 1.00%
\$1,000,000 and Over	Negotiated	

Upon the agreement of all parties, actual fee may be higher or lower from the stated fee schedule, as long as actual fee is not above the maximum fee of 2.00%.

Should a client close their Saratoga account before the end of a quarter, they shall be reimbursed for those days remaining in the quarter for which asset management services will not be provided.

## **SEI**

Clients are charged a quarterly asset management fee by EFA, based on the value of the client's holdings at the end of each calendar quarter. Billing is in arrears and based on the following fee schedule (\$60 annual custody fee if account balance is less than \$50,000):

Market Value	Quarterly Fee	Total Annual Fee
First \$500,000	0.4375%	0.4375% X 4 = 1.75%
Next \$500,000	0.3250%	0.3250% X 4 = 1.30%
Next \$1,000,000	0.2500%	0.2500% X 4 = 1.00%
Next \$1,000,000	0.1750%	0.1750% X 4 = 0.70%
Next \$2,000,000	0.1250%	0.1250% X 4 = 0.50%
Over \$5,000,000	0.0750%	0.0750% X 4 = 0.30%

Upon the agreement of all parties, the actual fee may be higher or lower from the stated fee schedule, as long as the actual fee is not above the maximum fee of 1.75%.

Should an account close during a quarter, a pro-rata fee is deducted from the account. This pro-rata fee will reflect the number of days in the quarter that the assets were managed.

## **Financial Planning/Consulting Services**

Fees will be paid, in full, only after the plan or service is delivered to the client. Partial payment prior to the preparation of the financial plan or service, not to exceed 50% of the total fee due, is permitted. In no case will EFA accept an advance fee for financial planning/consulting services that is greater than \$1,200, unless the plan and/or services connected with such payment are completed within six months from the receipt of such payment. EFA permits its advisory

representatives to negotiate planning/consulting fees with the client. The client may terminate the financial planning/consulting agreement prior to the delivery of the financial plan, recommendations, advice or suggestions by notifying EFA in writing.

#### Financial Planning/Consulting Fees:

Advisors may charge a flat fee for services provided, generally not to exceed \$10,000.

#### Hourly Rate:

Advisors may charge an hourly rate for services provided, generally not to exceed \$500/hr.

For a discussion of how the Firm identifies and addresses potential conflicts of interest which may arise from fees and compensation, please refer to Item 11 (Code of Ethics).

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

EFA does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Item 7 – Types of Clients**

EFA provides portfolio management services to individuals, corporations, trusts, estates, charitable organizations, and retirement plans including pension and profit sharing plans. Most asset management programs offered by EFA have minimum account sizes to open/maintain an account ranging from \$10,000 to \$250,000. Details on these minimums are explained for each program in Item 5 (Fees and Compensation).

The Firm may prohibit anyone or any account type from investing in any of its advisory programs if it believes the recommended program is not an appropriate investment strategy for the client.

### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

EFA's advisory representatives generally use technical and/or fundamental analysis when analyzing securities. Technical analysis generally involves studying trends and movements in a security's price, trading volume, and other market-related factors in an attempt to discern patterns. Fundamental analysis generally involves assessing a company's or security's value based on factors such as sales, assets, markets, management, products and services, earnings, and financial structure. Sources of information for analysis include research material acquired from outside vendors, financial newspapers and magazines, annual reports, prospectuses, filings with the SEC and company press releases.

Investment strategies used to implement investment advice to clients may include: long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), margin transactions, and option writing.

EFA will utilize certain asset allocation tools and investment research materials prepared by third party investment advisers in constructing an appropriate asset mix for a client and in monitoring the performance of the investment portfolio selected. Clients can learn more about the methods of analysis, investment strategies, and risk of loss associated with the advisory platform providers offered by EFA by reviewing the Form ADV 2A of those advisers.

Investing in securities involves risk of loss that clients should be prepared to bear.

*Common stocks* may decline significantly in price over short or extended periods of time. Price changes may occur in the market as a whole, or they may occur in only a particular country, company, industry, or sector of the market. In addition, the types of stocks in which a particular fund invests, such as value stocks, growth stocks, large-capitalization stocks, mid-capitalization stocks, small-capitalization stocks and/or micro-capitalization stocks, may underperform the market as a whole. In addition, growth stocks can be more volatile than other types of stocks. Value stocks can continue to be undervalued by the market for long periods of time.

Additionally, dividends paid on common stocks can vary significantly over the short-term and long-term. Dividends on common stocks are not fixed, but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of common stocks in which a portfolio invests will declare dividends in the future or that if declared they will remain at current levels or increase over time.

*Fixed income risks* include credit risk, interest rate risk, and high yield risk.

*Credit risk* is the risk that an issuer of a debt security will be unable to make interest and principal payments when due and the related risk that the value of a security may decline because of concerns about the issuer's ability to make such payments. Credit risk may be heightened for portfolios that may invest in "high yield" securities.

*Interest rate risk* is the risk that the value of a portfolio will decline because of rising interest rates. Interest rate risk is generally lower for shorter-term investments and higher for longer-term investments. Duration is a common measure of interest rate risk. Duration measures a bond's expected life on a present value basis, taking into account the bond's yield, interest payments and final maturity. The longer the duration of a bond, the greater the bond's price sensitivity to changes in interest rates.

*High yield, or below investment grade securities* may be more susceptible to real or perceived adviser economic conditions than investment grade securities. In addition, the secondary trading market for below investment grade securities may be less liquid. High yield securities generally have more volatile prices and carry more risk to principal than investment grade securities.

*International Investing Risk* is the risk associated with investing in securities or issuers in markets other than the United States. Foreign issuers may be subject to risks not typically associated with U.S. companies, such as: currency risk, risks of trading in foreign securities markets, and political and economic risks.

*Currency Risk* is associated with the trade of securities in currencies other than the U.S. dollar. Because foreign securities generally trade in currencies other than the U.S. dollar, changes in currency exchange rates will affect an account's value, the value of dividends and interest

earned, and gains and losses realized on the sale of securities. A strong U.S. dollar relative to these other currencies will adversely affect the value of account.

*Foreign Securities Market Risk* is the risk that securities of many non-U.S. companies or U.S. companies with significant non-U.S. operations may be less liquid and their prices more volatile than securities of comparable U.S. companies. Securities of companies traded in many countries outside the U.S., particularly emerging markets countries, may be subject to further risks due to the inexperience of local investment professionals and financial institutions, the possibility of permanent or temporary termination of trading, and greater spreads between bid and asked prices for securities. In addition, non-U.S. stock exchanges and investment professionals are subject to less governmental regulation, and commissions may be higher than in the U. S. Also, there may be delays in the settlement of non-U.S. stock exchange transactions.

*Political and Economic Risks* are a factor when investing in international companies due to varying levels of stability in political, social, or economic factors in the country of the issuer of a security, the difficulty of predicting international trade patterns, the possibility of the imposition of exchange controls, expropriation, limits on removal of currency or other assets, and nationalization of assets.

Additionally, income from foreign issuers may be subject to non-U.S. withholding taxes. Non-U.S. companies generally are not subject to uniform accounting, auditing, and financial reporting standards or to other regulatory requirements that apply to U.S. companies; therefore, less information may be available to investors about non-U.S. issuers. In addition, some countries restrict foreign investment in their securities markets, which may limit or preclude investment in certain countries or may increase the cost of investing.

The above risks may be particularly significant in emerging markets countries. To the extent an account invests in depositary receipts, it will be subject to the same risks as when investing directly in foreign securities.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of its management. ESI is a registered broker/dealer as well as a federally-registered investment adviser doing business as EFA.

- The Financial Industry Regulation Authority (“FINRA”) alleged, in an amended complaint, that while Equity Services, Inc. (“ESI”), required its registered representatives to maintain anti-virus software on their computers, it failed to adopt written policies and procedures that were reasonably designed to ensure representatives’ compliance with this directive.

Without admitting or denying the findings, ESI signed a letter of acceptance, waiver and consent. In accordance with the terms of the settlement, ESI consented to the imposition of a fine in the amount of \$20,000. The settlement was accepted by FINRA on December 6, 2012.

- The Financial Industry Regulation Authority (“FINRA”) alleged that Equity Services, Inc. (“ESI”), in its capacity as a broker-dealer, made unsuitable sales of an unregistered

private placement securities to five non-accredited retail investors. It was also alleged that ESI failed to enforce its written supervisory procedures relating to suitability and the sale of private placements.

Without admitting or denying the findings, ESI signed a letter of acceptance, waiver and consent. In accordance with the terms of the settlement, ESI consented to the imposition of a fine in the amount of \$50,000, and it was ordered to pay \$163,815 plus interest, in restitution to four customers. The settlement was accepted by FINRA on November 2, 2011.

- The Securities and Exchange Commission (“SEC”) alleged that ESI failed to provide asset allocation monitoring services to certain of its advisory clients from 2001 until the Summer of 2005.

Without admitting or denying the allegations related to the matter, ESI consented to the entry of the order whereby ESI was censured, and ordered to cease and desist from committing or causing any violations and any future violations of the Investment Advisers Act. ESI was ordered to pay a civil penalty in the amount of \$300,000. The fine was paid December 17, 2009.

- The National Association of Securities Dealers alleged that: 1) ESI associated persons received improper non-cash compensation from an unaffiliated insurance company; 2) ESI failed to maintain adequate records of non-cash compensation from other offerors; 3) ESI associated persons received improper non-cash compensation from National Life Insurance Company; 4) ESI’s supervisory system and written policies and procedures regarding non-cash compensation were inadequate; and 5) ESI violated e-mail retention requirements.

ESI was fined \$350,000, and ordered to conduct a comprehensive review and certification of policies and procedures related to non-cash compensation within 90 days of the acceptance, waiver, and consent. The fine was paid June 12, 2007.

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

ESI is registered as a broker-dealer with the SEC, FINRA and all fifty states. ESI devotes a substantial portion of its time and derives a substantial portion of its revenue from its operations as a broker-dealer. As a broker-dealer, ESI offers the following investment and insurance products: mutual funds, unit investment trusts, variable annuities and variable life products, indexed annuity products, direct participation programs, real estate investment trusts, and structured CDs. ESI also acts as the distributor of variable insurance products underwritten and issued by National Life Insurance Company.

EFA is under common control with the following companies: Sentinel Financial Services Company, a registered broker-dealer and distributor of the Sentinel Funds; and Sentinel Asset Management, Inc., a registered investment adviser, which manages the Sentinel Funds and offers services to mutual funds, institutions and individual clients. Sentinel Funds are among those available for use in EFA’s proprietary advisory programs (ESI Illuminations and ESI Directions).

EFA is an affiliate of National Life Insurance Company (“National Life”). Most of EFA’s advisory representatives are also life insurance agents of National Life. National Life provides space and certain other services to EFA.

Life Insurance Company of the Southwest (“LSW”) is another affiliated insurance company that offers fixed annuity products. Many of EFA’s advisory representatives are appointed with LSW to sell fixed products.

EFA and its advisory representatives may offer affiliated products or services to advisory clients in order to execute certain transactions recommended within a financial plan. Clients are free to execute transactions recommended as part of a financial plan through any broker-dealer or product issuer they choose. If the purchase or sale of financial products recommended as a part of a financial plan is executed with an affiliate of EFA, EFA and the advisory representative receive compensation, including commissions and other compensation, in addition to the advisory fee paid.

EFA and its affiliates receive, in the aggregate, more revenue in connection with the sale of affiliated products, including those offered through the Illuminations platform, than unaffiliated products. This additional revenue often comes in the form of investment advisory fees, shared revenue based on assets under management, administrative, transfer agency, distribution, and/or other fees for services provided by affiliates of EFA in support of affiliated products. Thus, EFA has an incentive to offer affiliated products over unaffiliated products. As a result, the Firm faces a conflict of interest to the extent that it has incentive to promote certain programs over others which may offer substantially similar investment objectives.

In some relationships, investment advisers or TPAMs pay EFA for client referrals. The nature of relationship among the TPAM, EFA, and the client is more fully described in the contracts entered into with each TPAM. In each relationship, EFA will receive a portion of the fee charged (commonly referred to as the “solicitor fee”). EFA provides the TPAM’s Form ADV Part 2A (or similar disclosure brochure) and a Solicitor’s Disclosure to the client. The solicitor fee paid to EFA may vary by TPAM. Accordingly, EFA faces a conflict of interest in that it has an incentive to refer clients to programs from which it would receive higher compensation.

EFA receives payments from firms or persons that offer asset management or separate account products or services which are included in a preferred list of product providers (referred to as “Strategic Partners”). These payments may take the form of conference, program, or event attendance; participation or exhibition fees; educational and training fees; or fees linked to program participation or specific marketing initiatives within an existing program. None of these additional payments, however, is paid or directed to any advisory representative who sells these products. Nonetheless, the marketing payments and educational opportunities could lead advisory representatives to focus more on those Strategic Partners that make payments to EFA – as opposed to other advisers that do not make such payments – when recommending an asset management program to their clients. Among its advisory programs, EFA’s Strategic Partners are: 3D Asset Management, Brinker Capital, Envestnet Portfolio Solutions, Maple Capital Management, Pacific Financial Group, SEI, and Sentinel Funds.

IARs may own and operate their own independent companies outside of EFA (commonly referred to as “outside business activities” or “OBAs”), apart from brokerage and advisory services offered by the Firm. These unaffiliated companies may provide OBA services to clients that include, but are not limited to, accounting/tax practices, business consulting, insurance agencies, insurance brokerages, legal services, and others. If a client engages an IAR for such

OBA services, these services are offered and performed solely in the IAR's private and/or professional capacity, and not as a representative of the Firm.

For additional discussion of how the Firm identifies and addresses potential conflicts of interest, please refer to Item 11 (Code of Ethics).

## **Item 11 – Code of Ethics**

EFA has adopted a Code of Ethics ("the Code") that mandates high standards of business conduct and professionalism. EFA, through its advisers, will provide a copy of its Code of Ethics to any client or prospective client upon request.

In general, the Code addresses certain groups of persons: Supervised Persons and Access Persons. The term "Supervised Persons" refers to any partner, officer, director, employee, or IAR of the Firm. "Access Persons" represent a subset of this population, and refers specifically to those individuals who have access to (1) nonpublic information regarding any clients' trading activity, (2) nonpublic information regarding the portfolio holdings of any reportable fund, or (3) those who are involved in making securities recommendations to clients or who have access to such recommendations that are nonpublic.

The Code prohibits EFA's Supervised Persons from trading on material non-public information. Additionally, the Firm's Access Persons are required to report their securities holdings upon initial hire, and again annually. Quarterly reporting of personal securities transactions is also required for Access Persons. EFA's Supervised Persons must acknowledge the terms of the Code annually.

The Code requires that advisory representatives render disinterested and impartial advice and make appropriate recommendations to clients based on an analysis of their needs. Potential conflicts of interest may arise when a recommendation could result in additional compensation to the Firm and/or the advisory representative through the Firm's business relationships or through the execution of commissionable transactions. Such potential conflicts are a consideration for the Firm's Senior Business Risk Analysts in their review of new accounts and transactions. The Firm addresses conflicts of interest and potential conflicts of interest by periodically reviewing them during EFA's senior management meetings, and through disclosure to its clients, such as that contained in this Form ADV Part 2A brochure.

Advisory representatives of EFA may occasionally buy, hold, or sell securities for their own accounts that are also recommended to, or bought or sold for, their clients at the same time or at different times as clients are trading in these securities. However, neither EFA nor any employee may receive preferential treatment over clients.

It is EFA's policy that the Firm will not effect any principal or agency cross transactions for client accounts. EFA will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise when an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.



Cross trades occur where an adviser causes a client account to sell a security to another client account, whether or not a commission is charged in the transaction.

ESI in its capacity as a broker-dealer may execute securities transactions for its advisory clients, including, but not limited to, transactions in securities distributed or underwritten by an affiliate. ESI has a fully disclosed clearing relationship with NFS for the purpose of offering stock, bond and option trading. ESI is not affiliated with NFS, but receives revenue sharing payments from NFS when no-transaction fee mutual funds are used in its proprietary advisory programs (i.e. ESI Illuminations and ESI Directions). EFA and its advisory representatives generally receive compensation, including commissions on transactions for which ESI acts as broker-dealer, in addition to that which is received for the performance of advisory-related services.

EFA and its affiliates may also contribute amounts to various non-cash and cash incentives paid to EFA's advisory representatives based on the achievement of specified sales goals for certain securities, as described in Item 14 (Client Referrals and other Compensation). Incentive programs are reviewed by the Compliance Department. The review of such programs seeks to ensure that all such incentives adhere to applicable rules. Potential conflicts of interest are managed through public disclosure to clients and prospective clients, and on the Firm's public website.

Additionally, unaffiliated TPAMs may pay travel, meal and other expenses for advisory representatives and others who visit the TPAM's offices or other locations (including hotels and conference centers) to learn about its products and services.

Certain funds available in the ESI Illuminations program pay additional compensation to ESI, such as 12b-1 (trail) fees or shared revenue based on assets under management. This additional compensation is retained by the Firm and is not paid to the advisory representative managing the account. Such compensation presents a conflict of interest because EFA has a greater incentive to recommend investments that provide additional compensation to the Firm. Many mutual funds offer a variety of share classes, including certain classes that do not pay 12b-1 fees and which may be less expensive for eligible investors. EFA may recommend and ESI Illuminations accounts may purchase or hold a share class that bears 12b-1 fees when a less costly share class of the same fund is available.

As previously described under Item 5 of this brochure, NFS shares revenue associated with the use of no-transaction fee funds with EFA in the ESI Illuminations program. As such, EFA has additional incentive to recommend programs that utilize such funds over others which do not.

EFA's advisory representatives have an incentive to choose certain programs based on the maximum fee that can be charged given the asset value of the account, as well as whether the advisory representative may bear additional program charges.

The Firm also reviews potential conflicts of interest as part of its due diligence review of new and existing programs. Additionally, the Firm provides disclosure of its fee structure and revenue agreements to clients and potential clients by way of this disclosure document, as well as through the revenue sharing disclosure documents posted on its public website ([www.equity-services.com](http://www.equity-services.com)).

All Supervised Persons whose activities could encompass the solicitation of government clients are required to pre-clear all political contributions to local, state, or federal candidates, state and local political parties, or political action committees.

## Item 12 – Brokerage Practices

EFA and its advisory representatives offer brokerage services to advisory clients in order to execute certain transactions recommended within a financial plan, as well as the ESI Illuminations and Directions programs. Clients are free to execute securities transactions recommended as part of a financial plan through any broker-dealer they choose. If ESI is the broker-dealer selected to execute the purchase or sale of financial products recommended as a part of a financial plan, ESI and the advisory representative will receive additional compensation (which may include commissions and/or 12b-1 fees) in addition to the financial planning fee paid.

EFA generally has written agreements whereby clients agree that all brokerage transactions will be executed through NFS, unless otherwise directed by the client. EFA is also a registered broker dealer, doing business as Equity Services, Inc. ("ESI"). ESI has entered into a clearing arrangement with NFS. EFA may, therefore, be viewed as recommending itself to clients as a broker-dealer. ESI acts as the introducing broker-dealer in this arrangement and can receive transactional compensation. In executing trades through NFS, EFA may, in certain instances, forego seeking and obtaining more favorable prices and lower commission rates or other charges than EFA may otherwise be able to obtain by negotiating better prices or lower rates of commission with certain other broker-dealers. However, executing transactions through NFS may benefit clients when NFS aggregates client trades with orders from its other clients. This aggregation may provide savings on execution costs through volume discounts that EFA might not be able to negotiate or obtain for other clients who do not execute trades through NFS. EFA regularly reviews pricing and execution through the use of various reports received detailing comparative execution data. Such reports are periodically reviewed by senior management.

## Item 13 – Review of Accounts

Each advisory representative and his/her client will individually determine the frequency of reviews for the account(s) governed by an investment advisory agreement between the client and EFA. However, advisory representatives will offer their clients a review on at least an annual basis. Factors triggering such a review will include, but are not limited to: changing circumstances in the client's financial and personal life; the performance of the portfolio in both absolute terms, and relative to the client's goals, objectives and risk tolerance; and at the request of the client. In most cases, the review will be conducted by the advisory representative who performed the initial investment advisory services.

EFA will utilize software tools and/or review either exception reports or account statements for accounts on which EFA is advisor or co-advisor, to detect and make recommendations to correct variations from client mandates that are beyond variance tolerances established by the Firm. For discretionary accounts of the Firm, the Firm and/or its Representative may rebalance the existing holdings in an account, without first obtaining the client's express permission for each transaction, to address variances that are beyond the Firm's tolerance, and the Representative may do the same if he or she is concerned that a variance may result because an account's risk score has changed. In addition to review by advisory representatives, EFA's reviewers will include Senior Business Risk Analysts and/or other home office staff members.

Clients of the ESI Illuminations Programs will receive written quarterly performance statements from Envestnet Portfolio Solutions showing positions, activities and contributions made during the quarter. Also, at least quarterly, NFS provides brokerage statements for Illumination

program accounts. For other asset management programs offered by EFA, clients will receive, at a minimum, quarterly statements from the account custodian showing transactions for the prior quarter, fees imposed, and current asset allocations, and may receive other reports as set forth in their account documentation.

## **Item 14 – Client Referrals and Other Compensation**

EFA may pay individuals or entities, acting as bona fide solicitors, a portion of the advisory fee EFA charges if the client is referred to EFA by the solicitor. All such solicitor arrangements will conform to the requirements set forth in Investment Advisers Act Rule 206(4)-3.

In addition to the revenue sharing payments from NFS discussed in Items 5, 10, and 11, ESI also receives additional compensation as a broker-dealer for the sales of securities issued and/or distributed by members of its Strategic Partners program. The Strategic Partners Program currently includes the following issuers:

- Mutual Funds/Unit Investment Trusts: Sentinel Funds
- Variable Annuities: Allianz, Great West, Jackson National, MetLife, Prudential, Transamerica,
- Indexed Annuities: Allianz, American National Life, Lincoln National, North American, Voya Financial
- Direct Participation Programs: RREEF Property Trust, WP Carey

EFA and its affiliates also contribute amounts to various non-cash and cash incentives paid to EFA's advisory representatives based on the achievement of specified sales goals for certain securities, including (1) sponsoring sales contests and/or promotions in which participants receive awards or incentives such as travel, merchandise, computer hardware and/or software; (2) paying for occasional meals, lodging and/or entertainment; (3) making cash payments in lieu of business expense reimbursements; (4) making and forgiving business-related loans; (5) cash bonuses and/or; (6) employee benefits, such as health insurance, Social Security contributions, etc.

Current information regarding ESI's Strategic Partners program may be found at [www.Equity-Services.com](http://www.Equity-Services.com) or by calling (800) 344-7437.

For a discussion of how the firm identifies and addresses potential conflicts of interest which may arise from its various business relationships, please refer to Item 11 (Code of Ethics).

## **Item 15 – Custody**

EFA does not take custody of client funds or securities. Client funds and securities are held with a qualified custodian. Clients should receive, at a minimum, quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Clients should review their statements carefully and compare them to statements or reports they receive from EFA and/or their TPAM.

## **Item 16 – Investment Discretion**

ESI Illuminations Flagship Select accounts established prior to March 30, 2016 have not permitted the Firm nor its advisory representatives to exercise investment discretion. However,

the owner(s) of such accounts may elect to grant discretion, under the parameters listed below, by providing written authorization in a form acceptable to the Firm.

ESI Illuminations Flagship Select accounts established on or after March 30, 2016 grant the Firm discretionary trading authority, under the parameters listed below:

The discretionary investment and trading authority given to EFA, meaning the rebalancing of the existing holdings in a client's account through purchasing and selling securities without first obtaining the client's express permission, may occur in the circumstances described below:

- Executing transactions in the account for the purpose of rebalancing the portfolio back to within the client's risk tolerance, as determined by the latest Investor Profile Questionnaire on file with the Firm;
- Executing transactions for the purpose of rebalancing the portfolio when concerned that a variance may result because an account's risk score has changed;
- Using discretion as to the time the Firm will make a trade in the account and the price paid for securities;

In no instance do either EFA or the IAR have authority to choose or change the client's investment objective. Additionally, neither EFA nor the IAR may introduce new holdings to the portfolio without the client's consent.

The discretionary investment and trading authority given to EFA can be exercised by the Firm and/or its Investment Adviser Representative at any time and without prior notice to the client. All clients (discretionary and non-discretionary) receive quarterly statements from NFS, detailing activity in their account(s). Clients should carefully review their statements upon receipt. Questions regarding trading activity should be directed to their Representative.

### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, EFA does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Upon request of the client, EFA may provide advice to clients regarding the clients' voting of proxies.

### **Item 18 – Financial Information**

EFA does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance, and thus has not provided a balance sheet for its most recent fiscal year. EFA does accept partial payment of financial planning/consulting fees prior to the preparation of the financial plan or service. However, partial fees will not exceed 50% of the total fee due, and EFA will not accept an advance fee for financial planning/consulting services that is greater than \$1,200, unless the plan and/or services connected with such payment are completed within six months from the receipt of such payment.

EFA is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has EFA been the subject of a bankruptcy petition at any time during the past ten years.